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WELFARE STATE CHANGE IN ALBANIA: COMPARING THE POLITICS OF HEALTHCARE AND PENSION REFORMS

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EXECUTIVE SUMMARY

In the early 1990s, the deep political and socio-economic transformations showed that the Albanian pension and healthcare models inherited from Communism were inefficient, close to the point of fiscal breakdown, as well as inequitable. In order to address these challenges, the Albanian government promoted a shift towards a social insurance model – which was said to represent the "good way", i.e. a viable solution to build a stable and especially an effective social protection system. In both policy sectors the government's ultimate goal was to link benefits to contribution records. Consequently, the Albanian pension and healthcare systems started to converge towards a *Bismarckian social insurance* model.

However, reform implementation was constrained and, after three decades of reforms, the full shift to an insurance-based model has failed in both pensions and healthcare. The 2014 reform transformed the pension system into a *mixed-occupational model* – according to Ferrera's terminology (Ferrera 1993) – made up of a *social assistance* scheme – a means-tested, poverty-relief social pension – and a *social insurance*, contributory scheme aimed at income maintenance. In the healthcare sector, the last wave of reform, started in 2014, aimed at transforming the system from a social insurance model to a *universalistic social security* one. These reforms thus led to a partial policy reversal, with the healthcare changing into a *mixed-universalistic model,* implying a combination of social security and social insurance – respectively financed by the state budget and social contributions.

The pension and healthcare systems currently differ in terms of institutional architectures, financing methods, coverage and benefits. This policy change and divergence that exist between these two policy fields is puzzling, given their similar starting position in the early 1990s. The situation becomes even more ambiguous when we take into account the strong influence international actors, supporting neoliberal recipes, had on both systems since the very beginning. In fact, existing research on the Albanian welfare state development focuses on the role of international pressures to explain social policy change, according to which it is the external actors, not domestic ones, that have driven reforms. This strand in the literature, which stresses the role of international organisations in favouring *policy diffusion*, implicitly assumes that national political factors have limited or no effect on the relationship between (international) economic circumstances and social policy and that governments respond similarly to external constraints (Haggard and Kaufman, 2008). However, considering the important role played by the World Bank during the decision-making process, we should have seen convergence towards a single social model, i.e., neoliberal direction. Yet, empirically we observe a divergence over-time and between different social policy domains in Albania. This suggests that in order to understand policy change and variation we should look at other factors, such as internal political dynamics which is significantly missing from the existing literature.

In addition, radical policy change and processes of convergence or divergence across policy sectors over-time have clear implications vis à vis historical institutionalism, according to which we should have seen path dependency. In fact, focusing only on institutions can hardly account for what is driving policy change in the first place (Jessoula, 2009), therefore, other factors have to be introduced, such as the role of actors' interests and ideas.

This thesis aims at filling this literature gap by contributing to the understanding of welfare state reforms in Albania in terms of policy, politics and theoretical analysis. More specifically, it aims at answering the following research questions: Why pension and healthcare policies converged into a Bismarckian social insurance model in the early 1990s? Why did implementation of the Bismarckian insurance model fail in both sectors? What explains subsequent developments towards a *mixed-occupational model* in pension and *mixed-universalism* in healthcare?

To achieve these aims, this study provides a detailed empirical investigation in order to reconstruct the policy-making processes in both fields. Building on this analysis, this study argues that social policy reform can be understood as a process formulated through *ideas* (actors' cognitive and normative frameworks) and shaped by conflicts and compromises between the relevant *interests* (political exchange dynamics) and their interplay with the *institutions* inherited from the past (policy legacies).

To my grandfather, for his tireless work and endless support.

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Abbreviations

ALL:	Albanian Lek
BPSH:	*Bashkimet Profesionale Shqiptare* (Trade Unions of Albania)
BSPSH:	*Bashkimi i Sindikatave të Pavarura Shqiptare* (United Independent Trade Unions)
CEE:	Central and Eastern Europe
CFP:	Cooperative Farmers Plan
CMD:	Council of Ministers Decision
DB:	Defined benefits
DC:	Defined contributions
EU:	European Union
FSA:	Albanian Financial Supervision Authority
GP:	General Practitioner
HIF:	Healthcare Insurance Fund
HII:	Health Insurance Institute
ILO:	International Labour Organisation
IMF:	International Monetary Fund
INSTAT:	Institute of Statistics
JICA:	Japan International Cooperation Agency
KSSH:	*Konfederata e Sindikatave të Shqipërisë* (Confederation of Trade Unions in Albania)
LSI:	*Partia Lëvizja Socialiste për Integrim* (Social Movement for Integration)
MoF:	Ministry of Finance
MoH:	Ministry of Health
MP:	Member of the parliament
NGOs:	Non-Governmental Organisations
NLC:	National Labour Council
OOP:	out-of-pocket payments
OSCE:	Organization for Security and Co-operation in Europe
PD:	*Partia Demokratike* (Democratic Party)
PHC:	Primary Health Care
PPP:	Public Private Partnership
PPSH:	*Partia e Punës e Shqipërisë* (Labour Party of Albania)
PRA:	People's Republic of Albania

PS:	*Partia Socialiste* (Socialist Party)
PSRA:	People's Socialist Republic of Albania
RHA:	Regional Health Authorities
SDR:	System Dependency Ratio
SII:	Social Insurance Institute
TRHA:	Tirana Regional Health Authority
USAID:	United States Agency for International Development

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CHAPTER I

INTRODUCTION, RESEARCH DESIGN AND METHODOLOGY

1. Research Object and Aims

Similar to other Central Eastern European countries, in the early 1990s, Albania embarked on welfare reform, the most important concerning pension and healthcare systems. The urge for immediate measures to deal with the challenges prompted by the "double transition" – i.e. economic and political – as well as the lack of both experience and financial resources triggered international actors – such as the International Monetary Fund (IMF) and the World Bank – into the decision-making process, thus creating an opportunity for these institutions to exert pressures for substantial restructuring of both pension and health care systems (Müller, 1999). Actually, from the early stages of the transition in Albania, the World Bank emphasised the need of a well-designed, sustainable, and adequate social safety net, and loaned money to restore the economic and social crises in the country.

In many Central and Eastern European (CEE) countries, the Bank's involvement was crucial to put restructuring on the agenda and many governments used World Bank's conditionality as a "blame avoidance" strategy for unpopular policy measures (Guardiancich, 2013). The neoliberal recipes promoted by the World Bank typically favoured the reduction of redistributive elements and reinforcement of the links between contributions and benefits, as well as privatisation and marketization of pension and healthcare systems (World Bank, 1994d). A shift towards more neoliberal welfare solutions was seen by many post-communist governments as particularly beneficial because they were convinced that such reforms would bring significant long-term fiscal and macroeconomic gains (Domonkos and Naczyk, 2013). In the field of pensions, supporters of such "new orthodoxy" claimed that the transition towards a multi-pillar system would increase long-term saving and investment as well as encourage capital

market development, resulting in greatly improved macroeconomic growth (James and Brooks, 2001). Moreover, pension privatization was expected to result in a restriction of the role of the state in old-age security and a reduction of public spending in the long-term (Müller, 2007). Therefore, under the influence, and with the technical and financial support, of the World Bank, between the mid-1990s and the early 2000s, a significant number of countries in CEE opted for partial or full pension privatization (Müller, 1999; Orenstein, 2008; Guardiancich, 2013). Hungary in 1998 and Poland in 1999 led the way; Bulgaria, Latvia, Estonia, Croatia, Russia and Kosovo introduced funded pension pillars between 2000 and 2002, which were followed by Lithuania in 2004, Slovakia in 2005, Macedonia in 2006 and Romania in 2008.

Likewise, in the field of healthcare, many governments saw deregulation and privatisation of medical services both as a way of limiting the state role in healthcare and as a means of improving the quality of the public sector by introducing greater competition (Haggard and Kaufman, 2008).

However, contrary to other post-communist countries, the Albanian government did not adopt World Bank's "new pension orthodoxy", nor did it follow the Bank's recommendations in the field of healthcare. Instead, the Albanian government opted for a public, social insurance approach in both fields. The long-term goal was to transform the pension and healthcare systems into fully-fledged Bismarckian insurance models. Consequently, in 1993, the pension system underwent a parametric reform that conditioned benefits upon payment of contributions and tightened eligibility conditions. Similarly, in 1994, the healthcare system shifted from the Soviet Semashko model to a Bismarckian model, with the introduction of a health insurance scheme.

Despite initially similar policy responses, institutional trajectories in the two sectors have recently diverged. The pension and healthcare systems currently differ in terms of institutional architectures, financing methods, coverage and benefits.

Against this backdrop, the aim of this thesis is threefold. First, it will reconstruct the pension and healthcare policy trajectories by using the appropriate classification and corresponding definitions of solidarity models. The aim here is to neatly capture the policy change and divergence between pension and healthcare policy trajectories in the last three decades, which in turn represents an interesting empirical puzzle, given their similar starting point and parallel reform processes. Second, this thesis will aim to

understand and explain the politics of pension and healthcare reforms, with a particular focus on Albania's peculiar structural conditions, actors' preferences, political exchange dynamics and institutional legacies. Third, it aims at elaborating the theoretical implications of the radical policy changes and divergence, challenging both historical institutionalism and policy diffusion approaches.

The rest of the chapter is structured as follows. The next paragraph explains the case selection. The third paragraph outlines the main analytical dimensions. The fourth paragraph discusses the empirical and theoretical puzzles that motivate this research. The fifth paragraph describes the methodology. The last paragraph provides a brief outline of the subsequent chapters.

2. Case Selection

The political science literature has substantially focused on social policy development. The importance of studying pension and healthcare reforms stems from the fact that not only specific patterns of social provision shape the degree of social inequality and exclusion, but also pension and healthcare expenditure form the core of advanced welfare states, accounting on average around 20% of GDP in the EU (Eurostat data 2016): any imbalance in these systems may therefore affect the functioning of the entire economy (Armeanu, 2005). In Albania, pensions and healthcare account for around 80% of the total welfare expenditure. Therefore, in order to address the post-communist welfare state development in Albania the main focus should be on its two main core sectors, i.e. pension and healthcare systems.

However, the existing literature is predominantly focused on the analysis of welfare state in Western Europe, whereas the Albanian welfare system has received only partial and unsystematic scholarly treatment. In fact, existing research on the Albanian welfare state reform focuses mainly on single policy settings and outcomes, whereas limited attention has been paid to changes in policy outputs, actors' normative and cognitive frameworks and political exchange dynamics. Moreover, what makes the Albanian case even more interesting is the fact that international actors, such as the World Bank, had a strong influence on both pension and healthcare reforms since the beginning in early 1990s and

they continue to play an important role even nowadays. This is important for two reasons. First, governments have used and still use international institutions' "conditionality mechanisms"[1] to justify their policy choices – a typical "blame avoidance" strategy. Second, an important strand in literature, also known as *policy diffusion* is very influential in existing Albanian research, according to which it is the external pressures and not the domestic ones that have driven reforms. This approach argues that the severity of the fiscal crisis, the extent of the external debt and the lack of expertise in the field triggers international actors into policy-making process. Many studies recognise the World Bank as a powerful agenda-setting actor, which helped diffusing neoliberal ideas, also providing the means to promote reforms (Deacon et al., 1997; Orenstein, 2000; Deacon and Stubbs, 2007). Therefore, according to this approach, we should have seen convergence towards a single social model, i.e., a neoliberal model. However, empirically, as it will be illustrated below, we see a divergence over-time and between different social policy domains in Albania. This suggests that in order to understand policy change and variation we should look at other factors, such as internal political dynamics which is significantly missing from the existing literature.

Finally, as it will be fully-outlined below, by looking at the policy trajectories and political dynamics in fields of pensions and healthcare in the Albanian case, relevant empirical puzzles emerge, which in turn have important theoretical implications. More in general, this study aims at answering the following questions: how have policy models proposed by international institutions been filtered and reshaped by domestic institutions and interests? Which factors drove the Albanian social policy change? How can we explain the policy change and divergence over-time?

Against this backdrop, this thesis intends to fill this literature gap by contributing to the understanding of welfare reforms in Albania in terms of policy developments, underpinning political dynamics and theoretical implications, trying to explain what accounted for the different trajectories in healthcare and pension policy.

[1] Many studies have shown that global policy actors, such as the World Bank and the IMF, had a substantial direct involvement in the transfer of new pension reforms in many Latin America and CEE countries (cf. Deacon et al., 1997; Orenstein, 2000; Müller, 2003; Brooks, 2004; Orenstein, 2005; Deacon and Stubbs, 2007), offering advice on social safety nets and at the same time setting conditions on social policy loans. In particular, in the field of pensions, the IMF and World Bank required pension privatization as part of loan conditionality.

3. Social Policy Change: The Main Analytical Dimensions

In order to clearly understand the Albanian pension and healthcare policy trajectories – and then explore the political dynamics underpinning these policy trajectories – this study will rely on the analytical frameworks developed by Ferrera (1993) and Hall (1993). More specifically, it will use Ferrera's "solidarity models" framework to capture policy changes in the field of pensions and healthcare and Hall's "three-order changes' to assess the magnitude of this change. In addition, by conceptualising policy change in these two policy fields over-time this study will address whether these changes produce convergence or divergence across policy sectors.

Following Ferrera (1993) we can actually distinguish between *social assistance*, *social insurance* and *social security* depending on whether the governments' "original choice" has been to protect people in need, workers or the entire population (see table 1.1). Thus, *social assistance* programs aim at poverty relief. They are means-tested and highly conditional, they target the most vulnerable groups and are financed through general taxation. The English system of *Poor Laws* constitutes the most articulated example of public social protection program in the period prior to the introduction of compulsory insurance. In fact, it is important to note that according to Ferrera social assistance is a sort of antecedent of the universalistic model, where *"the poor law tradition of means-tested relief for the needy oriented both social and state actors towards all-inclusive and uniform coverage, that is, the establishment of sharing ties based on citizenship alone rather than on occupational status"* (Ferrera, 2005).

Social insurance, instead, aims at income maintenance. The first social insurance schemes were introduced in Germany by the Prussian Chancellor Otto von Bismarck. The basic idea here is that workers gain entitlement to social benefits by paying contributions into the insurance system. Therefore, there is a link between contributions and benefits both in terms of access to benefits – i.e. eligibility conditions are based on contributions or employment history – and in terms of the benefit computation formula, i.e. the value of entitlements is derived from earning/contribution records. In a health insurance (SHI)

scheme, all insured members are entitled to a specified package of health benefits[2]. The range of benefits or specific health care services that can be covered under an SHI (or a tax financed system) varies between countries and even between different population groups within the same country[3].

Differently, *social security* aims at setting a minimum standard of living for the whole population. These social programs are fully financed by the state budget and general tax revenues and free entitlement to benefits extends to the entire citizenry (or all residents) – according to the universalistic principle. Even though social security programs existed prior to Beveridge's report in 1942 in Scandinavian countries and New Zealand, once introduced, this report indicated a new system of protection extended to the whole population as a way to guarantee an adequate standard of living to all the citizens and therefore disconnected from the contribution records.

Table 1.1 "Solidarity models" and main analytical dimensions

	Social assistance	**Social insurance**	**Social security**
Coverage	Marginal/residual	Occupational	Universalistic
Eligibility	Means-test (the needy)	Contribution based (insured members)	All citizens/ residents
Benefits	Ad hoc and means tested	Related to contributions/ earnings	Flat rate
Financing	General revenues	Contributions	General revenues

Source: Author's elaboration based on Ferrera (1993)

Based on these social protection choices, Ferrera (1993) identifies two pure models – namely, occupational and universalistic – and two mixed-models. In the occupational Bismarckian model, the social insurance program is limited to occupational categories, based on the overarching goal of income maintenance and favouring horizontal

[2] National health systems provide benefits in three main ways (Abel-Smith, 2020). The first method refers to the direct service approach in which the government or insurance fund owns the facilities (hospitals and clinics), pays for supplies, and remunerates the staff on a full- or part-time basis (e.g. the UK). The second method is the indirect contract with providers in which SHI makes a contract with the provider and pays each provider for services used according to rates established in a negotiated contract (e.g. Germany). The third method is reimbursement, in which the patient pays the bill and applies for reimbursement (e.g. France). In practice many countries use a combination of these methods.

[3] Cf. Abel-Smith, B. (2020, Feb. 12). Social security. *Encyclopedia Britannica*. Retrieved from https://www.britannica.com/topic/social-security-government-program/

redistribution. Financing is provided mainly by employers' and employees' contributions; entitlement is conditional upon a contribution record and benefits are contributions or earnings-related.

Differently, the universalistic Beveridgean model is extended to the whole population, completely funded out of the state budget and disconnected from the contribution records. This model instead allows for more vertical redistribution across income groups. It is also worth mentioning that communist countries developed a different type of Beveridgean model in healthcare, named after the USSR health minister Nikolai Semashko. This model was completely state-controlled and owned, including hospitals and practising doctors. Healthcare in principle was free for everybody. What distinguishes this model from the Beveridgean one, is the fact that it did not leave room for private services and private insurance.

Combinations between different types of social protection intervention in a policy sector are defined by Ferrera as a mixed (hybrid) model. Accordingly, a "mixed-occupational" model (Ferrera, 1993) is composed of a social insurance and a social assistance scheme; differently, a "mixed-universalistic" model (Ferrera, 1993) is made up of a universalistic floor (social security system) and a contributory social insurance scheme on top of that.

By clarifying the distinction between different solidarity models, it is now possible to understand the social policy trajectory development and change. Importantly, according to Hall (1993), these changes may have different magnitudes. In more details, he argues that policy change may take different forms depending on the kind of change in policy that is involved, i.e., whether policy goals change, instruments used to attain these goals or the precise settings of these goals. Building on these three distinctions, Hall (1993) identifies three different kinds of change in policy, namely "first order change" – when only the setting of the basic instruments changes – "second order change" – when both setting and instruments change – and "third order change" – when policy goals change as well. According to Hall (1993), first and second order policy changes are seen as cases of normal policymaking, namely of a process that adjusts policy at time 1 as a reaction to past policies (policy at time 0), without challenging the overall terms of a given policy paradigm. On the contrary, third order change is associated with a "paradigm shift", in which anomalies of old paradigm lead to policy failure, because the existing paradigm is not able to anticipate or explain current occurring issues. Therefore, actors will search for

new policy paradigms, which will be taken into consideration if they are able to explain the persistent anomalies more accurately (Hall, 1993: 280-281). In this case, policymaking is not merely a reaction of past policies, but is influenced by new policy solutions and broader societal conflicts and debates.

Finally, as it will be discussed below, these different changes of different magnitudes may in the end lead to policy divergence or convergence, which in turn have relevant theoretical implications.

4. Research Puzzles and Theoretical Framework

The Albanian communist social protection system, still functional in the early 1990s, was based on a centralised "Soviet-style" model[4]. Within this framework, it was assumed that the highly egalitarian pension scheme provided universal coverage. However, the scheme was not universal as it depended on existing employment relationship, given that the communist approach to social policy was based on the necessity and centrality of work. Besides inherited issues, the economic transition in the early 1990s created further challenges: the economic collapse and the massive downgrading and closing-down of the state-owned enterprises, as well as the dissolution of agricultural cooperatives brought a drastic decline in the number of employed people and a rapid growth of informal economy. Furthermore, widespread privatization required to extend social protection to private employers, the self-employed and members of free professions. Likewise, the healthcare service inherited from the communism was financed and controlled by the State, based on the Soviet "Semashko" model[5]. It allowed free enrolment to all; however, it was fairly ineffective (European Commission, 2008). Moreover, due to the economic and political changes in the early 1990s, it started to face additional difficulties, such as severe budget constraints due to the shaky economy, disruption and damage caused by civil disturbances, and a population with urgent health needs (Nuri, 2002).

[4] Drawing from Cook (1993), Inglot (1994) defines as a Soviet-Style social policy "the social contract holds that the state pacifies workers with collective goods distributed on egalitarian principles", based on promises of full and secure employment.

[5] Named after USSR health minister, this *system* was completely state-controlled and owned, including hospitals and practising doctors. Healthcare principally is free for everybody.

The urge for immediate measures to deal with transition induced difficulties, as well as lack of experience and financial resources triggered international actors, such as the International Monetary Fund (IMF) and the World Bank, creating an opportunity for these institutions to exert pressures for a substantial restructuring of the pension and health care systems (Müller, 1999). From the initial stages of the transition in Albania, the World Bank emphasised the need of a well-designed, sustainable, and adequate social safety net and loaned money to restore the economic and social instabilities in the country.

Against this backdrop, we can identify three main phases of pension and healthcare reforms. In the first one (the early 1990s), reforms were adopted in what represented a "critical juncture", in which there was a full transformation of contextual factors due to the "double transition" to democracy and market economy. In this period, contrary to the Bank's proposal, starting from 1992 the Albanian government launched a reform process aimed at shifting the healthcare system from Semashko to a Bismarckian model, with the introduction of a health insurance scheme, which would regulate the financing of public healthcare. The new law determined that the subjects responsible for health insurance contributions were economically active persons. Similarly, in 1993 the pension system underwent a parametric reform that conditioned benefits upon payment of contributions and tightened eligibility conditions. The new law established the structure of the current Bismarckian pay-as-you-go system in Albania.

In sum, in both fields the initial step was the introduction of insurance schemes in order to set both pensions and healthcare on the Bismarckian social insurance path. Importantly, in this period we observe a *process of convergence* across policy sectors starting from relatively different policy settings, i.e. the Communist pension model was employment related, whereas healthcare was universalistic.

Differently, the second phase (1995-2013) included the process of democratic consolidation and economic recovery. Even though the government's long-term objective was to convert both systems into Bismarckian models, in which benefits would rely entirely on the contribution records, the implementation phase displayed the limits of the Bismarckian insurance approach in both fields. During this period several reforms were adopted, some of which have not achieved their final goals yet, whereas a few others have failed to gain final approval. Importantly, both the pension and healthcare system failed their original aim to shift to Bismarckian systems only.

Finally, in the third phase (2013 onward) the structural conditions were completely different, in the presence of a consolidated democratic system, a structured party system and related competitive political dynamics. The 2014 reform achieved the goal of linking the benefits to contributions in the field of pensions, however, at the same time the government introduced a means-tested social pension to every resident above the age of 70. Differently, the attempts to convert the healthcare system into a Bismarckian system not only failed, but the 2013 government strategy aimed at reversing the healthcare model, by introducing a social security system instead. In other words, during this period we observe *divergence* between pension and healthcare policies, with the emergence of a "mixed-occupational" pension system and "mixed-universalistic" healthcare system.
The policy change and variation that exist between these two policy fields is puzzling, given their similar starting position and parallel reform processes. Against this backdrop, this study aims at explaining how the reforms were possible and why the healthcare and pension policy trajectories took different paths over-time. More specifically it aims at answering the following research puzzles:

- Why pension and healthcare policies converged into a Bismarckian social insurance model in the early 1990s?
- Why did implementation of the Bismarckian insurance model fail in both sectors?
- What explains subsequent developments towards a "mixed-occupational" model in pension and "mixed-universalism" in healthcare?

As anticipated above, these empirical puzzles have important theoretical implications. In a nutshell, policy changes in the early 1990s are puzzling in two respects. First, the *paradigm shift* in the field of healthcare and the *convergence process* between the two policy fields challenges the historical institutionalist approach, according to which we should have seen *path dependency*. Second, policy changes and convergence occur in a critical juncture. Once again, historical institutionalism still presents important gaps in explaining what happens in critical junctures as this approach does not provide guidance to suggest which policy path will be chosen. As a matter of fact, precisely because there is little understanding on what happens in critical junctures the existing literature attributes a strong role played by international institutions in this juncture. However, as

anticipated above and as it will be argued throughout the thesis, this argument underscores potential influent internal political dynamics.

Differently, the theoretical relevance of the implementation phase is linked to the understanding of the *process of failed institutionalisation*. In other words, this study will try to explain why these reforms were not institutionalised.

Finally, the recent reforms have theoretical implications as well. On the one hand, after adopting similar reforms and failed institutionalisation, we observe a *process of divergence* across policy fields. On the other hand, we observe a major change in the field of healthcare, leading to a *partial policy reversal* in absence of an exogenous shock. These puzzles have clear implications vis à vis historical institutionalism, according to which we should have seen path dependency. In fact, focusing only on institutions can hardly account for what is driving policy change in the first place (Jessoula, 2009), therefore, other factors have to be introduced, such as the role of actors' interests and ideas.

4.1 Theoretical Framework: Outline of the Main Argument

Even though both pension and healthcare policies underwent continuous transformations, as briefly anticipated above, reforms took place in three very different phases: two main phases of substantial institutional innovation – during the first and the third phase – and a period of (failed) implementation and limited policy changes in between. In addition, analysing policy developments in these three phases, we may detect both within policy sectors variation and at the same time the two policies deviate from one another over-time. Considering the complexity of the explanandum, it is difficult to apply systematically a single consolidated theory to address the empirical and theoretical puzzles outlined above.

Therefore, this study will adopt a broader framework in order to explain the policy development and politics of pension and healthcare reforms, focusing on the interplay between the "three-Is": *ideas* (social learning), *interests* (political exchange dynamics) and *institutions* (past legacies).

In more detail, this study argues that ideas give *motivation* to the *opportunities* established by institutions. In other words, ideas reconcile the relationship between structure – which

opens opportunities and constrains actors' behaviour – and agency – i.e. actors' goals and interests (Schmidt 2010). In particular, this study argues that when existing policies are perceived as unable to solve occurring problems, policymakers search for alternative solutions (Heclo, 1974). In this regard, as defined by Heclo (1974), policy change is seen as a product of "social learning", in which policymakers find out what to do (positive learning) and what not to do (negative learning) in light of past experience and new knowledge.

However, for ideas to become influential in politics they have to enter the policymaking arena by interacting with the interests of powerful political actors (Blyth, 2002). In particular, this study argues that political exchange dynamics ultimately shape policy decisions (cf. Ferrera, 2005; Ferrera et al., 2012; Garay, 2016; Natili, 2019; Jessoula & Natili 2020). On the supply side, politicians who shape social policies must also secure re-election and, thus, they compete to obtain political support and consensus. On the demand side, social groups articulate and aggregate interests and exert pressure on political parties in order to pursue their goals and achieve their preferred policy objectives (Ferrera, 2005). Thus, this study will look at the interplay between the socio-political demand and supply in order to identify the main actors who mobilize to promote policy change or defend the status quo.

Finally, arguing that the policy-making process does not operate in a vacuum but in a context of already existing policies that constrain and shape the policy change (Heclo, 1974), this study will look at the role of institutions, defined as "policy legacies" (Pierson and Weaver, 1993; Pierson 1994), which in turn influence the nature of the problems encountered, the resources and strength of actors that mobilize, as well as solutions adopted, thus creating institutional constraints on welfare reform, or rather opening up opportunity for change (Brooks, 2006; Jessoula, 2009).

In particular, this thesis argues that we should expect a differential role played by the "three-Is" over-time due to the changing political and institutional context.

During the first phase, in a context of fluid institutions – due to the transition to democracy and market economy – and when the policy status quo is de-stabilised and disqualified, we may expect more room for new *ideas* to play a significant role.

During the second phase, decisions taken at the critical juncture are expected to influence the subsequent policy development and change. In other words, once established, inertial *institutional* dynamics are expected to prevail.

In the third phase, given the long time-frame from the critical juncture to recent years and the many changes occurred in between, we may expect two different scenarios. First, full *institutionalization* of the decisions taken at the critical juncture, i.e. policy legacies are (perceived as) effective, thus, ideas and interests are entrenched. Changes in political dynamics might lead to incremental, path dependent changes. Second, *failed institutionalization*, i.e. past policy legacies are (perceived as) ineffective, or the interests and ideas that previously underpinned the policy paradigm have substantially changed. Hence, we might expect the activation of either *learning process*, i.e. a larger role for new ideas coming in, or *electoral incentive changes* related to the interplay between a different restructured party system and different configuration of interest groups, which in turn might lead to more substantial changes.

5. Methodology

This thesis develops an empirical analysis aimed at mapping the actor constellations in various junctures and at reconstructing the policy-making processes in the fields of pension and healthcare. For this purpose, this research relies on a comparative and qualitative approach based on *process tracing* in order to understand the causal mechanism that shaped different paths of policy change. Process tracing combines a positivist and an interpretivist perspective, which is important not only theoretically and empirically, but for policy reasons as well, because it allows the researcher to explore both "what" and "how" questions (Vennesson, 2008). George and Bennet (2005) provide a positivist approach to process tracing, which they define as a method that aims at tracing the links between possible causes and observed outcomes in order to explain whether the residual differences between two similar cases were causal or spurious in producing a difference in outcomes. Thus, the researcher examines histories, archival documents, interview transcripts and other sources, in order to explain whether the causal process implied by a theory is in fact evident in the sequence and values of the intervening

variables in a case study (George and Bennet, 2005: 6). Vennesson (2008) adds the importance of an interpretivist approach to process tracing. He argues that an interpretivist perspective of process tracing allows the researcher to look for the ways in which the causal mechanism manifests itself and the context in which it happens (Vennesson, 2008). Thus, the focus is not only on what happened, but also on how it happened.

Considering both the positivist and interpretivist perspectives of process tracing, this thesis will analyse both the causal mechanism – that links possible causes with observed outcomes – and the context in which it unfolds. For this purpose, this thesis will employ a technique of "thick historical descriptions" (Geertz, 1973). The historical analysis aims at tracing back the origins of current healthcare and pension policy programmes and at understanding the context in which certain decisions were taken. The analysis goes back to the formative moments in the country's old-age pension and health policies earlier in the twentieth century, analysing their genesis, expansion and reform processes. The core of the research investigates the period between the collapse of Communism and 2016, because the reforms adopted and implemented during this period made it clear that these policies had departed into different paths.

The empirical investigation is conducted through an analysis of domestic official documents and legislative acts, press-review, parliamentary minutes as well as reports by the World Bank, the European Union, the WHO, the USAID, the ILO and the IMF. This analysis is integrated with a series of semi-structured interviews with administrative officials, politicians, World Bank officials and welfare system experts (cf. appendix).

6. Thesis Structure

The remainder of the thesis is organized as follows. The second chapter provides a historical overview of the main economic, socio-demographic and political developments in Albania from the early 1990s until 2019. Understanding the context in which political actors operate allows for a proper analysis of the social policy change and divergence in chapter three and chapter five.

Chapter three presents the policy trajectories of the pension and healthcare system respectively. Its main focus is to trace back the policy development of pension and

healthcare systems, from their genesis to date, in order to illustrate the process of convergence/ divergence that exists between these two systems. This historical overview will shed light on the underlying logic of social policy development, which is in turn necessary to explain the current shape of healthcare and pension policy. Moreover, this chapter aims at reconstructing the policy trajectories of healthcare and pension systems by using the appropriate conceptualisation based on Ferrera's (1993) classification and corresponding definitions of solidarity models and Hall's (1993) three-order change framework. This chapter sets the basis for the empirical analysis, conducted in the fifth chapter.

The fourth chapter gives a literature review on welfare state development and change, analysing the explanatory power of functionalism, power resources theory and neo-institutionalism and their limitations in explaining welfare restructuring in the post-communist countries in the early 1990s, linking this with the research gap that exist in the Albanian case. Based on this literature review, the final paragraph of this chapter constructs the theoretical framework to explain the drivers of welfare reforms in Albania.

Chapter five provides an empirical analysis on pension and healthcare policymaking processes from 1991 to 2016. It discusses the national debate on pension and healthcare politics, bringing evidence on actors' preferences, policy proposals and their attitude towards reforms. Its main aim is to identify the drivers and politics of reforms, in order to understand how policy change was possible and why healthcare and pension policies diverged overtime, despite their similar starting positions.

The final chapter presents the comparative conclusions of this study. It summarises the findings of the dissertation and gives an overview about its policy and theoretical implications.

CHAPTER II

SOCIO-ECONOMIC AND POLITICAL DEVELOPMENTS IN ALBANIA: SETTING THE CONTEXT FOR SOCIAL POLICY CHANGE

1. Introduction

This chapter presents a historical overview of the main political, economic and socio-demographic developments in order to show the background environment in which the post-communist social policy change took place. Its aim is to introduce the dynamics of the double transition – from communism to democracy and from planned to market economy – that characterised Albania for more than two decades. Such dynamics had major implications for welfare reform as well. In particular, the economic transition had a direct impact on social policy reforms in two important directions. First, the transition to market economy involved substantial "social costs", such as high levels of poverty, unemployment and informal employment. In order to minimize the impact of socially adverse effects of economic reforms on the most vulnerable groups, the Albanian government initially relied on *ad hoc* social assistance programs (Alderman, 2001). Such emergency measure used to deal with high levels of poverty and unemployment had political impact as well, reducing political resistance to structural economic reform (Haggard and Kaufman, 2008). Second, the economic transition in the early 1990s was marked by high levels of tax evasion, fiscal instability and output decline as well, which brought the social protection system in Albania into a state of crisis. Subsequently, citizens, trade unions and other interest groups started to complain about the quality of the services (World Bank, 1994b), which increased the salience of the problems in the welfare system, emphasising the need for reforms that at the time were not on the government agenda.

The political transition from communism to democracy had also important impacts on social policy reform. First, the political transformation was accompanied with a process

of democratic institution building. As it will be argued in chapter four, institutions provide the context for policy change, defining who the relevant actors are, their positions in the policymaking process and mode of negotiation to solve conflict (Immergut, 1992). In Albania a new Constitution was finally approved in 1998 and changed the semi-presidential system into a parliamentary one. However, the existing electoral system and party competition reinforced the executive unconstrained authority, by generating single-party governments with vast majorities. The impact of this institutional configurations on social policymaking was that the government could easily pass its preferred policy solution. Second, in line with the transition to democracy and market economy new actors emerged with different policy preferences and in order to pursue their interests they joined political parties, interest groups, trade unions and professional organizations. As it will be argued in chapter four, the interplay between social and political actors is crucial to explain institutional evolution of public policies.

Against this backdrop, this chapter illustrates the context in which political actors operate, in order to properly analyse social policy change in Albania (cf. chapter three and chapter five). The rest of the chapter is structured as follows. Paragraph two describes the economic transition and the subsequent obstacles that followed. In addition, it illustrates the main labour market trends from 1992 to 2017, focusing on (high) unemployment and informal economy rates, which constitute serious problems even today. Paragraph three addresses the socio-demographic changes that occurred after the fall of communism in Albania, also comparing these with other Western Balkan countries and more broadly the European Union. The fourth paragraph illustrates the main political development, paying a close attention to political parties and their ideological orientation, parliamentary elections and post-communist governments. The fifth paragraph analyses the emergence of interest groups in Albania in the early 1990s, with the main focus on the role played by trade unions, employers' associations and professional interests in the healthcare sector. The last paragraph introduces the welfare state transformation in Albania.

2. The Transition to a Market Economy

The transition to market economy in Albania was accompanied with high social costs. The economic collapse and the massive downgrading and closing-down of state-owned enterprises as well as the dissolution of agricultural cooperatives brought a drastic decline in the employed population. At the same time there was an increase in the informal sector, which in turn meant less revenues for the financing of the social protection system (Armenau, 2005). In order to deal with high unemployment and poverty levels, the first democratic government relied on *ad hoc* use of early retirement pensions and introduced unemployment benefits and generous emergency social assistance programs aimed at providing a relatively broad safety nets (Alderman, 2001; Haggard and Kaufman, 2008). Even though these measures increased social spending in the context of a sharp decline in revenues, there were considered necessary by the Albanian government in order to maintain social stability and secure political support for economic structural reforms (Haggard and Kaufman, 2008). In addition, the economic transition in Albania was marked by high levels of informal employment, tax evasion, fiscal instability and output decline, which deteriorated the performance of the social protection system. Subsequently, citizens, trade unions and other interest groups started to complain about the quality of the services (World Bank, 1994b), which increased the salience of the problems in the welfare system, emphasising the need for reforms that at the time were not on the government agenda.

This paragraph illustrates the main economic and labour market development that have had major implications for welfare reforms, some of which constitute serious problems even today.

2.1 Economic Performance

During Communism, the Labour Party[6] (PPSH) controlled every field of society and people's lives: the state, the economy, the army, culture and education (Pipa, 2007). The economy was based on the principles of complete reliance on central planning and the

[6] From 1946 to 1976 Albania was known as People's Republic of Albania (PRA) and from 1976 to 1991 as People's Socialist Republic of Albania (PSRA).

prohibition of private ownership of the means of production, which resulted in the elimination of all forms of private properties (Tarifa, 1995). The collapse of Communism meant that there was a need for a fundamental restructuring of the relationships between the state, the market and the society (Careja and Emmenegger, 2009).

The transition to democracy and market economy in Albania came later than in other CEE countries and it was marked by high levels of external debt, unemployment, hyperinflation and mass exodus of refugees to Italy and Greece. The abolition of the central planning in 1991 caused widespread disruption of production and a loss of control over state owned enterprises, with devastating consequences for fiscal revenues. On the one hand, the output decline led to a sudden drop in tax revenues, which fell from 44% of the GDP in 1989 to 16 % in 1992 (World Bank, 1994a). On the other, expenditure increased significantly in order to offset the decline in output. This situation led to a fiscal deficit that accounted for 44% of the GDP in 1992 (World Bank, 1994a). Moreover, price liberalisation prompted hyperinflation, the administrative system collapsed and social unrest was on the rise. Albania's external debt (share of public debt detained by foreign investors) amounted to about 90% of the GDP in 1992 (World Bank, 1994a).

Table 2.1 Economic indicators: 1989-1992

	1989	**1990**	**1991**	**1992**
(% change)				
Output growth	10	-10	-28	-10
Agriculture	15	-4	-21	18
Industry	8	-20	-37	-60
Inflation	0	0	104	226
(% of GDP)				
Public expenditure	57	61	62	48
Fiscal revenues	48	47	29	26
Budget deficit	-9	-15	33	22
Broad money	24	33	69	59

Source: World Bank (1994a)

Under such conditions the authorities had no choice but to opt for a "shock therapy" relying on very tight monetary and fiscal policies (World Bank, 1994a). The process of economic reforms began in 1992 after the real GDP fell by more than 50% compared to 1989. The transition economic difficulties were dealt with the Stabilisation Program, which was supported by the IMF and the World Bank (World Bank, 1994a). The focus

of the early programs was fiscal consolidation, liberalisation and reduction of direct state interventions in productive activities. These programs were followed by privatisation and restructuring of the banking sector.

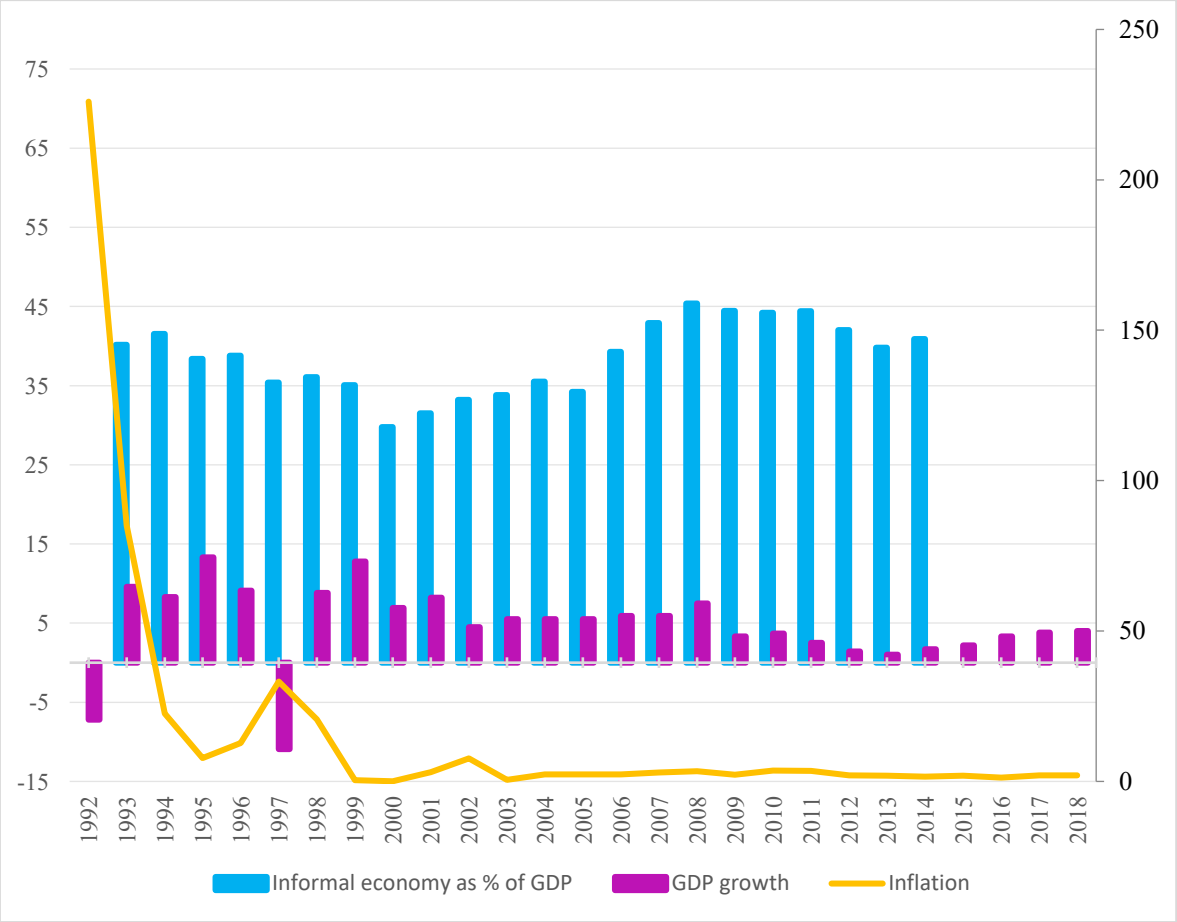
The government was able to achieve major structural reforms including the privatization of the agricultural sector and small enterprises, the creation of the legal framework for a market economy and private sector activity, abolishment of price controls, monetary restraint and liberalization of the exchange system. The economy expanded again reaching the 1989 level, from 1993 to 1996 GDP growth averaged around 9% and inflation dropped from 226% per year at end of 1992 to only 6% in 1995 (World Bank, 1998).

Despite some economic progress in the early 1990s, the collapse of financial pyramid schemes (explained below in paragraph four) in 1997[7] revealed the fundamental problems of Albania's economic governance capacities. The government lost control of large parts of the country, many public buildings were damaged or destroyed, and most state functions were severely hampered. GDP declined by around 7%, inflation reached over 30% and the exchange rate depreciated by one-third (World Bank, 1998).

Political alternation in 1997 did not solve all problems. However, the economy picked up - GDP growth averaged almost 8.3% between 1997 and 2002 - and inflation fell from 33.18% in 1997 to 2.4% in 2002 (fig. 2.1). Nevertheless, weak governance - lack of accountability and institutional capacities, as well as high levels of corruption and rising criminality - undermined Albania's high potential to generate employment and reduce poverty through sustainable private sector-led growth.

[7] It is important to note that, at their peak, the nominal value of pyramid schemes' liabilities amounted to around half of Albania's GDP (IMF, 1999). About two-third of the population invested in them and the political and social consequences of their collapse were profound.

Figure 2.1 Economic and financial indicators in Albania, 1992-2018



Note: See the secondary axis for the inflation rate.
Source: World Bank online

Between 1998 and 2008, annual GDP growth averaged 7%. This rapid growth moved Albania towards middle-income countries and helped reducing poverty: the absolute poverty rate[8] dropped from 25.4 % in 2002 to 12.4 % by 2008 (World Bank online). In 2008, although Albania was able to avoid recession, the crisis hit the country economy hard. Between 2009 and 2014, GDP growth averaged less than 2.5%. The crisis lowered remittances and other financial inflows and suppressed growth, mostly due to Albania's close links with the Greek and Italian economies (exports, remittances, and financial flows). Tepid growth reversed the fall in poverty, which increased from 12.4 % in 2008 to 14.3 % in 2012 (World Bank online). The public debt has also surged upward since the crisis, reaching its highest level in 2014, around 71 % of GDP.

[8] The percentage of people living on less than $1.25 a day

Albania's growth indicates signs of recovery since the global economic crisis, with net exports being the main drivers of such recovery. Export has tripled since the early 1990s and now accounts for more than 30% of GDP (World Bank, 2015); meanwhile, however, import has risen by almost as much. Thus, Albania's trade deficit has remained high, though about half has been covered by remittances. Furthermore, Albania has yet to ensure a durable shift from the old demand-driven growth model to an export-oriented growth model (World Bank, 2015).

Although some economic stabilization has been achieved, much remains to be done: the private sector remains weak, obstacles to resolving non-performing loans still burden banks' balance sheets and impede the functioning of the bank lending channel and businesses lack access to finance (European Commission, 2020).

2.2 Labour-Market Developments

As mentioned above, economic restructuring in the early 1990s led to a sharp reduction and to substantial transformation of the Albanian labour force. The number of jobs in the public sector decreased dramatically, mostly due to mass privatization of state–owned enterprises, and also as a result of the bankruptcy and closing of a lot of activities that were not able to provide profits. Moreover, the dissolution of agricultural cooperatives in October 1991 brought a drastic decline in the employed population. At the same time there was an increase in the informal sector, which together with high unemployment levels have constituted major problems ever since.

Poor labour market performance is reflected in particularly low activity and employment rates - with men (61.9%) having higher employment rates compare to women (49.7%) - high levels of unemployment (notably among the young and females) and an increasing share of part-time and flexible jobs that often results in short and insufficient period of contributions. According to National Institute of Statistics (INSTAT) data, in the last decade the unemployment rate has averaged around 14.4% (population aged 15-64), and it was on average higher among males than females. This difference also suggests that men are more active in the labour market: in 2016, 25.9% of male population aged 15-64

was economically inactive[9] compared to 41.7% of female. In 2018, the gross average monthly wage per employee was 50'589 ALL, whereas the gender pay gap was 10.7%. Another critical feature of the labour market in Albania is the fact that a large share of the workforce is employed through informal arrangements outside the coverage of labour legislation and social insurance as well. The informal economy accounts for 40.9% of GDP (INSTAT data, 2014). Informal employees do not only receive lower salaries, but they are also not paid their employer contributions for social and health insurance (European Commission, 2008).

Table 2.2 Labour market indicators in Western Balkans in 2017

	Labour force participation rate (15+)	Unemployment	Informal employment*
Albania	56.18	13.75	33
B&H	46.91	20.47	17
Croatia	51.88	11.2	n.a.
Montenegro	50.86	16.07	n.a.
North Macedonia	55.14	22.38	41
Serbia	54.47	13.47	14
EU average	57.60	7.61	n.a.

Note: * informal employment (% of total non-agricultural employment)
Source: World Bank online

High unemployment and informality constitute serious obstacles to effective social protection. This phenomenon is mostly spread among women, as they are more sensitive toward social and health issues (females mostly care for children and the elderly). Illegal activity plays an important role in alleviating poverty among households, allowing for consumption that is not accounted for by official production and trade, but it also makes assessing the country's macroeconomic performance a more difficult exercise (World Bank, 2007).

Moreover, as it will be discussed in chapter three, a direct consequence of high levels of unemployment and informality was the falling number of contributors in the late 1990s, which coupled with the demographic challenges (illustrated below in paragraph 3) that started to occur later on – such as the increase in the life-expectancy and decline in fertility

[9] All persons who are not classified as employed or unemployed (pupils/students, housekeepers, in a compulsory military service, retired, disabled, discouraged unemployed).

rate – have created ongoing problems in the social and health insurance schemes. In 2012 only 35% of the working age population was paying contributions. On the one hand, this means that those who were not paying contributions risked not being entitled to benefits in the future, leading to a significant number of elderly experiencing old age poverty. On the other hand, having a large percentage of the population that does not pay contributions, fewer contributors are left in the system to support current pensioners. As it will be argued in chapter three and five, fiscal, labour-market and socio-demographic trends had an important impact on the government's decision to reform the pension and healthcare system in 2014 in order to ensure their financial sustainability but at the same time to introduce measures to tackle poverty, such as the introduction of a social pension and universal healthcare packages.

3. Population and Socio-Demographic Trends

Population ageing affects the entire EU, due to increasing life expectancy and low levels of fertility in recent decades. Table 2.3 gives some comparative data on demographics of EU and Balkan's countries. Life expectancy in the EU is 81 years old. Western Balkans have lower levels ranging from 75.9 years old in Serbia to 78.9 in Albania, whereas, the fertility rate averages around 1.5 live births per woman, with Montenegro having the highest rate of 1.75 (table 2.3), while Albania is at 1.37.

Table 2.3 Population structure and ageing in the Western Balkans and the EU in 2018

	Old age dependency ratio [a]	Life expectancy	Fertility rate	Average age [a]
Albania	*20.51*	*78.9*	*1.37*	*36.7*
Kosovo	12.72	78.6[b]	1.61	29.9
Montenegro	22.66	76.9	1.75	38.7
North Macedonia	20.21	76.7	1.42	38.8
Serbia	31.28	75.9	1.49	43.7
EU-27 (average)	31.36	81.0	1.55	43.7

Note: Bosnia and Herzegovina no available data

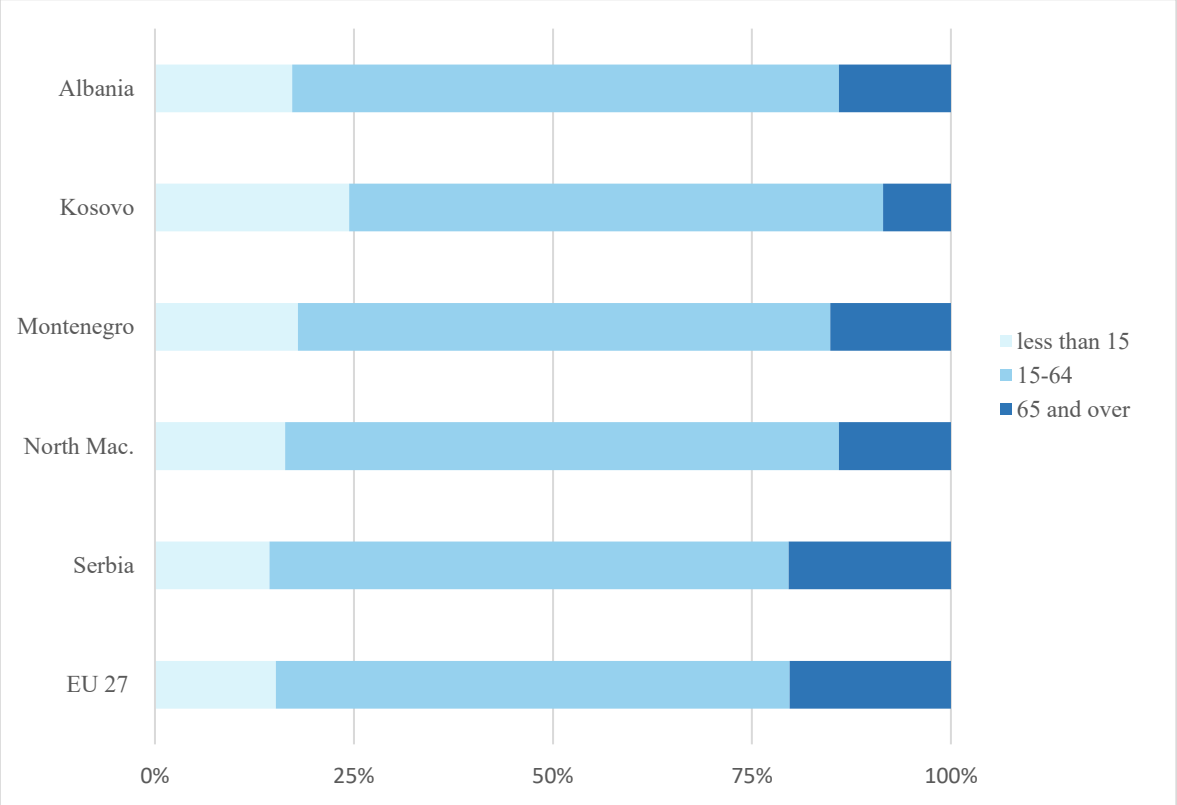
[a] 2019 data

[b] 2016 data

Source: Eurostat online

Nevertheless, compared to other European countries, the Albanian population remains young, with an average age of 36.7 years, making Albania the youngest country in Europe after Kosovo - while the average age in the European Union is 43.7 years (cf. table 2.3). As we can see from figure 2.2, Albania has a relatively low share of persons above 65 years old (14.1%), while the working age population accounts for 68.7% of the population. However, as mentioned above, high levels of unemployment and labour market informality have hampered the economic potential for growth and development, and more importantly for a sustainable social protection system offered by Albania's favourable demography.

Figure 2.2 Population by age groups in Western Balkans and EU-27 in 2019



Note: Bosnia and Herzegovina no available data
Source: Eurostat online

Albania has a small population of around 3 million, which is ageing rapidly. The fertility rate has declined from 2.82 in 1992 to 1.3 in 2019 (table 2.4) and it is projected to decrease even further, whereas life expectancy has increased for both men and women.

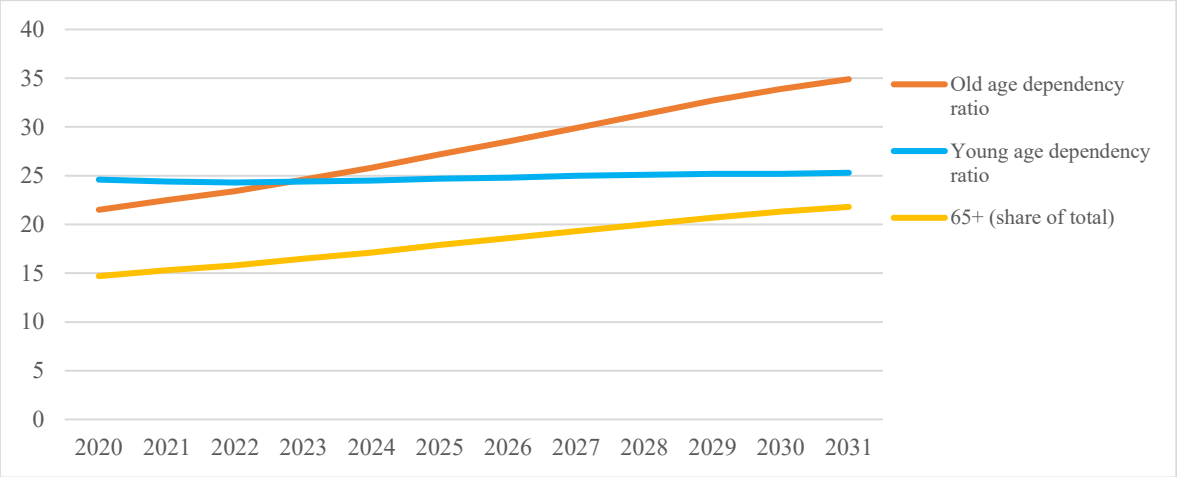
Table 2.4 Demographics trends in Albania, 1992-2014

Year	Old-age dependency ratio	System dependency ratio*	Life expectancy	Fertility rate
1992	9.52	0.37	71.80	2.82
1993	9.87	0.64	71.86	2.75
1994	10.22	0.94	71.99	2.67
1995	10.58	0.95	72.20	2.59
1996	10.72	1.15	72.49	2.50
1997	10.85	1.45	72.83	2.42
1998	10.98	1.42	73.20	2.33
1999	11.12	1.25	73.58	2.24
2000	11.27	1.05	73.95	2.15
2001	11.60	1.08	74.28	2.06
2002	11.96	1.06	74.57	1.98
2003	12.32	0.91	74.82	1.89
2004	12.70	0.79	75.03	1.82
2005	13.07	0.65	75.22	1.75
2006	13.59	0.77	75.42	1.70
2007	14.13	0.81	75.64	1.67
2008	14.69	0.77	75.91	1.65
2009	15.29	0.79	76.22	1.65
2010	15.91	0.78	76.56	1.66
2011	16.31	0.75	76.91	1.67
2012	16.74	0.85	77.25	1.68
2013	17.21	0.81	77.55	1.69
2014	17.75	0.89	77.81	1.68
2015	18.37	0.83	78.02	1.59
2016	18.87	0.85	78.19	1.54
2017	19.41	0.82	78.33	1.48
2018	20.04	0.81	78.45	1.37
2019	20.76	0.83	n.a.	1.36

Note: *System Dependency ratio (SDR): Pensioners / Contributors (SII data).
Source: World Bank online

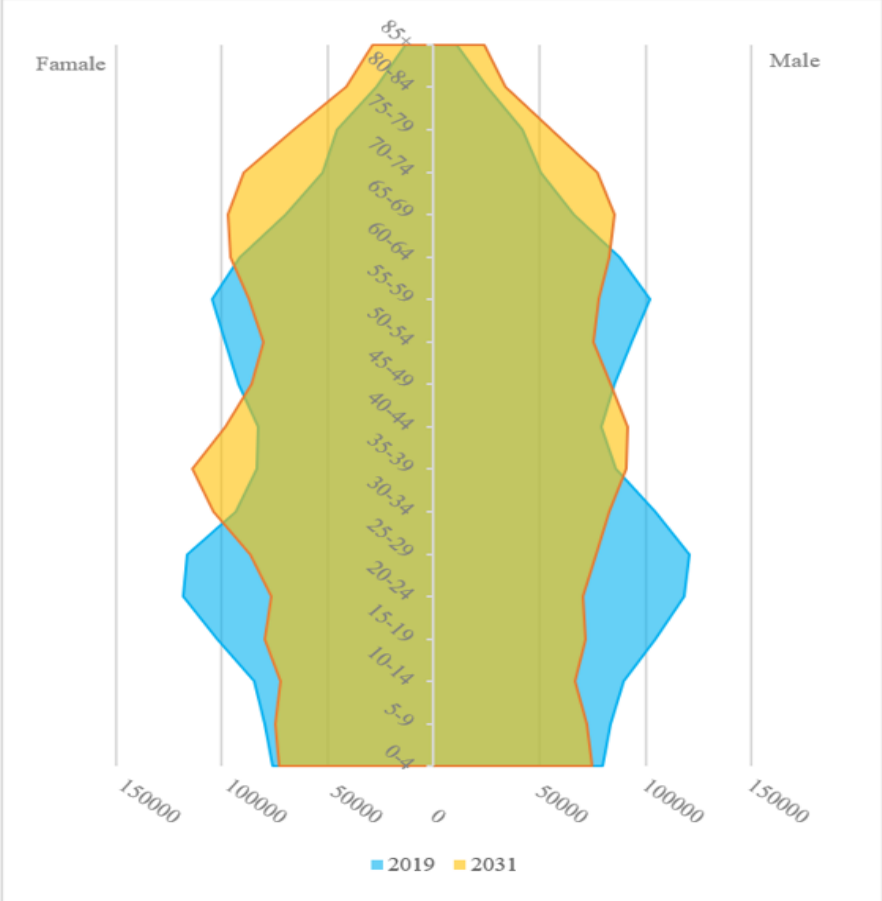
The trends for people to live longer and for families to have fewer children are changing the shape of the population structure (cf. figure 2.4); moreover, emigration has substantially reduced working age population, while the elderly population (above 65) has increased. As result the level of the old-age dependency ratio (i.e., the population age 65 and over divided by the population ages 15–64 which represents the working population) has risen steadily, from 9.5% in 1992 to 20.7% in 2019 (table 2.4), and it is expected to increase even further in the future (figure 2.3 and 2.4).

Figure 2.3 Demographic projections 2020-2031



Source: INSTAT online

Figure 2.4 Population pyramid in Albania in 2019 and 2031



Source: INSTAT online

Since public pension systems in Albania is financed through contributions, the sustainability of this system depends on the size of the labour force. Hence, it is important

to assess the impact of the demographic dynamics in this regard. As argued above, old-age dependency ratio is already high in Albania and according to World Bank data is projected to increase to up to 70% over the next 50 years (World Bank, 2014c). These demographic trends are leading to an "inverting population pyramid" (World Bank, 2014c), as the size of the labour force will decrease substantially while the number of pensioners will increase significantly, a challenge that raises issues of social insurance sustainability. In addition to increased pension spending, aging is also expected to increase the need for spending on health and long-term care (World Bank, 2014c).

4. Albanian Politics: Regime Transition and Democratic Competition

According to Krasniqi (2011), we can identify two moments of political change: de jure the political alternation from Communism to democracy took place in 1991, de facto it occurred in 1992, when the country created solid and functional representative institutions. Most scholars agree that the transition period in CEE countries is composed of three phases: preparation, transition toward democracy and the completion of the transitional period. Based on these phases, Diamond (1996) identifies five types of regimes: electoral authoritarianism, pseudo-democracy, electoral democracy, an intermediate model between electoral and liberal democracy, and liberal democracy. Referring to the Albanian case, electoral authoritarianism emerged in 1992-1997, pseudo-democracy corresponded to the early 2000s, while the electoral democracy includes recent years (Krasniqi, 2011).

During the first two periods, Albanian politics were characterised by limited pluralism. The existing political-institutional structures created an environment that consistently generated single-party governments with vast majorities. The political situation remained unchanged until 2009 when the electoral system changed from mixed to proportional, in which none of the main parties was able to form a parliamentary majority alone. In line with changes in the institutional setting, during the last period (electoral democracy) the policy-making style changed as well. The Socialist Party deeply reformed its political program, approaching the model of social-democratic parties in Europe. Its resistance towards privatization or unlimited import of foreign capital in the economy was

accompanied by strengthening of trade unions and civil society's position, dedication to the most vulnerable and focus on domestic development. On the contrary, the political program of the Democratic Party approached the ideology of liberal conservatism, combining conservative policies with liberal stances, especially on privatization issues. Today, there is a clear division between the two main political parties in term of redistribution issues and welfare privatisation.
The rest of the paragraph outlines the transition from communism to democracy, paying a close attention to the main political developments: political parties and their ideological orientation, parliamentary elections and post-communist governments.

4.1 The Transition from Communism to Democracy

The Albanian communist model represented the most extreme form of oppressive rule (Pipa, 2007), banning any form of debate and organization, total economic and cultural isolation from West and East, prohibition of religious institutions and individual religious freedom, extreme application of the class struggle and deprivation of any foundation for democratic participation.
Contrary to the liberalisation movements that started in other parts of Central and Eastern Europe in the 1960s, Enver Hoxha pursued its own cultural revolution, proclaiming Albania as the world's first "atheist state" (closing religious institutions and persecuting adherents) and developing an ideology of fear, totalitarian control of the state, and keeping the country in a constant state of defence – due to a perception of foreign threat from the two world powers and regional neighbours (Anastasakis, 2013). His regime suppressed any dissident and potential opposing view.
After his death, in 1985, he was succeeded by Ramiz Alia, who was immediately faced not only with increasingly serious domestic economic and social problems – that made the new Albanian government recognize the need of trade liberalisation with the West (initially with Germany, France and Italy) – but also with international pressures due to democratic movements in the CEE and the Soviet Union, which culminated with Ceausescu's execution in Romania. Therefore, the government lightened the most repressive aspects of the regime and opened diplomatic ties with Western European countries. The final push towards transformational change came from the protests of the

students of the University of Tirana, who were showing open defiance of the system (Fischer, 2010). Soon they were joined by the working class and trade unions and the demonstrations spread all over the country, pressuring the government to initiate systematic changes. Under such circumstances, in December 1990, the communists approved political pluralism and respect for human rights, with the hope to gain the sympathy of the West and of anti-communist dissents as well. Alia took credit for allowing reforms and started to dictate the pace of change (Abrahams, 2015).

Opposition parties were allowed to organize only three months before the general elections. Thus, on 31st of March 1991, Albania entered the first multi-party political elections lacking democratic and competitive culture, free thought and liberal representation of the society (Krasniqi, 2009b). The main new opposition party, the Democratic Party (PD), positioned as a right-wing party, promised full separation of the state from the party, decentralisation of the economy, full privatisation of the agricultural sector and return of lands to the farmers. However, former communists dominated the pre-election processes, therefore influencing the shaping of the new political, institutional and economic systems, always attempting to control the transition process. They accepted political competition, democratic rules, new political parties and elections, but they managed to win the first pluralist political elections in 1991, thus becoming the first party with democratic legitimacy to govern the country.

The pluralist parliament in 1991 abolished the Constitution of 1976, by reversing the People's Socialist Republic and establishing the Parliamentary Republic of Albania (Krasniqi, 2009a: 238). The head of the state would be the President of the Republic; therefore, the last communist leader, Ramiz Alia, also became the first president of the democratic period. The former communist elite did not change, but circulated, they managed to adapt to the new system and retained control over economic resources and political decisions (Sterbling, 2003). The international community expressed its concerns that the elections were not free and fair (Omari, 2000).

Being unable to govern on its own, the Labour Party was forced to accept co-governance with the Democratic Party - the main opposition party, which had won 90% of main urban areas - in exchange for snap elections. Meanwhile the Labour Party changed its name to

the Socialist Party (PS) and its new leader[10] reformed the party in an effort to survive in the new system. Under these circumstances the country went to early parliamentary elections in March 1992. During its period in governance, the Democratic Party (PD) had shared all the necessary information on "taboo" folders during the communist period, which contained information about abuse of power, political persecution, crime, corruption etc., thus creating a completely new electoral situation. The majority of the population was convinced that change was required, and they voted for PD, making it win with 92 seats out of 140 (Krasniqi, 2011).

It is worth mentioning that in this period Albania re-entered in international relations by restoring diplomatic relations with the US, the UK and the Vatican City. It became a member of the OSCE, the IMF and the World Bank (Lory, 2007: 234), creating a pro-West, international position.

4.2 Political Institutions

As mentioned above, the pluralist parliament in 1991 abolished the communist Constitution of 1976 and established the Parliamentary Republic of Albania. However, after the 1992 elections, the President gained strong position powers, turning the Albanian system into a semi-presidential one, with limited scope for checks and balances. The President, Sali Berisha, and his new elite shared an authoritarian and intolerant mindset that precluded the kind of compromise and negotiation needed to move towards democracy (Fischer, 2010). They managed to rewrite the rules of the economy and the state to benefit their own interests (Anastasakis, 2013). The failure to create a political system based on stable and strong institutions from the beginning and the establishment of a semi-presidential system allowed personal politics to develop, root themselves firmly in the political process and produce authoritarian leaders, who in turn sustained and promoted institutional weakness (Bogdani and Loughlin, 2007). Moreover, Berisha tried to manipulate the Constitution in order to strengthen the position of the president even further (Anastasakis, 2013). However, the popular referendum voted against the draft-constitution in 1994.

[10] Fatos Nano was the new leader of the reformed Socialist Party (former Labour Party) and he held this position from 1991 to 2005, when he resigned after losing the elections. He was succeeded by Edi Rama.

A new Constitution, ratified by a popular referendum, was finally approved in 1998 and changed the semi-presidential system into a parliamentary one. It designed the new political-institutional structure and defined the veto players (see table 2.5). In the legislative, the unicameral parliament composed of 140 members (MPs) constituted the main veto player. The president was given veto power; however, the parliament could overrule it through a majority vote, in the presence of all of its members, i.e. 71 out of 140 MPs. Another important veto player was the Constitutional Court, whose decisions were final and binding. Finally, the electorate had the power to overthrow or accept government's decisions through a referendum.

Table 2.5 Political institutions in Albania

Separation of powers	**Actors**	**Term**	**Jurisdiction**
Executive	President	5-years term, indirectly elected	Can veto legislation; dissolves the parliament if the prime minister has lost a vote of confidence.
	Government	4-years term, indirectly elected	Determines the agenda of the Parliament; proposes bills and amendments.
Legislative	Parliament *(unicameral)*	4-years term, directly elected	Apart from its legislative rights, the parliament proposes the prime minister and elects the president.
Judiciary	Constitutional Court	9-years term, 9 judges, nominated by the President and confirmed by the Parliament.	Final authority for the interpretation of the Constitution and the compliance of laws in accordance with the constitution
Electoral	Referendum	1994, 1998	Binding if the majority corresponds to 1/3rd of the total electorate

Source: Constitution of Albania (1998), modified in 2016

The new constitution gave the majority of the political power to the Prime Minister and the Cabinet. The electoral system remained mixed, in which 100 seats were distributed based on the majority system while the remaining 40 seats were distributed by proportional representation. The existing electoral system and party competition reinforced the executive unconstrained authority, by generating single-party governments with vast majorities. The situation remained unchanged until 2009 when the electoral system changed to a proportional one.

4.3 Elections and Political Parties

The formation of the Democratic Party in 1991 prompted the creation of a multiparty system in Albania. Ever since, the political environment has been a bipolar one, dominated by the Socialist Party (PS) and the Democratic Party (PD). In the early 1990s, the PD opposed all that the communist regime had previously supported. Officially a right-wing party, its political program promised democracy, free-market economy, reestablishment of private property and human rights (Islami et.al., 2013: 19). However, despite its anti-communist urge, PD's leader Sali Berisha pursued illiberal policies, attacking and recriminating non-PD politicians, imprisoning political opponents, controlling and putting pressure on the media, civil society and human right activists (Anastasakis, 2013; Pata, 2013). The situation degraded even further, during the parliamentary elections of June 1996, when the PD tried to win an absolute majority by manipulating the voting process[11]. Even during the 1996 elections, the electoral behaviour remained the same (Krasniqi, 2011).

Extreme poverty during the communist period and early transition years aroused great thirst for personal enrichment. This explains also the development of pyramid schemes, which were a sort of Ponzi schemes attracting investors by offering them very high returns. They flourished initially, as news about the high returns spread and more investors were attracted. Eventually, the high rates begun to arouse suspicion and the schemes were unable to make interest payments. Both the World Bank and the IMF warned Albania against the pyramid schemes (World Bank, 2007), but the Albanian government never spoke about the informal market, nor did it have the courage to explain the citizens the danger these opportunistic decisions might bring (Krasniqi, 2011). When the schemes collapsed in 1997, there was uncontained rioting, the government fell, and the country descended into anarchy and a near civil war in which some 2'000 people were killed (IMF, 2000).

The general elections in June 1997 that followed this turbulent period brought to power the reformed Communist party, the Socialist Party (PS), which created a solid majority (winning 101 seats out of 155). The new government was confronted with three urgent

[11] Organization for Security and Cooperation in Europe, Parliamentary Elections 26 May and 2 June: Observations, July 2, 1996.

tasks: to restore the order, to start the process of national reconciliation and to revive the battered economy. During their first year in office, the Socialists were able to rebuild the police and armed forced and restore the law and order in the country. The government implemented important legal reforms and marked a significant economic growth.

Local elections in 2000 and parliamentary elections in 2001 confirmed the domination of the left (with 88 out of 140 seats), which subsequently was unable to properly manage its "superpower" (Krasniqi, 2011). The socialist government was characterized by political instability, struggles within the party, lack of cooperation between the government and the opposition and a dramatic growth of corruption and organized crime activities (Biberaj, 2010). The crisis within the left culminated in 2004 with the creation of Social Movement for Integration (LSI), as a political fraction of the PS, and the PS's defeat in 2005.

The 2005 parliamentary elections were the first one won by a party because the other camp was divided. The Democratic Party did not gain the majority of votes, but won the majority of seats (74 out of 140 seats) because left parties (the PS and the LSI) competed against each other. From 2005 to 2009, Albania was governed again by Sali Berisha, this time as prime minister. Significant challenges continued to suppress economic growth including weak competitive capacity, limited access to commercial credit, the unfavourable business environment caused by widespread corruption, the high cost of business registration, poor and unreliable infrastructure, and inconsistent application of fiscal laws and regulations (US Government Assistance, 2007).

Importantly, according to Krasniqi (2011), the political platform of the PD in 2005 and 2009 had no substantial difference from that of the PS in terms of political vision about the country, the political system, political elections, traditions and values, relationship between the individual and the state, religion or national priorities. This lack of variety has created an identical electorate between the left and right political spectrum, which is rather influenced by their leaders' personal relations with the political power (Krasniqi, 2015; Kajsiu, 2013; Ceka, 2013).

The change of the electoral system from mixed to proportional in 2009 created a new political situation (cf. table 2.6) in which none of the main parties was able to form a parliamentary majority alone. The Democratic Party formed a government coalition with the LSI. Even though in its early years LSI's political program included issues and themes

in support of trade unions, social policies, miners, veterans, former military soldiers and women, its political identity changed due to its coalition with the PD in 2009, and its returning to the left coalition in 2013. Therefore, the LSI became less ideological and pursued pragmatic promises and policies, targeting potential electoral votes and lacking political proposals that make a difference between the left and right in Albania (Krasniqi, 2015).

Table 2.6 Electoral systems and ruling parties

Parliamentary elections	**1992**	**1996**	**1997**	**2001**	**2005**	**2009**	**2013**	**2017**
Electoral system	Mixed	Mixed	Mixed	Mixed	Mixed	PR	PR	PR
Main ruling party/ coalition	PD	PD	PS	PS	PD	PD-LSI	PS-LSI	PS
Seats (main party/ coalition)	92/140	122/140	101/155	73/140	80/140*	72/140[a]	81/140[b]	74/140

Note: *80 seats out of 140 refer to the entire right-wing alliance. The PD alone won 56 seats.
[a] The PD won 68/140 seats and the LSI 4/140.
[b] The PS won 65/140 and the LSI 16/140.
Source: Central Election Commission online

Meanwhile, the PS deeply reformed its political program, approaching the model of social-democratic parties in Europe. Its resistance towards private property restitution and compensation[12], privatization or unlimited import of foreign capital in the economy was accompanied by strengthening of trade unions and civil society's position, dedication to the most vulnerable and focus on domestic development.

Disappointed by the government, in 2013 Albanians trusted their vote to the united left-wing parties, making them win 83 out of 140 seats. Hence, a leftist coalition composed of the Socialist Party and the Socialist Movement for Integration (cf. table 2.7) formed the government and elected the head of the Socialist Party, Edi Rama, as the Prime Minister. The new government introduced itself as a highly reformist one, aiming at growth and job creation, restoring trust in government and furthering progress towards

[12] During Communist period in Albania, the state took control of almost all properties, either directly or through the cooperatives. In 1991 the Democratic government started a process of restitution of confiscated property to former owners. However, even today, this issue is not entirely solved. In fact, additional problems are created – such as the lack of property registration, the legalisation of informal use of land, high uncertainty of judicial rulings on property rights claims, etc.

accession to the EU (World Bank, 2015). However, government's ambition to reform was tempered by limited prior public-sector experience and the country's historically weak administrative capabilities to implement any change. Moreover, promises for more responsibility of the state regarding free social services came in contrast with implemented policies, such as partnership with private business with respect to national resources, support for domestic and national business and negligence towards trade unions (Krasniqi, 2015). Table 2.7 shows the main parties represented in the Albanian Parliament, their positions and ideologies.

Table 2.7 Parties represented in the parliament of Albania (2017)

Political party	**Ideology**	**Political Position**	**Seats**	**Foundation**	**Leader**
Socialist Party of Albania (*PS*)	Social democracy	centre-left	74	1991	E. Rama *(since 2005)*
Democratic Party of Albania (*PD*)	Liberal-conservatism	centre-right	43	1991	L. Basha *(since 2013)*
Social-Democratic Party of Albania (*PSD*)	Social democracy	centre-left	1	1991	S. Gjinushi
Socialist Movement for Integration (*LSI*)	Social democracy	centre-left	19	2004	M. Kryemadhi (*since 2017*)
Party for Justice, Integration and Unity (*PDIU*)	Nationalism	Right	3	2011	S. Idrizi

Source: Central Election Commission online

Many domestic and foreign studies have argued that Albanian politics has been haunted by personal disputes between political parties' leaders with high personal ambitions and undefined ideological agendas at odds with each-other (Bogdani and Loughlin, 2007; Anastasakis, 2013; Kajsiu, 2013; Ceka, 2013; Krasniqi, 2015). This has been visible since the early years of the transition, when the political and economic transformation provided incentives for those holding power to engage in rent-seeking behaviour outside legality (Anastasakis, 2013). The early transition years actually set the basis for a climate of corruption that has continued to dominate politics at the highest level. The issue of corruption is constantly on the agenda of electoral discourses and politicians win elections

by accusing each other of corrupt practices (Kajsiu, 2014). Meanwhile, anti-corruption stances served to legitimize privatisation even in quite sensitive public sectors, such as health service.

Albanian politicians are office-oriented, and alternation in power is rarely accepted by losing parties. Removal from power is seen as a disaster for any incumbent party, because its members lose the "paradise" of privileges, which they enjoy only if they remain in power (Bogdani and Loughlin, 2007). This situation has created a high level of public dissatisfaction and mistrust, shown also by the voter turnout, which has dropped significantly– during the last local elections 22.9% of voters participated (Central Election Commission, 2019).

Finally, it has to be stressed that several studies showed that there is no tradition of political cooperation across political parties in Albania (Krasniqi, 2011; Kajsiu, 2013), and the same holds true also in the case of social policy. In fact, according to experts, the welfare system has never been considered an important matter in the political programs of the main parties, nor an issue that distinguishes their political platforms (Interview 1 – Political Parties Expert; Interview 10 – Social Policy Expert; Interview 3 – former Minister of Labour).

5. Social Partners and Interest Groups

The National Labour Council (NLC) is the highest cooperation system of tripartite social dialogue in Albania, including members from trade unions, employers' associations and state institutions. However, given its non-binding opinions, enforcement of many collective bargaining agreements and resolution of conflicts through mediation and social dialogue is difficult. Trade unions remain weak and divided, employers' organisations fragmented, and there is a strong state dominance.

Trade unions continue to struggle with the negative perceptions (Krasniqi, 2005) inherited from the communist period. Workers for decades had no choice but to rely on the Trade Unions of Albania (BPSH), a government-controlled mass organization which represented the interests of the working class in industry, in order to protect their interests (Gjermeni, 2012). Albanian workers and enterprise managers had little influence until the

"old order" started to break down in 1990. Independent trade unions arose from the ashes of the official labour organizations in each of the economy major sectors. Law no. 7516/1991 on "The Trade Union Act in the Republic of Albania" was approved, which defined trade unions as social organizations that are created as voluntary unions of workers to defend their economic, professional and social rights and interests. Following the new development, Mr. Koçollari, the last president of the Trade Unions of Albania, resigned as leader of the BPSH and an interim executive committee headed by Kastriot Muço was formed, which established the Confederation of Trade Unions (KSSH) as the non-communist successor organization of BPSH. Since 1991 this confederation together with the United Independent Albanian Trade Unions (BSPSH) has constituted the two-main national trade union confederations, representing about 90% of trade unions members in Albania. Table 2.8 shows the main trade unions in Albania and their membership.

Table 2.8 Trade Unions and Pensioners Association

	President	**Membership**	**Foundation**
The Confederation of Trade Unions of Albania (*Konfederata e Sindikatave të Shqipërisë*)	K. Nikolli	120'000	1991
Union of the Independent Trade Unions of Albania (*Bashkimi i Sindikatave të Pavarura të Shqipërisë*)	G. Kalaja	110'000	1991
Pensioners Association for Integration of Retirees (*Shoqata për Integrim e Pensionistëve të Shqipërisë*)	O. Terziu	360'000	2011

Source: ITUC, INSTAT online

After the fall of communism, the informal economy and unemployment increased at a fast rate, and the unions did not have the capacity to unite workers to defend their interest. In 1992, a government decision weakened the power of trade unions even further. Decree no.204/1992 "On Trade Unions' Assets" made the trade union leaders property owners.

"It was a smart political decision, but destructive for the trade unions. It meant that trade union leaders now were businessmen, who were no longer interested in mobilising in elections or protest to defend workers' interests. In other words, they were "bought" by the government" (Interview 1 – Political parties' expert).

Therefore, workers began to distance themselves from the unions. Trade unions became soon affiliated with the main political parties – importantly, both left and right-wing - and pursued partisan agendas with regard to reforms. This, in turn, challenges the effectiveness of the tripartite social dialogue in Albania. Affiliation with one of the two main political parties in the country is what constitutes the main difference between the KSSH and BSPSH (Caro et al., 2015). Actually, the KSSH is affiliated with the left-wing parties, while the BSPSH supports right-wing parties. This affiliation has affected the relationship between the two trade union confederations, often causing them to confront and oppose each-other. The KSSH and BSPSH do not compete only for potential members but also for advantageous relations with state institutions (Caro et al., 2015). This affiliation with one of the main parties has also dictated their mobilisation on the ground. Thus, when the political party they support is in power, the confederation in question mobilized in the public sector, because the chances of success in negotiations with the employer (state institutions) are larger, whereas the other confederation mobilises mainly in the private sector. Every time there is government alternation, trade unions change their mobilisation strategy (Caro et al., 2015).

Consequently, trade unions have lost credibility and there is a general negative public attitude towards them (Krasniqi, 2005). There is a consolidated public opinion that trade unions lack legitimacy and they are incapable of defending employees' rights and interests (Dragoshi and Pappa, 2015). Due to this negative opinion along with high levels of unemployment and labour market informality, the trade union density rate in Albania has dropped drastically.

Today trade unions represent only 20% of employees (INSTAT data, 2018). The two main trade union confederations remain divided along political cleavages. Thus, in 2013, the Confederation of Trade Unions (KSSH) signed an alliance with the Socialist Party, and it is constantly present as a social partner in the discussion of social and employment policies. During these years, they have never mobilized against the policies undertaken by the government – not even when the government decided to increase the retirement age. Differently, the United Independent Albanian Trade Unions (BSPSH) supports the policies of the Democratic Party and strongly protested against the latest pension reform. The opposite materialized when the Democratic Party was in power. In that period, the KSSH was the one protesting, while the BSPSH participated in social dialogue.

Regarding Employers' Associations, the first business association in Albania – the Union of Democratic Businessmen – was created in 1993 (ILO, 2011). Currently in Albania there are around 30 Employers' Associations. Business Albania was created in 2010 as an umbrella organisation of employers and business associations, composed of 25 Employers' Associations along with a number of individual companies. Other important employers' associations active in social dialogue at the national and regional level include: the Council of Employers' Organisations (KOPSH); the Confederation of the Employers' Organisations Council (KKOP); the Agro-Business Council of Albania (KASH) and the Union of Business Organizations of Albania (BOBSH). The main employers' associations are members of the European Business Confederation (Business Europe) (Doci, 2018).

Similar to trade unions, the employers have not been very effective in influencing the decision-making process either. They are fragmented because of a lack of clear representative criteria and this leads to limited internal cooperation and consequent lack of capacity to understand and engage in the variety of issues that need to be addressed (ILO, 2011). The sectoral and bipartite dialogue – between the trade unions and employers' associations – still remains weak, mainly due to lack of dialogue culture, and employers' scepticism towards trade unions (Doci, 2018).

Unlike trade unions, pensioners' associations emerged only after the 2000s and have played a marginal role ever since. The main purpose of the Pensioners Association for Integration of Retirees has been to support and protect the legitimate rights stemming from international and European conventions for Human Rights and Elderly Rights and to influence legislative, executive and judiciary system for ensuring these rights, as well as for alleviating extreme poverty in old age, etc. The association has the right to cooperate with the executive and legislative bodies for the approval of draft-laws on pensions, but it does not have actual influence on the decision-making process.

In the healthcare sector, the main interest group is the Order of Physicians, established in 1993. The Order is responsible for administering, protecting and representing the mutual interests of doctors to practice their profession independently and according to the highest standards (law no. 123/2014). Moreover, it has the legal right to issue licences for professional practices. However, professional self-regulation remains weak, there are few performance incentives in the healthcare system and health service providers are still not

accountable to their patients. Similar to other healthcare stakeholders, such as unions and consumer groups, the Order plays little role in the process of healthcare reform (Dumi et. al., 2012). However, as providers of healthcare service, doctors have been influential during the implementation process. As the empirical analysis in chapter 5 will show, hospital doctors were against restructuring in the early 2000s and delayed the implementation process for 2 years.

6. Welfare State Transformation

Albania's centralized "Soviet" welfare model provided universal and free access to healthcare, education and family care (policies aimed at increasing birth rates). The rest of the social programs were closely linked to the employment status, with the main one being the pension system. Unemployment was officially an unrecognized phenomenon and banned as a "parasitic activity", whereas poverty was ideologically denied and its manifestations were conceived in the context of "underserving poor" (World Bank, 1993). Guaranteed employment, broad and generous social protection and wholesale consumer price subsidies acted as means of legitimizing the communist regime (Standing, 1996).

However, as mentioned above, the double transition to democracy and market economy changed employment relations and "new"[13] social risks, such as unemployment, social inequality and poverty, emerged. Initially, the government used mostly reactive and ad hoc measures to deal with high levels of unemployment, poverty and inequality, such as early retirement schemes to deal with high rates of unemployment and continued the provision of the universal healthcare benefits. In addition, the government introduced unemployment benefits and generous emergency social assistance programs to tackle unemployment and poverty – e.g., the government began a policy of lay-offs, according to which the laid-off workers received a compensation payment equivalent to 80% of their wages (Alderman, 2001).

[13] These risks were not new, but rather hidden and unrecognized phenomena.

The generosity of the early social protection measures was driven by the popular expectation that the state should provide everything (Interview 1 – Political Parties Expert), based on the inherited communist welfare legacy, in which the state ensured full employment and provided free and universal healthcare services. Consequently, the political elite responded to this popular expectation and continued to protect its citizens from the transition induced social costs as a way to secure political support for the reforms and reduce mobilisation against reforms (Interview 1 – Political Parties Expert).

Since 1993, after the economic recovery started to show some progress, the government adopted more fiscally sustainable social assistance and insurance programs. Namely, unemployment benefits (law no. 7703/1993) and social assistance scheme (law no. 7710/1993) became better targeted and their benefits reduced substantially. Other important changes included the reforms in pension and healthcare systems, which were seen both as unsustainable and inadequate. In both fields insurance schemes were introduced (strengthened in the case of pensions) in order to link benefits with contributions.

Table 2.9 Welfare state expenditure as percentage of GDP in 2017

	Social assistance	**Social insurance**	**Healthcare**
Albania	*1.6*	*9.3*	*4.4*
B&H	1.2	17.8	5.3
Montenegro	1.2	16.8	4.7
North Macedonia	1.3	14.3	4.2
Serbia	1.7	19.0	4.8

Note: Kosovo no available data
Source: Eurostat online

Today, the Albanian welfare regime combines features from both the conservative and the liberal models, as well as legacies inherited from communism, notably with weak development of unemployment insurance schemes and universal healthcare provisions. The economic and political transition transformed the relationship between the state, family and market. Of particular importance was not only the introduction of market

elements in the provision of welfare but also a trend towards re-familiarisation[14] and decreasing rates of female economic activity in order to provide (unpaid) family care.

Until recently, little has been done to actively assist unemployed return to the labour market. Moreover, the social protection programs remain inadequate and insufficient to guarantee a minimum living standard. Even though Albania's social assistance expenditure is similar to other Western Balkan countries, accounting for around 1.6% of the GDP, the two main cash benefit programs – disability and illness assistance (8'700 ALL/month) and economic aid (5'200 ALL/month average per family) – are way below the minimum living standard[15] (16'000 ALL).

According to the Labour Force Survey, in 2016 among the economically inactive female population aged 15-64, 30.6% of them choose to stay at home to take care for children and other family responsibilities (INSTAT data, 2016). A major challenge in this regard is to create opportunities for flexible working, work-life balance and gender equality. The Labour Code in Albania recognised the right to maternity, paternity and parental leave (law no. 136/2015 and law no. 104/2014). Even though the 2015 reform in the Labour Code makes room for more flexible working (art. 15) – teleworking or working from home – additional legislation is required to regulate and implement these new working relations and structure. Childcare services in Albania are both public and private and their main focus and purpose is to promote educational and social development (kindergarten and pre-school). Child social assistance and care is underdeveloped and organised at the local level, targeting mainly disable and orphan children. Many scholars argue that limited and underdeveloped family care policies in Albania have emerged a trend towards re-familiarisation and emergence of traditional male and female gender roles, similar to other Western Balkans (Vladisavljevic, Avlijas and Vujic, 2015; Lazarevic and Tadic, 2018; Duharec, Brankovic and Mirazic, 2019).

[14] Even during Communism households played an important safety net role in providing care for the elderly, the children and compensating for the scarcity of social goods. However, the working age population was obliged to be economically active.

[15] According to this indicator, every person below this threshold is considered as "poor".

Table 2.10 Social protection expenditure by function (% of total social expenditure).

	2010	2011	2012	2013	2014	2015	2016	2017
Pension	45.5	46.9	47.9	47.5	47.4	48.9	50.1	50.2
Healthcare	32.0	30.5	29.3	28.8	28.2	28.7	28.2	28.3
Disability	13.0	13.2	13.7	15.0	15.9	14.1	13.6	13.6
Social assistance (*ndihma ekonomike*)	3.3	3.1	2.8	2.6	2.7	2.5	2.5	2.5
Survivor	3.0	2.9	2.7	2.6	2.4	2.3	2.1	2.1
Maternity	1.1	1.3	1.3	1.5	1.4	1.4	1.5	1.5
Administration costs	1.0	1.1	1.2	1.2	1.0	1.1	1.1	1.1
Unemployment	1.1	1.0	1.1	0.8	1.0	1.0	0.9	0.7

Source: Author's own calculations based on Ministry of Finance data

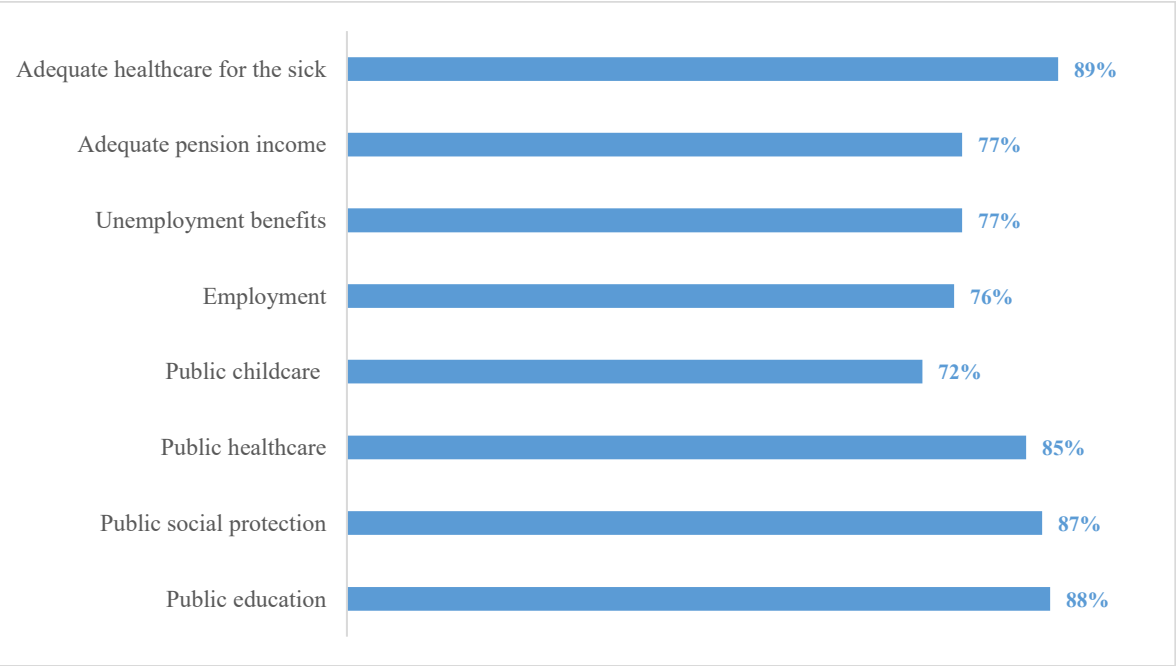
The Albanian welfare state represents a "hybrid" model (Cerami and Stubbs, 2011), based on a mix of social security, social insurance and social assistance. As we can see from table 2.10 social insurance schemes – pensions, unemployment and healthcare – play a major part in the system of social protection. Some basic healthcare packages and childcare services are offered free of charge to the entire population, whereas social pensions and economic aid are means-tested. Pension insurance, health and child care services are also provided by the private institutions on a voluntary basis. Even though the state continues to play a vital role in protecting the population from social risks – expenditure on social expenditure accounts for around 50% of total government's expenditure (MoF, 2016) – the family and the market are increasingly becoming important agents for guaranteeing an adequate standard of living (Aidukaite, 2009).

6.1. Public Opinion, Pensions and Healthcare

Despite the shortcomings of the public social protection services, long after the transition, Albanians' expectations about the role of the state on redistribution and welfare expansion remain very high. According to a survey conducted in 2014, public opinion data about the welfare state model and state size show that the majority of respondents think that the government should be responsible for the provision of social and employment services (Lleshaj and Cela, 2014). As we can see in figure 2.5, more than 85% of Albanians believe that the state should guarantee public education, healthcare and social protection, while

more than 70% of the respondents think that the state should ensure adequate healthcare, pension and unemployment benefits.

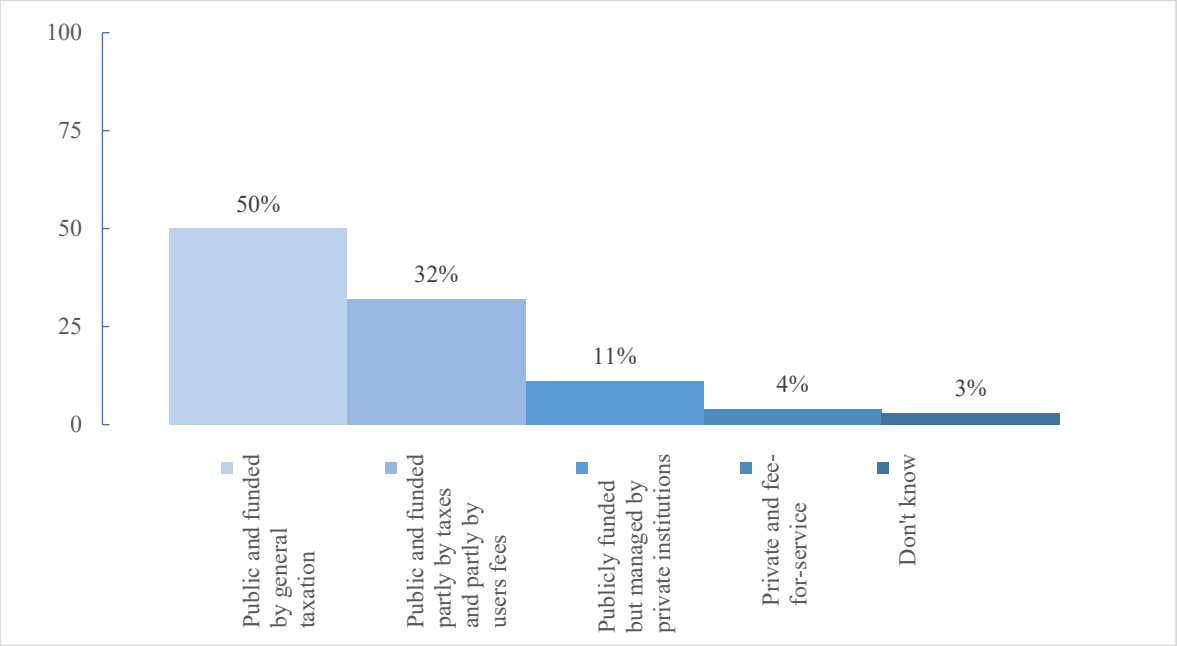
Figure 2.5 Public opinion: the government should provide/ ensure



Source: AIIS data, 2014

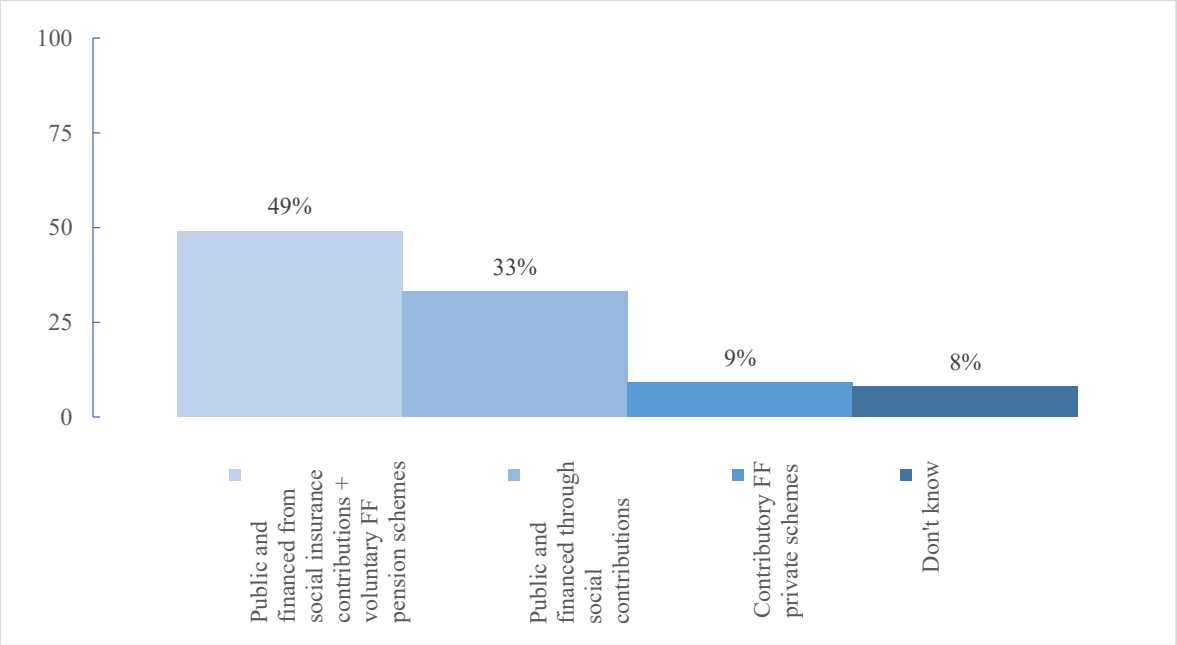
Figure 2.6 and figure 2.7 show public's preferences on healthcare and pension system model respectively, with 85% of respondents preferring public healthcare, while 82% were in favour of a public pension system funded through social insurance contributions as the main financing method. Only 9% of the respondents were in favour of the introduction of mandatory fully funded private pension schemes (second pillar). Regarding healthcare financing method, 50% of respondents preferred public healthcare financed from general taxation, while 32% were in favour of public healthcare financed partially from the general taxation and partially from fee-for-services.

Figure 2.6 Public opinion: healthcare financing and provision



Source: AIIS 2014 data

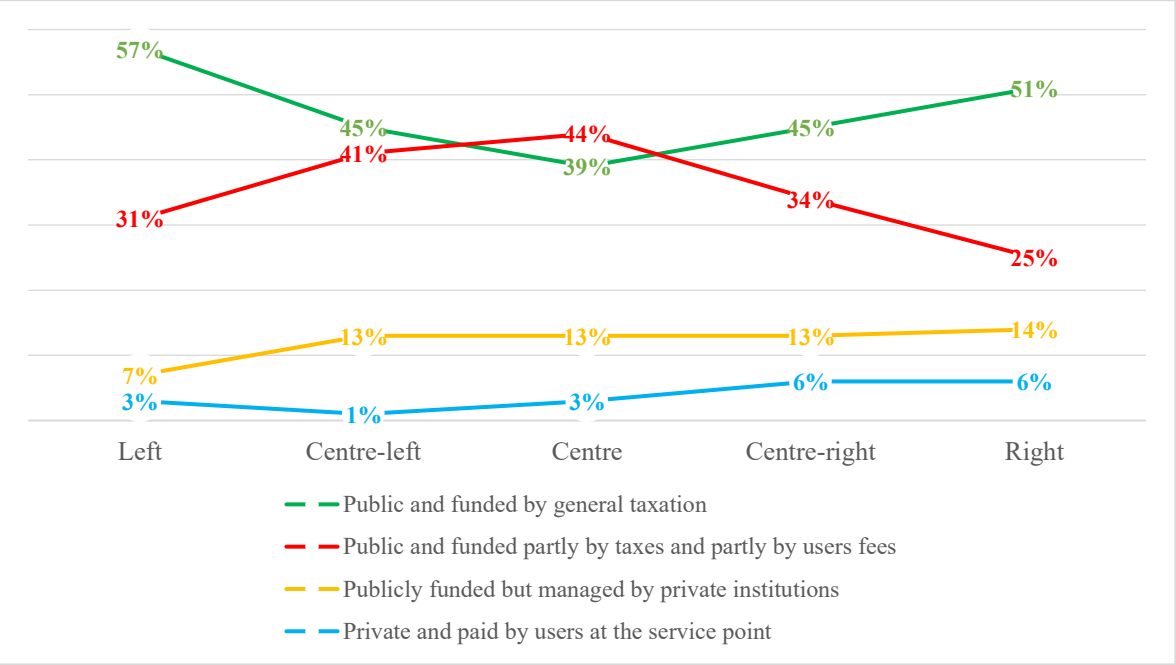
Figure 2.7 Public opinion: pension financing and management



Source: AIIS 2014 data

Moreover, it is interesting to note that there is not a clear division between respondents' preferred social model and their ideological orientation on the left-right spectrum. Figure 2.8 shows that 57% of left-wing voters preferred a public healthcare system funded from general taxation as compared to 51% of the right-wing voters. However, those who positioned themselves at the centre of the political spectrum preferred a healthcare model that is public and funded partially by taxes and partially by users' fees.

Figure 2.8 Public opinion: healthcare model and ideology



Note: some values do not add to 100% because 'no answer' or 'don't know' answers are not included in this figure.
Source: AIIS 2014 data

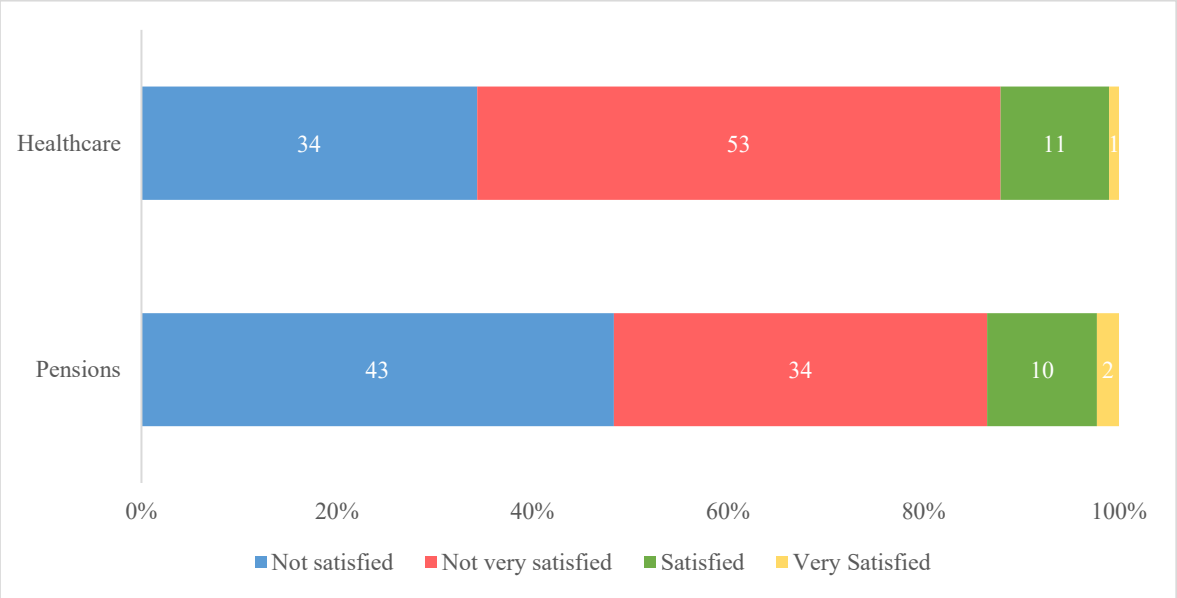
A similar trend is observed also regarding the pension system model (fig. 2.9), with 84% of left-wing voters preferring a public pension system financed through social insurance contributions as compared to 85% of right-wing voters. Among the respondents who were in favour of the introduction of a second pension pillar, the difference between left-wing and right-wing voters is also very small, with 8% of left-wing voters preferring mandatory private schemes as compared to 11% of the right-wing respondents.

Figure 2.9 Public opinion: pension system model and ideology

Note: some values do not add to 100% because 'no answer' or 'don't know' answers are not included in this figure.
Source: AIIS 2014 data

When it comes to the level of citizens' satisfaction with the quality of social services provided by the state, in figure 2.10 we can observe that there is a general level of dissatisfaction with existing healthcare and pension systems, with 87% of respondents being dissatisfied with healthcare services and 77% with pensions.

Figure 2.10 Public opinion: level of satisfaction with public services



Source: AIIS 2014 data

Although citizens' preferred model is public healthcare financed from the general budget, 69% of respondents indicated that the private sector provided higher quality healthcare services. In addition, there has continuously been a strong negative opinion about the healthcare system. The public health sector is perceived by Albanians to be the most corrupted public service, with 71% of payers paying bribes to doctors and 47% to nurses (World Bank, 2015).

CHAPTER III

RECONSTRUCTING POLICY TRAJECTORIES: IDENTIFYING DIVERGENCE IN PENSION AND HEALTHCARE REFORMS

1. Introduction

The political and economic transformations that occurred after the fall of communism, created major challenges in different fields in Albania and had a direct impact on social policies as well. The communist social protection system, still functional in the early 1990s, was based on a centralised "Soviet-style" model and provided both benefits in cases of temporary incapacity due to sickness, disability from birth, maternity leave, and old age, disability and survivor pensions. Likewise, the healthcare system inherited from communism was financed and controlled by the State, based on the Soviet "Semashko" model. It allowed free enrolment to all; however, it was fairly ineffective (European Commission, 2008). In the early 1990s, due to the economic and political changes and their own inherited cost inefficiencies, both systems started to face major difficulties.

Consequently, in 1993 the pension system underwent a parametric reform that conditioned benefits upon payment of contributions and tightened eligibility conditions. The new law established the structure of the current Bismarckian pay-as-you-go system in Albania. Similarly, in 1994, the healthcare system shifted from the Semashko to a Bismarckian model, with the introduction of a health insurance scheme, which would regulate the financing of public healthcare. Hence, in both fields the initial step in the early 1990s was the introduction of insurance schemes, in order to link benefits with contributions.

Despite initial similar policy responses, in the subsequent three decades pensions and healthcare have followed rather different policy trajectories. As consequence, they currently differ in terms of institutional architectures, financing methods, coverage and

benefits, with a mixed-occupational pension system and a mixed-universalistic healthcare system.

Against such backdrop, the aim of this chapter is to illustrate the most relevant reforms in the fields of pensions and healthcare. The main focus will be on tracing the policy developments of these two systems, from their genesis to date. This historical overview will shed light on the underlying logic of social policy development, which is in turn necessary to explain the current shape of healthcare and pension policy. This chapter aims to reconstruct the policy trajectory in the two sectors by using the appropriate conceptualisation based on Ferrera's (1993) classification and corresponding definitions of solidarity models and Hall's (1993) three-order change framework, explained in the first chapter.

The chapter is organised as follows. The second paragraph, divided into four different sections, analyses in details the development and change of pension policy. The first two sections give a brief overview of the history of the Albanian pension scheme during the interwar and communist period respectively, whereas the last two sections focus on post-communist reform waves. The third paragraph, instead, offers a chronological overview of the evolution of healthcare system from its origin to 2016, with a particular focus on the main reforms during the post-communist period. The last paragraph illustrates similarities and differences, convergence and divergence between pension and healthcare policies. It summarizes the main findings of this chapter, comparing the two systems phase by phase.

2. The Pension Policy Trajectory

We can distinguish three main phases of pension reforms in Albania (table 3.1). The first one occurred during the inter-war period when we can trace back the origins of the pension system. The 1923 reform set the basis of a Bismarckian social insurance model. Old-age benefits were conditional on employment and reaching an age threshold, however coverage was limited to military and civil servants only. The second phase corresponds to the communist era and includes a period of expansion. In 1947, coverage

was expanded to every employee who had worked in urban areas for 20 years, whereas the 1972 law expanded the coverage further, with the introduction of a new scheme which would cover agricultural workers, previously excluded from the pension system.

Table 3.1 Three phases of pension system reform in Albania

Phase	Reform trajectory	Main content
Inter-war period ***(1923-1934)***	Origin	Social insurance scheme, coverage for civil servants and military personnel
Communism ***(1944-1990)***	Expansion	Social insurance scheme expanded to every worker
Post-communism ***(1991-2014)***	Retrenchment and expansion	***From 1993***: Social insurance (contributory related)
		From 2014: Social insurance (contributory related) Social assistance (means-tested).

Source: Author's elaboration

The third phase stretched from 1991 to 2014, a period mostly characterized by retrenchment in the pension system. However, the last phase included three different waves of reforms: rationalization of the pension system from 1991 to 1994; cost-containment strategies between 1995 and 2013; and post-2013 reforms which include a period of both retrenchment and expansion. Each of these phases is discussed in details in the following sections.

2.1 The Inter-War Period and the Emergence of Albanian Pension System

The origin of the social protection system in Albania dates back to 1923, under the leadership of Ahmet Zogu[16]. The first act on pensions was the Law "On Resignation and Pension to the Army and Constabulary", which provided old-age pension benefits to members of the military and the police force. Moreover, it defined different categories which could receive disability pensions based on their disability status, ranging from partial to full disability, from temporary to permanent disability. Four years later, in October 1927, a second act came into force which decreed that the State would issue pensions to civil servants based on the Bismarckian model (law no. 129/1927). According

[16] Ahmet Zogu was the leader of Albania from 1922 to 1939. From 1922 to 1924 he first served as Prime Minister, from 1925 to 1928 he served as President and from 1928 to 1939 as the King of Albania.

to this act, every person who had worked for a period of 35 years in the public administration and had reached the retirement age, set at 60 years, became eligible for old age pension. Civil servants could benefit from the old age scheme even if they had completed a working period of at least 25 years (art.12), however, in such cases pension benefits were lower[17]. This system also provided disability pensions to those who were physically or mentally disabled to work and survivor pensions in case of loss of a family member who was a civil servant (art.19). Pension benefits were calculated based on the following formula (art.10):

$P = (W * S)/ F$
where, P=Pension; W=Average wage of the last five years; S=years of service;
F= fixed number set at 2'100.

A specific institution was established under the Ministry of Finance, which would deal with pension financing, whereas pension administration was the responsibility of an Administrative Board. Loss of pension rights and penalisations in cases of legal violations were also defined by law.

Table 3.2 The interwar period: main reforms

Year	Reform	Main content
1923	Origin of the pension system	Insurance system: coverage to policy force and military
1927	Coverage expanded to civil servants	Civil servants became eligible after 35 years of service at the age of 60.
1934	Eligibility criteria changed	Military personnel retired 50 years old with 20 years of services.

Source: Author's elaboration

In June 1934, another law "On the Civil and Military Pensions" was approved, which better defined the eligibility criteria for military pensions. Therefore, in order to receive a full old age pension, officers had to reach the age of 50 with at least 20 years of service (15 years of service when their health-condition related to illness or disability did not

[17] The working period covered only the years after 28.11.1912. Before this date, the Ottoman legislation was applied in Albania.

allow them to continue their service) (art.16). Moreover, this law defined also benefits provided to families of military personnel and privileged pension benefits to those who were disabled as a result of their work-related injury or occupational disease (ibid. art. 18).

Pension reforms in this period set the basis of a Bismarckian social insurance system. However, pension policy showed only limited progress in terms of insuring workers against loss of income in the case of old age. Actually, given that agriculture was the largest sector of the economy, the majority of the workers did not enjoy the right to a pension income since pension insurance coverage was limited only to civil and military employees.

2.2 The Communist Era: A Centralised Universal Approach to Old Age Protection

In coherence with post-World War II development, coverage was extended to martyrs and people injured during the war. In 1947, a more comprehensive social protection scheme was approved, also including a new pension scheme that covered only those who had worked in the state sector in urban areas for 20 years, and the retirement age was set at the age of 65 for men and 60 for women (law no. 528/1947). Law no. 734/1949 defined the criteria for pension benefits based on seniority, hard working conditions, gender and age. It decreased the retirement age for men to 60 years old and for women to 55. In 1958, additional changes were made in the pension system: partial retirement schemes based on working history were introduced, directed to those who had reached the statutory retirement age and had worked for more than 10 years but less than 20 years.

The pension system was consolidated further in 1966, with the approval and implementation of Law no. 4171 of 13.09.1966 “On State Social Provisions of the People’s Socialist Republic of Albania”, which remodelled the pension system in accordance with the nationalization of the private sector. The retirement age remained unchanged and pension benefits would be granted after employees had completed a total of 25 years of service for men and 20 years for women. Similar to all former communist countries, there was only one pension pillar, which in 1972 was made up of two schemes (law no. 4976 /1972): The State Plan and the Cooperative Farmers Plan. Before this law

came into force, people who worked in agricultural cooperatives, which accounted for around 40% of the population (European Commission, 2008), were almost excluded from old age protection. Starting from 1972, members of agricultural cooperatives were entitled to old-age pensions, disability pensions and survivor pensions.

Table 3.3 The Communist period: main reforms

Year	Reform	Main content
1947	Coverage was extended to urban workers	Every employee who had worked in the urban area for 20 years. Retirement age 65 for men and 60 for women.
1949	Retirement age decreased	60 for men and 55 for women.
1958	Eligibility for partial retirement benefits	At least after 12 years of service for men and 10 for women.
1966	Seniority pensions	After 25 years of service for men and 20 for women.
1972	Coverage was expanded to rural workers	The Cooperative Farmers Plan was introduced as a separate scheme from the State Plan.

Source: Author's elaboration

The retirement scheme was financed by the contributions paid by state enterprises, institutions and organisations as well as from the state budget. Although originally conceived to be self-financing, the scheme was fully financed through contributions only up to 1957 (World Bank, 1993). The pension scheme functioned under state control as an integral part of the state budget, in line with the political economy based on the socialist principles, in which the state – beside many other aspects – intervenes and determines living conditions as well (Gjini, 2013). Therefore, the state was the main guarantor of the social protection system, allocating the workforce to state-owned firms which latter paid contributions for their employees to a pension fund within the state budget. In other words, the pension system was financed through transfers from state-owned companies' budgets to the social protection budget, which was in turn part of the state budget. Hence, the pension system was part of the state budget and not an independent institution. The scheme was highly centralized and an essential part of the state apparatus. Since the communist system was primarily aimed at redistribution and equalization of status differentials, in practice the distribution of pension income was flat-rate, based only on the first pay-as-you-go component. During this period, wage and income differentials

were narrow. According to law no 4171/1966, the replacement rate was 70% of the average monthly salary, calculated according to three best-years in the last ten years of employee's career and pension benefits could not be lower than 350 ALL/month or higher than 900 ALL/ month (art. 20).

2.3 The Post-Communist Transformation: Three Waves of Reforms

As mentioned above, we can distinguish three different waves of reforms of the Albanian pension system after the fall of communism.

The first wave of pension reforms occurred between 1991 and 1994, which includes a move from "Soviet" to Bismarckian model. In this period, the necessity of reforms was directly related with pension system's inherited cost inefficiencies from the communist period, as well as the developments of the transition from a centralised to a market economy. The second wave of pension reforms corresponds to the period from 1995 to 2013. In this period, governments' aim was to make the pension system more efficient and less of a burden on the state budget, seeking cost-containment strategies. The third wave of pension reform refers to the period after 2013, which includes retrenchment, expansion and change in the institutional structure from social insurance to social insurance plus social assistance (means-tested), what Ferrera (1993) refers to as "mixed-occupational" model.

2.3.1 The first wave, 1991-1994: from Soviet social protection to a Bismarckian insurance model

The communist pension system based on a centralised "Soviet" model remained functional until the early 1990s. It was assumed that this highly egalitarian pension scheme provided universal coverage[18] due to claims of full-employment[19]. However, the

[18] It was assumed that during communism there was a state of full-employment, whereas poverty was not recognised as a phenomenon.

[19] Job security was actually connected to a real social obligation, as stated in the socialist principle according to which each individual was expected to contribute according to their abilities and rewards would be distributed in proportion to that contribution (Art. 39 and 44 of the Constitution of the People's Socialist

scheme was not universal as it depended on existing employment relationships (art. 46 of the Constitution of the People's Socialist Republic of Albania), given that the communist approach to social policy was based on the necessity and centrality of work. Moreover, the pension scheme faced many challenges, such as: the benefits were not linked to contributions, there was little transparency in the collection and localization of resources and poor management and lack of administrative capacity (World Bank, 2007).

In addition, as mentioned above, Albania inherited from the communism period a centralised pension scheme, which operated under two plans: The State Plan and the Cooperative Farmers Plan (CFP). Following the dissolution of agricultural cooperatives in October 1991, transitional arrangements for the CFP remained unclear (World Bank, 1993). Moreover, with the creation of private enterprises, there was a need to cover employees in this sector, as the existing scheme did not create the opportunity for social protection for this category of workers since during communist every sector was nationalized and private enterprises were forbidden.

Furthermore, the deep political and socio-economic transformations in the 1990s showed that this model was inefficient and inequitable and it was causing severe fiscal burden. The economic collapse and the massive downgrading and closing-down of state-owned enterprises as well as the dissolution of agricultural cooperatives brought a drastic decline in the employed population. At the same time there was an increase in the informal sector, which in turn implied less revenues (Armenau, 2005).

In order to deal with high unemployment levels, in 1991, the government liberalized early retirement provisions, allowing employees to retire up to 5 years before they reached the pensionable age and pension benefit was calculated as 60% of the average wage (decree no. 7464/1991). This had an immediate effect on the number of pensioners, which in 1992 increased to 443'000 individuals, accounting for 13.6% of the population, i.e. 3.1% more beneficiaries than in 1990 (World Bank, 1993). In 1993, the pension deficit amounted to 3.8% of GDP (IMF data, 2001).

Under such circumstances the need for reform was immediate in order to restore the fiscal sustainability of the scheme as well as to adjust the pension system to the new economic

Republic of Albania). *"Those who refused to work, study or serve ... risked being criminally charged with social parasitism"* (Vigdorova, 1964: 187) a charge that could directly lead to jail.

order. Changes were required in every field of the social protection system, starting with the reorganization of the institution that would deal with social protection administration, which until then was under the administration of the Directorate General of Social Protection, part of the Ministry of Finance. As mentioned above, the pension system was part of the state budget and not an independent institution. This meant that the institutions responsible for collecting contributions and paying benefits had little incentive to keep the system in balance (World Bank, 1993). Deficits would always be covered from the state budget, while surpluses would be allocated into other programs (World Bank, 2007). In addition, the political transformation created a situation of insecurity and lack of trust in the state. In such political environment, an important reform was the separation of the pension system from the state budget which, according to the Albanian government, was expected to increase both transparency and accountability. Therefore, in 1992 the state delegated the role of administering the pension schemes to the Social Insurance Institution (SII), which was created as an autonomous body to administer all aspects of the public pension system (CMD no. 249/1992). The SII became responsible for collecting contributions, keeping records and calculating pensions. Its purpose was to take care of the interests of involved stakeholders (representatives of the government, employers, and unions were on its board of directors). Besides its administrative role, the SII was involved in the decision-making process as well, providing technical expertise on economic analysis in the field of pension (World Bank, 2007: 10).

In May 1993, the parliament adopted law no. 7703 of 11.05.1993 "On Social Insurance in the Republic of Albania", which was drafted with the assistance from the World Bank (World Bank, 1993). The new law would condition benefits upon payment of contributions and tighten eligibility conditions of practically all benefits. It introduced a two-tiers Bismarckian pension system. The first tier was mandatory for workers and consisted of a flat rate component at minimum subsistence and a supplement determined on earning-related basis, at an accrual rate of 1% per year of service. The flat-rate component would be indexed each year by means of a Council of Ministers Decision (CMD), according to price inflation. Even though it was a non-contributory part of the benefit formula, the flat rate component was embedded in a social insurance framework, in which a contributory period of up to 35 years was required. According to this new

pension formula, the pension base for calculating the supplement was computed by taking into account the average of all wages since 1994, implying that in the long run the entire working career would be considered[20]. The pension amount could not be higher than 75% of the average wage and the maximum pension could not be twice as high as the minimum pension. The retirement age was set 55 years old for women and 60 years old for men.

Differently, the second tier was a voluntary insurance scheme within the public pillar (art.3, art.11 and art.12 of law no. 7703/1993). Voluntary insurance could be contracted based on an agreement between the Social Insurance Institute and the person applying[21]. This scheme would be applied when the person who is insured in the compulsory scheme, for some valid reasons can no longer contribute in the compulsory scheme, can instead continue to pay contributions on a voluntary basis; or persons could conclude voluntary insurance contracts in order to acquire a higher benefit amount (ibid. art. 12).

In addition, the new law pursued the actuarial balance of the system over-time and an immediate substantial reduction of expenditure on social insurance from the State budget, introducing employer-employee participation in financing the system. Hence, the total contribution rate was increased to 42.5% of payroll[22] with a pension (old age, survival and disability pension) contribution rate was 31.7%.

Moreover, this law set the basis for the introduction of supplementary social insurance (ibid. art.4) and special state pensions (ibid, art.5). Supplementary pensions could be set up for government officials, military personnel and civil servants and the legislation was further consolidated in 1996 (see the following section). Differently, special state pensions were granted to persons who had participated in the National Renaissance movements, in anti-fascist war, persons who had achieved remarkable results in science, arts, economy and politics or had suffered from political persecution under the Communist regime.

The new law established the structure of the current pay-as-you-go system in Albania. Both the retirement age and the contributory period would increase gradually until 2014,

[20] The law was fully implemented in 2014.

[21] This scheme is managed by the SII as well.

[22] This contribution rate corresponds to the total contribution made in the insurance system, that included pensions, sickness, maternity leave, safety at work and unemployment benefits. Later on, I will refer only to the contribution rate that goes to finance pensions.

when law no. 7703 would fully come into force. Moreover, this law envisaged equal treatment for both self-employed in agriculture and urban areas, who would pay equal contributions and receive benefits accordingly. However, given the difficulties of the transition period, the state budget would subsidise the contributions for the self-employed in the agriculture sector until the country's economic situation normalized (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, p. 1011). Many scholars consider the 1993 pension reform as a structural intervention, given that it produced a comprehensive reorganisation of the social insurance system within the conceptual framework of a market economy (World Bank, 2007; Bartlett and Xhumari, 2007). However, based on Hall's (1993) policy change conceptualisation outlined in the first chapter, the 1993 pension reform does not classify as a structural ("third-order") change, because it adjusted the parameters of the pension scheme without challenging its overall paradigm. In other words, the pension system remained employment-related and kept its goal of income maintenance. Table 3.4 shows the structure of the pension system after the adoption of the 1993 reform.

Table 3.4 Structure of elderly income support after the 1993 reform

Social Insurance System	**Basic Mandatory General Scheme**	**Voluntary Supplementary Arrangements**	
		Supplementary	***Personal***
Public Sector Employees	Flat-rate base + earnings-related supplement	Gvt. Supplement scheme for civil & military personnel	Voluntary insurance scheme
Private Sector Employees	Flat-rate base + earnings-related supplement		Voluntary insurance scheme
Self-employed	Flat-rate pension	Voluntary insurance scheme	
State Merit Pension Scheme	Flat-rate pension or supplement	----------	

Source: World Bank (1993)

As mentioned above, the World Bank strongly supported the government in developing a coherent strategy and the Bank's assistance was crucial not only in the process that led

to the 1993 reform but also as the main reference point for building local capacity in the pension area (World Bank, 2007). The Bank's view[23] was clear since the initial stage of transition in Albania, highlighting the importance of a well-designed, sustainable, and adequate social safety net.

Therefore, according to the World Bank's (1993) assessment, the new pension formula was considered to be a positive component of the system in terms of both redistribution and sustainability. However, future adequacy was uncertain, given the limits of the pension formula, which did not clearly distinguish between social insurance and social assistance.

Table 3.5 Wages, pensions, replacement rates, 1993-2001

Year	Average wage ALL[24]/ month	Average pension ALL/ month	Average replacement rate (%)
1993	3'084	1'740	57
1994	4'778	2'240	47
1995	6'406	2'840	44
1996	8'639	3'380	39
1997	9'559	3'514	37
1998	11'509	4'212	37
1999	12'708	4'653	37
2000	14'963	5'197	35
2001	17'218	5'921	34

Source: INSTAT online

Under the new rules, the full-service replacement rate (that is, the replacement rate achieved after 35 years of service) could not exceed 75%, a provision meant to strike a short-run balance between adequacy and sustainability. Actually, the replacement rate has never been equal to 75% of the wage and, as we can see from table 3.5 above, it has substantially decreased over years. Additionally, as reported by the World Bank (2007), the maximum replacement rate would hardly constitute a binding constraint in the long

[23] However, Fornero and Ferraresi (2007) acknowledge in their study that the involvement of the Bank in Albania's reform cannot be seen as completely smooth; thus, the country's assistance strategy was revised after the 1997 crisis (pg. 16). The consequences of the 1997 crisis are discussed further in the 2002 pension reform below.

[24] Albanian currency. 1 euro = 122.56 Albanian Lek, currency exchange as of 04.12.2019.

run, given that the maximum pension level could not be higher than twice the minimum pension. Furthermore, even though the new pension reform stopped possible discrimination by applying the same rules to every employee, in practice, benefits acquired prior to reform were not granted, so the elderly either did not receive benefits, or received a very low supplement, forcing them to rely almost entirely on the flat pension. However bad the situation was, it seemed hardly avoidable given the scarce resources of the country at the time (World Bank, 2007). Table 3.6 gives a summary of the 1993 pension reform.

Table 3.6 Summary of the 1993 pension reform

Problem	Decline in the number of the employed people & rapid growth of the informal economy → number of pensioners increased (due to early retirement policy) and the number of contributors decreased; With the creation of the private enterprises, there was a need to cover employees working in this sector.
Reform	The Social Insurance Institute (SII) was created as an independent administration and funding body; Establishment of a public pension system based on Bismarckian insurance model, financed through employee- employer social contributions.
Contribution rate	31.7%
Retirement age in 1993	Did not change: Men 60 years old / Women 55 years old
Years of contribution (1993)	Gradual increase from 25 years for men and 20 years for women to 35 years for both genders.
Pension Benefit	Basic pension (flat rate benefits) + average wage*contribution years*0.1%;
Pension benefit caps	Pension benefit could not be higher than 75% of average wage; The max pension could not be twice as high as the min pension.

Source: Author's elaboration

2.3.2 The second wave, 1995-2013: the limits of the Bismarckian approach

An important reform in this period was the adoption of law no.7943/1995 "On Supplementary Pensions and Voluntary Pensions' Institutions", which set the basis for the introduction of private pension institutions and a private pension scheme. Thus,

importantly, contrary to most CEE countries the introduction of a compulsory private fully-funded scheme was neither legislated nor implemented in the Albanian case. The rationale about this choice is explained in chapter five. Moreover, as I will argue also below, voluntary private insurance funds were established only a decade later due to the lack of regulatory legislation for these institutions, low solvency rate from beneficiaries and high risk of investment in this area (Ibrahimi and Salko, 2001). Therefore, with regard to pension multi-pillarization, Albania stands out as a rather peculiar case across former communist countries.

In 1996 two laws, namely law no. 8087/1996 "On Supplementary Social Insurance of Military Personnel" and law no. 8097/1996 "On Supplementary State Pensions of Persons Performing Constitutional Functions and Public Employees" consolidated the legislation for public supplementary pensions set up for government officials, military personnel and civil servants. The aim of this law was to provide additional pension benefits (to the above-mentioned categories) on top of benefits they receive from the compulsory retirement scheme.

Nevertheless, the public pension scheme was facing additional obstacles due to the contribution rate at 31.7% of payroll, which was set that high with the purpose to neutralize the effects that came from the decline in the number of contributors (shifting the burden of pension costs from state budget to active labour force). Many studies (World Bank, 2007; European Commission, 2008; Xhumari, 2010; Ymeraj, 2011; Gjini, 2013) have pointed out that an immediate consequence of such high contribution rate, was the fact that private sector firms were either avoiding the payment of contributions, thus contributing to develop the informal economy - or paying only the minimum amount of them (by declaring lower wages). Differently, the self-employed in agriculture were avoiding the payment of contributions because they were often not aware that the social insurance scheme was compulsory for them (Xhumari, 2010), which in turn was considered very problematic due to the fact that this category accounted for around 50% of the labour force.

The downward trend in the number of contributors reached its peak in 1997. Subsequently, there was an increase in the number of contributors which however remained very low due to high levels of informality, high contribution rates as well as the

lack of a culture of paying taxes (Gjini, 2013). The dependency ratio of the pension system was 1:1, that is one pensioner was supported by only one contributor, which was a paradoxical result of pension reforms in a country such Albania, dominated by a young population, with more than 50% of the population under 35 years old, and less than 10% of the population above 65 years old (INSTAT data).

Another issue which was causing fiscal deficits in the scheme was the passive policy to support the self-employed in agriculture, through subsidising their contributions. The government was subsidising more than 85% of the total amount the self-employed in agriculture should contribute (SII data). In addition, the country's economic and political developments in the late-1990s – primarily, the 1997 civil unrest and the Kosovo war – called for further changes in the pension system.

Therefore, one important change was the pension reform in rural areas adopted in 1998 (law no.8393/1998). Its main goal was the alignment and gradual harmonisation of pensions in rural areas with those in urban areas over a period of at least 14-15 years. Its purpose was to give incentives to self-employed people in rural areas to continue to participate in the scheme, stimulate greater participation of those who were not part of the scheme yet, as well as gradually unify the two schemes into a single one.

In the early 2000s, the Parliament adopted further parametric reforms. The new pension law no. 8889/2002 projected a gradual increase of the retirement age, with 6 months per year until reaching the age of 65 for men and 60 for women in 2014. In order to make this transition as smooth as possible, eligibility for early retirement was maintained (at age 57 for women and 62 for men, provided that 35 years of service had been completed), but the pension level was subject to actuarial correction. In this case benefits would be reduced by a coefficient of 0.6% each month before the regular pension age. The contribution rate was reduced from 31.7% to 29.9% with the purpose to give incentives to employers and employees to continue to pay contributions. By contrast, the contribution rate paid by farmers was increased by 2.4%, in order to deal with the deficit that this category was causing to the scheme. On the administrative side, the collection of contributions for the urban plan was transferred from the SII to the Tax Department of the Ministry of Finance (which then transfers the revenues to SII), with the purpose of

reducing contribution evasion and avoiding the duplication of functions within the administration. Table 3.7 summarises the content of the 2002 pension reform.

Table 3.7 Summary of the 2002 pension reform

Problem	High rates of contribution discouraged many people to participate in the scheme and stimulated the expansion of informal economy. Rural scheme was heavily subsidised by the state budget (> 85%)
Reform	Gradual increase of the retirement age to 65 for men and 60 for women; Eligibility for early retirement: women 57 and men 62; Contribution rate paid by farmers was increased by 2.4%.
Contribution rate	Reduced from 31.7% to 29.9% of payroll.
Retirement age	Men: gradual increase from 60 to 65 years old (until 2014); Women: gradual increase from 55 to 60 years old (until 2014).
Pension Benefit	Basic pension (flat rate benefits) + average wage*contribution years*0.1%;
Pension benefit caps	Same as before

Source: Author's elaboration

The reduction in the contribution rate encouraged the declaration of full working years. According to World Bank data (2006b), the number of contributors participating in the pension scheme increased by 4.6% in 2005 and 11.4% in 2006. Despite such positive performance, the results were not satisfactory (World Bank, 2006b). In 2005, the ratio of contributors to employees was 61%, which meant that 39% of employees were not paying contributions. Even though the contribution rate was reduced to 29.9% of the payroll in 2002, further reduction was needed as it was still considered high. In addition, the rural pension scheme still posed a high burden on the state budget. The system dependency ratio (SDR) was 1.06 and half of the contributors were from the rural sector, for which the Government subsidized 85% of contributions. Taking these contributors out, the contributor coverage rate was a much smaller share of the employed. However, rural pensions were lower than minimum urban pensions, and played a very important role in poverty alleviation for this category.

In 2005 several legal provisions (law no. 9442/2005) were adopted which determined: i) equal treatment for both Albanian and foreign citizens residing in Albania in terms of social insurance; ii) retirees could receive a partial pension if they had contributed for at least 15 years into the scheme (it was for 20 years before); iii) expansion of protected people (including stateless people); iv) attempts to strengthen the link between contributions and benefits.

During this period, the government's objectives were to maintain benefit levels and prevent any decline in the future, to reduce contribution rates in order to increase the incentives for formalization of work, and to treat self-employed in agriculture identically to urban workers should they choose to continue contributing to the pension system (World Bank, 2007). In order to deal with these problems, in September 2006, the contribution rate was reduced by 6 p.p. – from 29.9% to 23.9% of the salary – and in May 2009 it was reduced further reaching 21.6% of the salary (see table 3.8).

Table 3.8 Contribution rate 1993-2009

	1993	**2002**	**2006**	**2009**
Total contribution rate *(pensions, sickness, maternity leave, safety at work, unemployment benefits)*	42.5%	38.5%	29.5%	24.5%
Pension contribution rate *(old age, survival and disability pensions, sickness and maternity leave)*	31.7%	29.9%	23.9%	21.6%
Of which Employer	*21.7%*	*20.93%*	*14.4%*	*12.79%*
Of which Employee	*10%*	*8.97%*	*9.5%*	*8.81%*
Self-employed	31.7%	29.9%	23.9%	21.6%

Source: SII online

According to World Bank data (2006b), this reform provided incentives to participate in the formal labour market and more people started to declare their work and contribute to the scheme. However, the increase in formalization of the labour force was neither sufficient, nor it was associated with the decrease in the contribution rate: policymakers expected that the cut in contribution rates would be accompanied by a more than

proportional increase in formalization, i.e., if contribution rates are cut by 10%, employment would increase by more than 10%, therefore generating more revenue for the social insurance system (World Bank, 2006b).

Moreover, rather than maintaining the benefit structure, during this period the government increased benefits, raising pensions substantially. In 2005 and 2006 pensions were raised by 8% and 5% respectively in the urban system, much higher than inflation rates of 2.5% and 2.2% (World Bank, 2013). In addition, the government followed a pattern of raising rural pensions much more than urban pensions each year in an effort to equalize minimum pensions in both schemes by 2012 (Government Program 2009-2013). By 2010 the pension deficit amounted to 2% of the GDP (World Bank, 2013).

A structural reform

During this period some developments also regarded private pension schemes, initially introduced in 1995. In 2005, the IMF "Albanian Financial System Stability Assessment" advised the Albanian government - among other policy recommendations - to accelerate efforts to assure the necessary prudential framework for private, voluntary funded pension schemes. This report found out that the Albanian financial market was not vulnerable anymore and it could support a well-regulated private pension fund industry.

Therefore, under the supervision of both the IMF and the World Bank (FSA, 2007), in 2006, the first companies were authorized to manage private pension funds (law no. 9572/2006). Their rise was also driven by the creation of the institution which would monitor and regulate the functioning of private companies, as a central mechanism not only for drafting a legal basis, but also as a regulator for the operation of their pension market, in terms of managing risk and audit all activity of the subject. In 2006, the Albanian Financial Supervision Authority (FSA) was set up, to supervise the pension market, thus becoming the supervisory body of the voluntary private pension market and all the operators within it. In December 2009, a new regulatory framework for the private schemes was adopted (law no. 10197/2009), providing the basis for the creation of voluntary pension schemes (third pillar), which would provide defined contribution (DC) pension benefits.

Table 3.9 Size of the private pension market, 2007-2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total assets as % of GDP	0.005	0.009	0.018	0.025	0.012	0.021	0,032	0.05	0.08	0.11
Contributors	3’563	3’861	4’429	4’992	6’295	7’281	7’887	8’491	12’559	17’317

Source: Albanian Financial Supervisory Authority (FSA) online

Despite the fact that the size of private pension fund has increased over years (table 3.9), this market accounts for only 0.11% of the GDP. Nonetheless, given that Albania is a relatively small country, the scale will always be an issue (World Bank, 2014a). There is a lack of domestic investment opportunities and there are concerns regarding the high bias towards domestic investments since none of the current providers use the limited flexibility to invest abroad. As it will be argued in chapter 5, an important role in this regard is played by the trade unions, which have been very critical about the implementation of the private pension scheme, claiming that it favours foreign ownership (World Bank, 2007:26). Table 3.10 below gives a summary of the main reforms implemented between 2005 and 2009.

Table 3.10 Summary of the 2005-2009 pension reforms

Problem	In order to increase the incentives for formalization of work further reduction of the contribution rate was needed; System dependency ratio (SDR) was 1.06
Reform	Reduction of the minimum period of insurance from 20 to 15 years; Contribution rate was reduced from 29.9% to 21.6%; Establishment of Financial Supervision Authority (FSA) as a public institution independent from the executive, responsible for the regulation and supervision of the voluntary pension funds market and its operators.
Retirement age in private scheme	Equal to the retirement age in the compulsory scheme; Eligibility for early retirement (5 years before the required age).
Years of contribution	35 years for both genders
Pension Benefit	Public pension scheme: same as before Private pension scheme: defined contributions

Source: Author's elaboration

2.3.3 The third wave, after 2013: shift towards a mixed-occupational model

Even though the pension system in Albania underwent important reforms in the last two decades, these reforms were not sufficient to cope with the main social and demographic challenges.

In 2012, only 35% of the working age population was paying contributions. This had two major implications: on the one hand, it implied that those who were not paying contributions risked not being entitled to benefits in the future, leading to a significant number of elderly experiencing old age poverty. According to SII (2013) estimates, between 30 and 50% of elderly would not receive full-old age pensions in the future. On the other hand, when a large share of the population does not pay contributions, fewer contributors are left in the system to support current pensioners.

Moreover, a World Bank study conducted in 2012 identified the following as additional challenges. The average pension in the urban sector amounted to 1.03 times the minimum pension[25], indicating a weak link between contributions and benefits, and creating disincentives to fully participate or to declare full earnings. In the rural sector, the disincentives to contribute were even more perverse with those earning minimum pensions receiving additional allowances which raised their total incomes higher than that for higher earning pensioners. The Albanian pension system was supporting a large number of pensioners: 103 beneficiaries per 100 contributors. Participation in formal employment was low and not improving: the number of contributors as a share of working age population was 22%. When the rural sector contributors were excluded (for whom the government paid 80% of the contributions), this share became 18%. In the past years, the government introduced sizable increases in pension benefits, particularly for the lower pensions, leading to an increase in overall pension spending. The absence of a comprehensive approach to pension reform and sizable ad-hoc increases (more than the inflation rates) in pension benefits led to a significant increase in the fiscal deficit, which in 2010 accounted for 2% of the GDP. This deficit was expected to increase further in the following years due to population ageing (World Bank, 2013).

Therefore, in 2014 the Albanian government adopted a comprehensive pension reform package (law no.104/2014), which had multiple goals: strengthening the link between benefits and contributions, changing the eligibility criteria for pension benefits, unifying the urban and rural schemes and, most importantly, introducing a means-tested social pension targeted to poor elderly. The government aimed at improving the parameters of the existing pension scheme, by strengthening the link between benefits and contributions and reducing redistribution, with the aim of giving individuals more incentives to be part of the insurance scheme. Moreover, the new pension reform included a gradual increase of the retirement age for women, by two months per year until

[25] The cap on pensions creates a compressed benefit structure. Pensions cannot exceed twice the basic pension or 75% of the net average wage of any 3 successive years in the last 10 years of employment, whichever is less. This suggests that participants who earn above the average wage will reach the limit very quickly. Consequently, the average pension in the urban sector is almost equal to the minimum pension, with the income from the average pensions amounting to 1.03 times the income from the minimum pensions, while the average income on which contributions are paid is more than twice the minimum contributory wage.

the retirement age for women becomes 63 years in 2032. Starting from 2032, the retirement age for men will increase by one month per year, whereas for women it will increase by two months per year, until they are equalized to 67 for both genders in 2056. In addition, the new pension reform changes the calculation formula. According to the old scheme, old age pensions were calculated taking as reference the basic pension, which used to be 12'024 ALL in 2013, plus 1% for every insured year multiplied by the average of the last three wages. The pension amount could not exceed 75% of the average of the three last wages and the maximum pension could not be twice as high as the minimum pension. In the new formula, the basic pension is replaced by the social pension, the caps are removed, the effective work insurance for the statutory early old age pension will be gradually increased to 40 years by 2029 and the average wage of entire working career is considered.

Moreover, the 2014 reform unified the urban and the rural schemes, applying the same criteria and calculation formula for both the urban sector and the self-employed in agriculture. For this purpose, a reference salary was set for former agricultural cooperative workers by eliminating the privileges for some persons and categories. Starting from 2018, the self-employed in agriculture pay equal contributions to the self-employed in the urban area. Table 3.11 compares urban pension benefits with rural ones over years. As we can see, until 2010, the maximum pension did not exist for rural areas, and after this year it has only been equal to the minimum pension in urban areas.

Another key novelty was the introduction of a social pension (means-tested) equal to 6'700 ALL financed by the state budget, for every resident above the age of 70 who does not meet the requirements for old-age pension benefits.

Table 3.11 Amount of urban and rural pension income (in ALL)

Year	Min pension		Average pension		Max pension	
	urban	Rural	urban	rural	urban	rural
1998	4'000	1'050	4'212	984	8'000	-
1999	4'400	1'155	4'653	1'058	8'800	-
2000	5'148	1'328	5'197	1'022	10'296	-
2001	5'560	1'726	5'921	1'276	11'120	-
2002	6'116	2'158	6'446	1'575	12'232	-
2003	6'728	2'590	7'055	1'940	13'456	-
2004	7'266	2'980	7'709	2'256	14'532	-
2005	7'850	3'430	8'592	2'986	15'700	-
2006	8'240	4'110	9'499	4'239	16'480	-
2007	8'650	4'520	10'143	4'626	17'300	-
2008	9'515	5'200	10'957	5'158	19'030	-
2009	10'276	6'344	12'032	6'656	20'522	-
2010	10'690	6'980	12'711	7'499	21'380	10'690
2011	11'117	7'468	13'278	7'859	22'234	11'117
2012	11'562	7'841	14'104	8'048	23'123	11'562
2013	12'024	8'233	15'004	8'249	24'048	12'024

Source: SII online

This reform had two main aims. On the one hand it aimed at rationalizing redistribution in pensions (Myles and Pierson, 2001) so that future benefits will more closely reflect past contributions. The rationale behind this choice was to increase the transparency of benefits in order to increase incentives to participate in the insurance scheme and declare full wages[26]. On the other hand, the new reform introduced more redistributive social assistance pensions in order to prevent those who do not qualify for the old-age pensions (from the social insurance scheme) from falling into poverty (see chapter 5).

As mentioned above, in the new pension formula, the basic pension is replaced by the social pension. The basic pension was a flat rate component at minimum subsistence indexed each year to price inflation. Even though it was a non-contributory part of the benefit formula, the flat rate component was embedded in a contributory context, in which a minimum work insurance period of 15 years was required.

[26] Erion Veliaj (29 April 2014). Skema e re: në 2032 gratë në pension 63 vjeç, burrat 67. *OraNews.* Retrieved from www.oranews.tv

Table 3.12 Content of the 2014 pension reform

Problem	Pension system deficit; Population ageing; Growth of informal economy.
Reform	Increase in retirement age to 67 for both genders by 2056; Increase in work insurance period from 35 to 40 years for both genders by 2029; Introduction of a means-tested social pension; Unification of urban and rural schemes.
Contribution rate	Remained the same: 21.6%
Retirement age	Men: gradual increase from 65 to 67 years old; Women: gradual increase from 60 to 67 years old.
Pension Benefit	Social pension + average wage of the entire working career*contribution years*0.1%
Pension benefit caps	Removed.

Source: Author's elaboration

In line with the analytical framework discussed in chapter one, the basic pension is a social assistance element within the social insurance system, entitled only to workers who met the minimum requirement for a pension benefit, i.e., workers who had a 15-year record of paid social insurance contributions. The 2014 reform replaces the basic pension with a social pension, a means-tested pension benefit targeted to the poor. Thus, the social assistance element of the pension formula is not embedded in a contributory framework any longer. Both those who contribute for a minimum insurance period, i.e., workers who have a 15-year record of paid social insurance contributions, and those who do not contribute at all but have no other sources of income are entitled to a social pension. Table 3.12 above summarises the content of the 2014 pension reform.

2.4 Three Decades of Pension Reforms and Institutional Change in Albania

The political and economic transformation that occurred after the fall of communism, created major obstacles in different fields in Albania and had a huge impact on the pension

system as well. Besides the unsustainability of the inherited pension scheme, the economic transition in early the 1990s created further problems. It brought about a drastic decline in the number of the employed people as well as the growth of informal economy, which have constituted major problems ever since. A direct consequence was the falling number of contributors during the 1990s, which coupled with the demographic challenges that started to occur later on – such as the increase in the life-expectancy and decline in fertility rate – have created persistent problems in pension schemes.

Against such backdrop, the post-communist pension system underwent three waves of reforms punctuated with several legislative provisions. The first wave of pension reforms occurred between 1991 and 1994. The reforms in this period provided the legal framework of the Bismarckian social insurance model in the new market economy. As it will discussed in chapter five, the main aim of these reforms was to substantially reduce expenditure from the state budget and link pension benefits to contributions based on the principle that pension benefit is an entitlement linked to employment and contributions paid, thus allowing workers to maintain their standard of living and stable levels of consumption during retirement. According to the Albanian government, the shift into an insurance model was said to represent the "good way", to build a stable and especially an effective social protection system (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, pp. 1006-1011).

The second wave of pension reforms corresponds to the period from 1995 to 2013. This period was characterised by two main developments. First, Albania followed a different policy trajectory from other post-communist countries, due to its peculiar structural conditions (illustrated in chapter two). While many CEE countries supported the World Bank's "new-orthodoxy" and started to introduce mandatory private pensions, the Albanian government instead decided to restore the sustainability of the pension system by reforming the existing public PAYG scheme. Second, this period shows the limits of the Bismarckian insurance approach, typically for a country with high labour market informality, low tax-rates compliance and also a large share of the self-employed especially in the agriculture sector. In this respect, as we will see in chapter 5, recent governments realised that the Bismarckian approach does not allow to build a pension system which is effective both in terms of financial sustainability and protective capacity.

The third wave of pension reform refers to the period after 2013. The main aim in this period was to address the limits of the Bismarckian approach and build a pension system that ensures both fiscal sustainability and social adequacy. The social insurance approach was to some extent hybridized, with the introduction of a social pension.

After these three waves of reforms, the structure of the public pension system in Albania changed into a "mixed-occupational" model (Ferrera, 1993), which includes a social assistance pension scheme – flat rate and means-tested – and a social insurance scheme. In addition to the public pillar, a private fully-funded pension pillar operates on voluntary basis. However, given that the size of the private pension market is very residual, the core of the Albanian pension system remains a single pillar model. Table 3.13 summarizes in a chronological order the main pension reforms in Albania after the fall of communism.

Table 3.13 Summary of main pension reforms in Albania: 1993-2014

Year	Aim of the reform	Main content	Model
1993	Fiscal instability and adapt to market economy	Introduction of a two-tier pension scheme & employee's contributions; Increase of contributory rate to 31.7% of payroll; Increase in retirement age (60 men and 55 women); Establishment of SII.	Bismarckian social insurance, PAYG, earning-related.
1995	Setting the basis for private pension institutions	Introduction of a voluntary FF, DC pension scheme. This scheme was not implemented until 2006, when the necessary regulatory framework for the operation of the private schemes was adopted.	**Public pension system:** *Bismarckian Social Insurance, PAYG, earning-related;* **Private scheme:** *Voluntary FF, DC.*
2002	To cope with fiscal and demographic challenges	Increase in retirement age (65 men and 60 women); Reduction of contributory rate to 29.9% of payroll;	Same as before
2014	Obtain the sustainability of the scheme	Increase in retirement age (67 for both genders); Increase in the contributory period to 40 years; Introduction of social pension, which replaces the basic pension; Unification of urban and rural schemes.	**Public pension system:** • *First tier: social pension (social assistance);* • *Second tier: Bismarckian Social Insurance, PAYG earning-related;* **Private scheme:** • *Voluntary FF, DC.*

Source: Author's elaboration

3. The Healthcare Policy Trajectory

Similar to pensions, we can distinguish three main phases of healthcare development and reform: the inter-war period, the communist period and post-communist developments. The first phase corresponds to the emergence of the healthcare system in Albania. It starts in 1920 with the establishment of the General Directorate of Health and the creation of a public healthcare system, based on Bismarckian social insurance principles. However, initially the healthcare system was based on social assistance, targeted to the most

vulnerable groups. The social insurance principles were better defined in 1947 (law no. 528/1947). There was a clear difference between insured and uninsured persons in terms of inpatient care services, with the latter being subject to fees-for-services. Even though the second period started in 1944 with the nationalization of all medical services, the communist regime kept in place the Bismarckian insurance model until 1963. Hence, similar to other communist countries, the 1963 reform restructured the healthcare system into a Soviet Semashko model (see chapter one). Health services were centrally organized, the provision of healthcare services was universal and free of charge and the scheme was financed from general taxation (art. 47 of the Constitution of the People's Socialist Republic of Albania). This scheme remained functional until 1993. Table 3.14 below gives a summary of the main phases of healthcare development.

Table 3.14 Three phases of healthcare reforms in Albania

Phase	**Reform**	**Main content**
Inter-war period ***(1923-1932)***	Origin	Social assistance: Free of charge for poor and vulnerable groups Origin of social insurance scheme (started implementation in 1947)
Communism ***(1944-1992)***	Expansion	Shift from social insurance to social security. Coverage: citizens. Financed by the state budget.
Post-communism ***(1993-2016)***	Structural changes	***1993:*** shift from social security to social insurance
		2014: partial reversal from social insurance to security

Source: Author's elaboration

The third phase refers to the reforms implemented after the fall of Communism. Similar to pension reforms, we can divide the post-communist trajectory of healthcare policy into three different waves as well.

The first wave of reforms occurred in the early 1990s. These reforms were aimed to substantially transform the health system from the Semashko model into a Bismarckian system, with the introduction of a health insurance system. Other important developments included the introduction of out-of-pocket payments (OOP), privatisation of most pharmacies and dentist clinics and attempts to decentralise the healthcare management. During the second wave (1995-2013) the aim of reforms was to both expand services

covered by the health insurance scheme and continue the decentralisation process which proved to be ineffective during the first wave. By contrast, in the third wave, from 2013 onwards, there have been steps towards universal healthcare provisions and a shift towards general taxation as the main source of healthcare funding, which in turn have led to partial policy reversal. Each of these phases will be discussed below.

3.1 The Origin of Healthcare Programs: From Zogu's Government to WWII

Similar to pensions, the first healthcare services were introduced after the proclamation of the independence of Albania from the Ottoman Empire. In 1920, the General Directorate of Health was established[27], which would initially work under the Ministry of Internal Affairs (Beci et al., 2015). Under the leadership of Ahmet Zogu, a public healthcare system was created, based on Bismarckian social insurance principles. In 1925, the Albanian government drafted a law on the organization of health services, which defined the categories of doctors who would serve in health centres and hospitals (Beci et al., 2015). This law gave full powers to the General Directorate of Health on licensing, control and budget drafting. Moreover, it stated that medical examination and drug provision for certain categories, such as poor and other vulnerable groups, would be free of charge. In 1932, the Hospital "Zogu I", today known as *Qendra Spitalore Universitare "Nënë Tereza" në Tiranë*[28] (QSUT), was opened in Tirana. In the same year, due to financial difficulties the Albanian state was experiencing, a special law introduced the payment of fees for hospital services (Beci et al., 2015).

As anticipated above, even though during this period a social insurance system was introduced, the healthcare system remained based on social assistance, targeted to the most vulnerable groups. The social insurance scheme started to be implemented only after its principles were better defined in 1947 (discussed below).

[27] It became the Ministry of Health (MoH) in 1944.
[28] English name: University Medical Centre "Mother Teresa".

Table 3.15 The inter-war period: main reforms

Year	Reform	Main content
1920	Origin of the healthcare system	Establishment of the General Directorate of Health Creation of public healthcare system based on insurance principles.
1925	Free-of-charge healthcare services for vulnerable groups.	Introduction of social assistance measures: medical examination and drug provision for vulnerable groups free of charge; Health department gained full power on licensing, control and budget drafting.
1932	Introduction of fees-for-services.	Fees were introduced for hospital services.

Source: Author's elaboration

3.2 The Communist Period: The Soviet Semashko Model

Like other communist countries, in 1944, Albania started a process of nationalization in various areas of the economy and society. Healthcare reform started in 1944 (law no. 24/1944) and culminated in 1946 with the nationalization of all medical services, private clinics, materials and work equipment, medical, surgical, radiological equipment and laboratories (law no. 242/1946). The aim of this law was to eliminate all private properties and nationalize the entities in question, without providing any type of compensation to their former owners (law no. 242/1946).

The social insurance system remained functional until 1963. Its principles were better defined in 1947 (law no. 528/1947) and consolidated further in 1950. CMD no. 793/1950 defined user's fees depending on whether a person was insured or not. It stated that healthcare services such as outpatient examination, ambulance services, laboratory exams and thoracic radioscopic would be provided free of charge to everyone. However, this decision differentiated between insured and uninsured persons, favouring the former in terms of inpatient care services. Therefore, inpatient care for an insured person would be provided free of charge, those working in agriculture cooperatives would pay 60 ALL/ day, whereas uninsured persons would pay 80 ALL/day.

Table 3.16 The Communist period: main reforms

Year	Reform	Main content
1946	Nationalization of all medical services.	The aim of this law was to eliminate all private properties and nationalize the entities in question.
1950	Defined user's fees based on contributions.	Outpatient care free for everyone. Inpatient care for insured persons free of charge, agriculture sector fee 60 ALL/day, uninsured 80 ALL/day.
1954	Health services were expanded in rural areas	Hospitals were established in remote locations, given that the majority of the population was living in rural areas.
1963	Shift to Semashko model	The State gained complete control over the health system. Health services were centrally organized and administered. The healthcare model shifted from Bismarckian to Semashko. Coverage was universal and free of charge to all citizens and the system was financed from general taxation.

Source: Author's elaboration

In 1954, the health service was expanded in rural areas, with the establishment of rural hospitals in remote locations, an investment considered as very essential given that the majority of the population was living in rural areas (Table 3.16).

In 1963, however, within the framework of the nationalization of all services, several important laws were passed on healthcare and free provision of medical assistance, which gave the State complete control over the healthcare system (law no. 3766/1963), thus transforming it into a Soviet Semashko system. Health services were centrally organized and administered at the district level via separate directorates. The provision of healthcare services was universal and free of charge, the scheme was financed from general taxation and resource allocation was centrally planned and based largely on inputs (e.g., number of beds or staff members) rather than on services rendered. In this period the focus was on the expansion of the primary health care system. Differently, a decade later the priority shifted towards hospital care, with the construction of hospitals in every district in order to provide basic inpatient care and specialist outpatient care (Table 3.17).

Table 3.17 Health system indicators in Albania: 1938-1990

	1938	1950	1960	1970	1980	1990
Physicians per 10'000 pop.	1.1	1.1	3.0	7.4	16.8	17.1
Beds per 1'000 pop.	1.0	4.4	5.4	4.1	6.5	5.9
Health expenditure (% of total public expenditure)	1.0	4.9	5.9	5.3	5.3	6.6
Consultations with GPs per 1'000 pop.	-	614	1'220	2'223	2'970	3'399

Source: Gjonca, Wilson and Falkingham (1997).

The 1976 Constitutional amendment consolidated further the universalistic coverage of the healthcare system, stating that *"the State would guarantee free access to healthcare for everyone"* (art.47). By the 1980s, the Ministry of Health provided and regulated all health services in every district and ran itself the clinical hospitals providing tertiary care (Nuri, 2002).

However, given that the scheme was financed through general taxation and healthcare was not considered a high priority sector, healthcare expenditure depended heavily on available budget. In addition, resource allocation based on inputs did not correspond to real local needs, but it was connected to the necessity of the state to allocate the workforce – since healthcare professionals were state employees. In turn, this offered little incentives to improve the quality of care, increase efficiency, or control costs. Moreover, the rupture with the Soviet Union in 1961 and later with the People's Republic of China in 1978, had a direct impact on the development of the health system in Albania as well, since the medical personnel was cut off from global advances in technology and pharmaceuticals (Gjonca, Wilson and Falkingham,1997).

Consequently, in 1977, as result of high costs, lack of funding and nationalization of the medical health service, the Albanian government decided to shrink coverage of services provided by health institutions, ordering hospitals to hospitalize only patients in severe conditions and absolutely not performing any medical examinations (Beci, Belishova and Kola, 2015). This situation deteriorated even further in the 1980s, with a poor quality of services as shown by high rates of infant mortality compared to other communist countries (see table 3.18) and the outbreaks of infectious diseases (Nuri, 2002).

Table 3.18 Health indicators (1980)

	Infant mortality rate (per 1'000 live births)	**Adult mortality rate** (per 1'000 people)	**Life expectancy at birth**	**Crude death rates** (per 1'000 people)
Albania	65.8	111	68.7	6.3
Bulgaria	20.1	145	71.2	11.1
Romania	29.3	163	69.2	10.4
Yugoslavia	31.3	154	70.5	8.8

Source: the UN demographic yearbook 1985

In the early 1990s, due to country's limited resources which could no longer support the healthcare system, and the economic and political disorder after the fall of communism, much of the social infrastructure associated with the former regime was damaged, looted or destroyed. The system was deprived of medical supplies, the health personnel deserted facilities and government revenues declined by 35%, leading to the virtual collapse of the public health system by 1991 (World Bank, 1994b).

3.3 Transition Induced Challenges and Change

Similar to pension reforms, we can divide the post-communist trajectory of healthcare policy in three different phases. The first phase occurred in the early 1990s and the main aims were to both prevent further deterioration of basic services and improve the fiscal sustainability of the healthcare system. In this regard, three important developments occurred: first, a systemic change from the Semashko model to a Bismarckian system – with a reorganization of both service financing and delivery; second, the introduction of market elements, including diversification of financing through the introduction of out-of-pocket payments (OOP), and privatisation of most pharmacies and dentist clinics; third, decentralisation in management.

During the second phase (1995-2013) the aim of reforms was to expand services covered by the health insurance, change the role of the Ministry of Health from a management body to a policy-making body, continue the decentralisation process which proved to be ineffective during the first phase and strengthen the legal basis for private health services. In this period the main priority was to complete the implementation of the healthcare

social insurance approach and make the Health Insurance Institute (HII) the single payer institution.

The third wave of pension reform refers to the period after 2013. Despite previous attempts to convert the HII into a single payer institution, in this period we observe partial policy reversal, with the government's attempts to shift from social insurance to a social security healthcare system. In this regard, an important trend towards universal healthcare provisions and shift towards general taxation as the main source of healthcare funding can be seen.

3.3.1 The first phase, 1991-1994: from Semashko social security to a Bismarckian insurance model

As mentioned above, by the end of the 1980s, the Albanian healthcare sector was characterised by shortages, lack of funding, poor quality service, low salaries and by the early 1990s, high levels of corruption as well (Nuri, 2002; Ahmeti, 2004; Belishova et al., 2010; Beci et al., 2015). In fact, bribery in the medical service delivery turned into a common practice that became (and it still remains) a routine with regard to both individual healthcare expenditure and physicians' incomes (Vian et al., 2006).

After the collapse of communism, immediate actions were required not only to prevent further deterioration of basic services and to transform the healthcare system into a financially sustainable sector, but also because citizens were complaining about the quality of services provided and physicians openly showed their malcontent for low salaries (World Bank, 1994b).

Therefore, in 1993, Law no. 3766/1963 "On Health Care in the People's Socialist Republic of Albania" was abolished, and two new laws were passed: law no. 7718/1993 "On Health Care in the Republic of Albania", and law no. 7738/1993 which abolished the concept of universal free healthcare and paved the way for the introduction of private medical practice[29]. The implementation of this law was quickly followed by the gradual privatisation of healthcare delivery, mainly in pharmaceutics and dental care. Moreover,

[29] See art. 3, 5 and 6 of law No. 7718 of 03.06.1993, "On Health Care".

these new laws enabled the Ministry of Health[30] to issue orders introducing and regulating out-of-pocket payments for the provision of various healthcare services[31].

In 1994, the healthcare system shifted from the Semashko to a Bismarckian model, with the introduction of a health insurance system under law no. 7870/1994, which would regulate the financing of public healthcare. This law determined that the subjects responsible for health insurance contributions were economically active persons. In addition, this law stipulated that self-employed should pay contributions both for themselves and unpaid family member employees, in accordance with the deadlines specified by the Council of Ministers Decision (CMD) (art. 10). Health insurance would be organized and directed by the Health Insurance Institute (HII), a public, autonomous and non-profit institution (ibid, art. 4/3 and art. 17). The contribution rate was set at 3.4% of the salary (1.7% paid by the employer and 1.7% by the employee). These contributions would be collected by the Social Insurance Institute (SII), which would also be responsible for: the registration of the insured persons; providing them an insurance card; depositing the collected fund to the Health Insurance Institute (HII) budget; imposing sanctions to those not registered with SII; submitting to the HII annual reports regarding its activities (ibid. art.11, art.12 and art.25). Moreover, this law stipulated that beside contributions, healthcare would be financed through the state budget, voluntary health insurance contributions – a supplementary public insurance scheme on voluntary basis, for high-cost medications not covered by the compulsory scheme (such as dental and visual aids insurance packages) – and out-of-pocket payments (art. 3).

In order to make the transition towards a Bismarckian model as smooth as possible, initially the state would contribute on behalf of inactive persons such as students, retired, mentally and physically disabled persons, unemployed, persons benefiting from social assistance programs, mothers on maternity leave, citizens part of compulsory military service, etc. (art.4 and art.8). This social assistance intervention was intended to be a transitory provision. As it will argued also in chapter five, the government's long-term goal was to establish a healthcare insurance system, in which benefits would be linked to

[30] This institution was known as Ministry of Health and Environment between 1992 and 1998, Ministry of Health from 1998 to 2017 and Ministry of Health and Social Protection from 2017 and onwards.

[31] Ibid, art. 4. This law delegated to the Minister of Health the right to restructure or create new health facilities.

contributions. Moreover, the introduction of health insurance scheme was seen both as a way to reduce state expenditure in healthcare and as a means to increase healthcare resources (Nuri, 2002).

Decentralization was considered by the government another essential area of reform, which started in 1993 with the law "On Local Government" granting elected local governments the control of all Primary Health Care (PHC) services in rural areas. This law transferred financial and administrative responsibilities to district and municipal levels. However, the World Bank's assessment (1994a) pointed out that an immediate transfer was not feasible from both a fiscal and administrative standpoint. A government decision introduced a new health hierarchy, downgrading most district hospitals, so they could offer only basic inpatient care, whereas a small group would be upgraded to regional hospitals offering secondary care to larger multi-district areas (World Bank, 1994a).

These reforms paved the way towards a Bismarckian system of healthcare provisions. The switch to health insurance changed the healthcare financing system through the introduction of healthcare contributions and partial transfer of healthcare costs onto patients through out-of-pocket payments. At the same time, new actors emerged: the health insurance institute, as purchaser of healthcare services, and private actors – since pharmaceutics and dental services were privatised. Service financing and delivery were no longer integrated. The financing of the healthcare system was divided between the state budget, the HII and co-payments. Regarding healthcare delivery, as mentioned above, certain healthcare facilities, such as the pharmaceutical sector and most dental care[32] were privatised. The rest of services remained public. Moreover, these reforms made attempts to devolve responsibilities from a centralized, hierarchical and state-dominated system to the regional and the local levels.

However, it is worth mentioning that by the end of this period (1994) the healthcare service still remained mainly public and centralised[33]. Also, the government remained the main funder and provider of healthcare services. The Ministry of Health was responsible

[32] Dental care was entirely privatised, with the exception of emergency cases and children until the age of 18 years old.

[33] The health system remained centralized, apart from PHC, which was no longer funded and maintained by the MoH.

for healthcare administration and control of human resource development and training (Nuri, 2002; Ahmeti, 2004), while the Ministry of Finance allocated money to the Ministry of Health budget (to finance services offered free of charge), to the Health Insurance Institute (to cover for the inactive population) and to local governments (for primary health care).

3.3.2 The second wave: a fragmented and partial implementation of reforms

As mentioned above, the government's aim was to set up a health insurance system, which would be implemented gradually, with the intention to make the HII a single payer institution, responsible for financing and purchasing of medical services from healthcare providers. However, pooling arrangements in the Albanian healthcare system remained fragmented, divided between the state budget which covered preventive health measures, specialised service, hospital services and emergency services, and health insurance which in turn covered only the services provided by the family doctors and general practitioners (GPs) and a list of essential pharmaceuticals. This fragmentation neither gave providers incentives for efficiency and quality improvements, nor did it establish clear lines of accountability (World Bank, 2006a). Therefore, the aim of the reforms in the second period (1995-2013) was to expand the services covered by health insurance; change the role of the ministry from a management to a policy-making body; continue the decentralisation process; and strengthen the legal basis for private health services. Each of these changes is discussed below.

The social insurance implementation process: changes in healthcare financing and healthcare expenditure

As mentioned above, after the 1994 reform, eligibility for healthcare remained universalistic and offered free of charge to the entire population for inpatient care, whereas certain services such as family doctor visits and pharmaceuticals were restricted to payment of contributions[34]. However, due to high levels of poverty, not everyone was

[34] It is important to note that, contrary to social insurance benefits that depended on the contributions paid, benefits not covered by the insurance scheme were equal for everyone.

able to pay contributions and given the fact that the state was responsible for low-income groups, in practice people were not refused medical services (Nuri, 2002).

The implementation of reforms was showing some progress, in particular in terms of reducing the share of state budget funds and increasing the share of contributions. However, the situation became very difficult after the economic and political problems Albania faced during the 1997 civil war and the 1999 Kosovo refugee crisis. In this regard, healthcare expenditure remained low, with an average around 2.8% of the GDP during the 1990s (World Bank, 2006a). In addition, given the large informal labour market that existed in Albania, less than a third of the active labour force was paying contributions – the most problematic group being farmers, who represented one quarter of the country population, but only 4% of them were enrolled in the scheme, mostly because they represented the poorest segment of the population – pointing to large contribution evasion (World Bank, 2006a).

Moreover, another issue that emerged during the implementation process was that out-of-pocket payments started to become a major source of revenues, even though that was not the government's aim (Nuri, 2002). By law, household payments were applied only to outpatient services – legal payment made to health facilities, half of which went to the facilities and the rest going to the state budget – and pharmaceuticals[35] only. However, in practice, payments to service providers – which were illegal practices given that publicly employed doctors were not allowed to provide private services – became a widespread phenomenon (most pronounced in inpatient care which was supposed to be free of charge) and had a direct impact on low-income groups as they were unprotected from health shocks (World Bank, 2006a). In 1999, household payments accounted for 29% of total revenues, compared to 58.7% from the state budget – the rest of revenues coming from employers' contributions (4.3%) and foreign donors (8%) (Nuri, 2002).

Table 3.19 shows household expenditure for healthcare services in 1999, with the main expenditure items being pharmaceuticals – accounting for 45.5% of total household expenditure – followed by service provider fees (informal payments). A survey conducted by the World Bank in 2000 concluded that the general public believed that such payment

[35] As mentioned above drugs included on the essential list were fully or partly reimbursed.

was necessary in order to get proper treatment, and in some cases, to get any treatment at all (Nuri, 2002).

Table 3.19 Household expenditure for healthcare services, 1999

	% of total
User fees	2.7
Pharmacy drugs	45.5
Dentistry	13.7
Service provider fees	23.2
HII contributions	14.9
Total	100.0

Source: Nuri (2002)

Despite the World Bank's recommendation to shift entirely the financing of the healthcare system to general taxation, during this period, the main aim of the reforms was to expand the services covered by the HII, which in turn evolved gradually.

By 2001, the HII covered all PHC expenditures in the prefecture of Tirana and financed the Regional Hospital of Durrës, which provided secondary health services. The HII contracted the Tirana Regional Health Authority (TRHA), granting the latter a separate budget for each polyclinic and health centre that was part of it.

Starting from 2002, some government decisions determined full coverage for certain categories: 100% reimbursement for children 0-12 years old, for persons who were fully disabled, war invalids, war veterans, pensioners, people with specific diseases specified by law. By contrast, for other insured categories the amount covered for expensive examinations was 90% paid by the health insurance scheme and 10% from co-payment. In the same year, a new law extended the services covered by the HII budget (law no. 8961/2002), which now would cover specialist practitioners and primary health care nurses as well. In this regard a referral system[36] (discussed below) would be used in order to access a more specialised healthcare service. Moreover, this law gave the HII the legal basis for becoming the single source of payment for healthcare.

[36] According to the World Health Organization (2006), a referral system is defined *"*as a process in which a health worker at a one level of the health system, having insufficient resources (drugs, equipment, skills) to manage a clinical condition, seeks the assistance of a better or differently resourced facility at the same or higher level to assist in, or take over the management of, the client's case*"*.

In 2004 the services covered by the healthcare insurance system were extended to tertiary examinations and medical consultations (law no. 9707/2004). In addition, the collection of contributions passed from the SII to the General Directorate of Taxation.

At the time, the MoH accounted for nearly all health service delivery in Albania. Healthcare included three levels: primary, secondary, and tertiary care. Primary healthcare was delivered in urban areas, primarily through health centres and maternal and child health centres, and in rural areas through health centres and ambulances (health posts) - with GPs and paediatricians typically part of the PHC centres staff, while nurses and midwives part of ambulances staff. Polyclinics and hospitals offered secondary care, and they had more specialized providers in their staff. A handful of university institutions in Tirana provided tertiary care.

In December 2006, the Government decided to extend the insurance scheme across the entire primary health care, with CMD no. 857/2006 "On the Financing of Primary Health Care Services from the Compulsory Health Insurance Scheme", whereas CMD no. 680/2007 identified the HII as purchaser of the basic package of PHC services. The HII contracts health centres in order to regulate both the financing and delivery of the basic health benefit package. Services not part of the HII included mental health provided by community centres, public dental practices, hygienic and epidemiologic services, health promotion and education services and services offered by school doctors. By the end of 2008, for the first time, the HII would cover hospital services as well[37], with the exception of mental health. Hospitals were then considered as legal entities with independent budgets, providing inpatient and specialised outpatient services. This decision stipulated that the contract that the HII would conclude with hospitals should include the services provided by each hospital, payment methods, how the referral system would work and methods for dispute resolution.

The MoH would be responsible for capital investment expenditure, the share of the budget that covered the inactive population and the referral system. Hospital fees, payment methods and rewards would be proposed by the MoH and approved by the Council of Ministers.

[37] This was defined by law no. 10043 of 22.12.2008 "On Health Insurance in the Republic of Albania", art. 1; and, CMD no. 1661 of 29.12.2008 "On the Financing of Hospital Services by the Compulsory Health Insurance Scheme".

Law no. 10383/2011 "On Health Insurance in the Republic of Albania", transformed the Health Insurance Institute into a Fund (Healthcare Insurance Fund, HIF), which in turn acquired important competencies for designing healthcare packages. The law stated that the financing of healthcare packages, the list of reimbursable medicines, the list of medical equipment would be paid from compulsory insurance contributions, voluntary insurance, transfers from the Ministry of Health to subsidize a portion of direct payments, transfers from the state budget, direct payments and donations. (ibid, art.23). Another important novelty was that, for the first time, the law foresaw contracting with private services (ibid, art. 29). Table 3.20 summarizes the key reforms undertaken in order to transform the HII into a single payer institution, with the ultimate goal of completing the implementation of a social insurance healthcare system.

Table 3.20 Expanding the services covered by HII: main reforms (2001-2011)

Year	Main content of the reforms
2001	HII covered all PHC expenditures in the prefecture of Tirana and financed the Regional Hospital of Durrës.
2002	HII covered specialist practitioners and primary health care nurses. This law gave the HII the legal basis for becoming the single source of payment for healthcare.
2004	The insurance scheme was extended to tertiary examinations and medical consultations.
2006	The insurance scheme was extended across the entire PHC.
2008	The insurance scheme was extended to hospital services.
2011	The transformation of the HII into a Fund, which would be responsible for managing the financial resources of the healthcare services. Compulsory health insurance covered also the economically non-active people; whose contributions would be paid by the state budget. Economically active people who did not contribute to the scheme would have to pay for service. For the first time, contracting with private services.

Source: Author's elaboration

Two years after its approval in the parliament, the new law came into force in 2013. The Fund would now be responsible for managing the financial resources of the healthcare services in the insurance scheme (law no. 126/2013, art. 2). Compulsory health insurance covered also the following categories of economically non-active people, whose contributions would be paid by the state budget: persons benefiting from the SII,

unemployed, foreign asylum seekers, children under the age of 18 and students under the age of 25 (ibid. art. 5/2). According to this law, economically active people who did not contribute to the scheme would have to pay for service. At the same time, this law brought about a closer co-operation between private and public hospitals, with the Fund reimbursing insured citizens also for services provided by private hospitals. Moreover, the self-employed would pay higher contribution starting from 1 January 2014, from 3.4% to 7% of the average between minimum and maximum wage, in order to deal with the deficit of the scheme.

By the end of these reforms the Health Insurance Institute became a single payer institution. However, two important deviations from the original path are worth mentioning. First, the social assistance intervention adopted in 1994 was intended only as a transitory measure, however this scheme remained operational even during the second wave (1995-2013), making the healthcare a mixed system made up of a social insurance scheme (financed through contributions) and a social assistance scheme (financed from the state budget).

Second, the government's original goal in the early 1990s was to introduce a health insurance system with the purpose of linking benefits with contributions and reducing state expenditure in healthcare. However, the health insurance contribution rate was not increased in accordance with the services extended into the HII coverage. The contribution rate remained 3.4% of the payroll, the same rate since it was first introduced in 1994, when it covered only drug reimbursement and services provided by the family doctors and GPs. It continued to be 3.4% even after the HII became a single payer institution in 2011, covering all levels of the healthcare system (primary, secondary and tertiary healthcare). In addition, only around 30% of the population (FSDKSH data 2013) was contributing in the health insurance scheme due to high unemployment and informality levels. Since both the social insurance contribution levels remained low and the contributory rate was not increased, there has been a need for transfers from the state budget into the HII budget to fill in the healthcare expenditure gap. Table 3.21 shows the three main financing sources in healthcare: transfers from the state budget, out-of-pocket payments and social insurance contributions.

Table 3.21 Healthcare system revenue sources

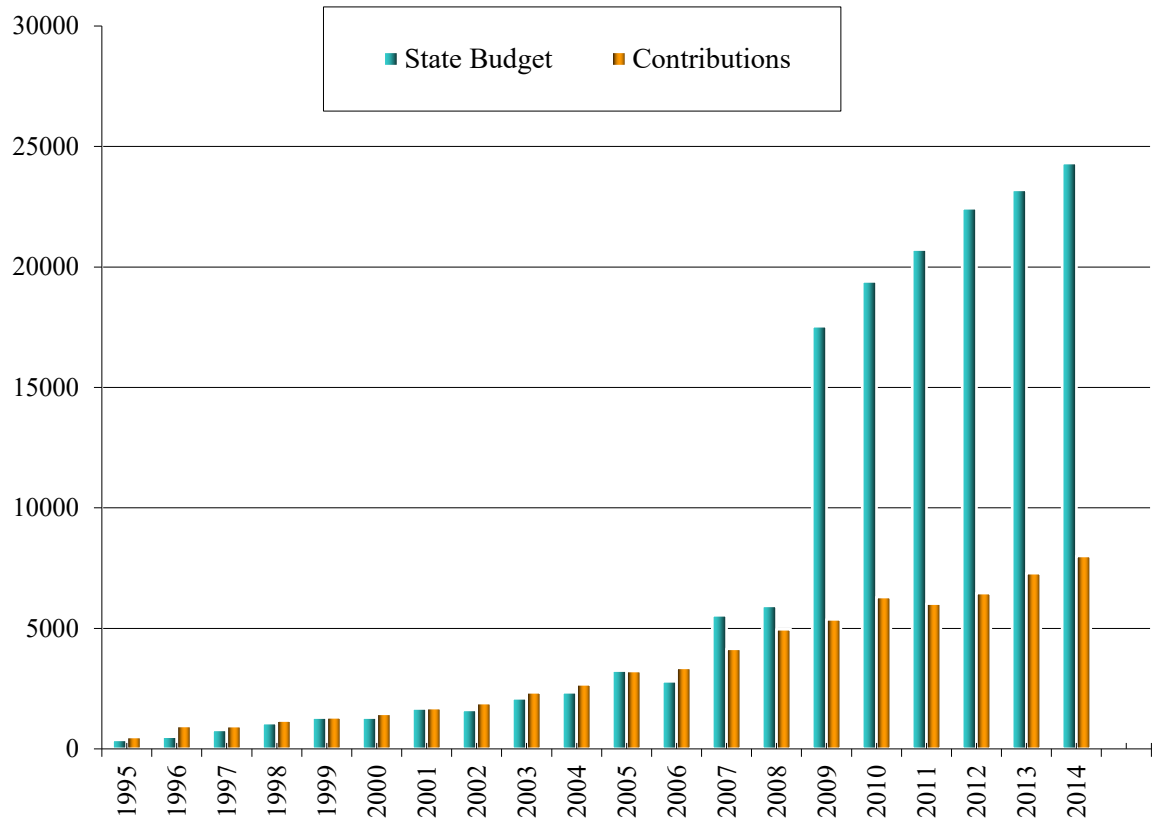
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Transfers from government (allocated to health purposes) (% of total healthcare revenues)	35	35	33	37	38	38	39	34	37	41	40	40	39	38	37	43	43
Social insurance contributions (% of total healthcare revenues)	4	4	5	5	6	6	7	7	9	10	11	10	10	10	11	13	15
Household OOP (% of total healthcare revenues)	61	61	62	58	56	56	54	59	54	49	49	50	52	52	52	44	42

Source: World Health Organisation online

As we can see from table 3.21, the main revenue sources are household out-of-pocket payments, followed up by transfers from government domestic revenues. Over the years, social insurance contributions from economically-active persons have remained very low, as a result there has been a need for transfers from the state budget into the HII budget to fill in the healthcare expenditure gap.

Figure 3.1 shows the main revenue sources of the health insurance institute, composed of social contributions from economically-active persons and state budget transfers. With the extension of services covered by the HII, state budget transfers into the HII budget have increased, in order to cover the costs of the HII activities.

Figure 3.1 Health Insurance Fund budget 1995-2014



Source: Health Insurance Fund online

As we can see from figure 3.1, the first noticeable increase of the transfers from the state budget into the HII budget was in 2007, a year after the PHC services were covered by

the HII. Before 2006 the PHC was financed by the state budget. After 2006 the state transfers revenues into the HII to finance PHC services. The same trend is seen after 2009. From figure 3.1 we can observe a significant increase in the transfer of the state budget into the HII, because in 2008 services financed by the HII were extended to secondary healthcare. Before 2008 hospital services were financed by the state budget. After 2008 the state transfers income into the HII budget to finance hospital services.

To sum up, by the end of the second wave, even though de jure there was a shift towards a more Bismarckian healthcare social insurance approach, if we look at the funding, de facto the healthcare insurance scheme became more and more heavily funded by the state.

Decentralisation of competences at the local level

As mentioned above, another priority of the government during this period was to continue the decentralisation of competences towards local governments. Therefore, in 1998, local governments were given the authority to allocate money to finance the operating and maintenance costs of PHC facilities, and funds from state budget were transferred to the Ministry of Local Government and Decentralisation for distribution to local governments (decree no. 204/1998). The decentralisation process continued in 1999 with the establishment of Tirana Regional Health Authority (TRHA), which would be responsible to undertake the decentralisation of the health sector planning and management in the region of Tirana.

In the early 2000s, decentralization was moving very slowly because of lack of clarity regarding which roles and responsibilities would be delegated, and a lack of capacity at the sub-national level (Cook, McEuen and Valdelin, 2005). At that time, *primary* health care services had a weak connection with the broader healthcare system and their financing and management was fragmented, with the HII paying for GP's salaries and pharmaceutics, and the MoH covering the rest of the costs. Moreover, local governments were responsible for the maintenance and provision of equipment to the health centres, but the appointment of doctors and other medical staff was done by the Directories of Public Health in each of the 36 districts – these directories carried out the operating responsibilities for the government health facilities and activities throughout the country,

and were accountable to the MoH (Fairbank and Gaumer, 2003). In 2002, the government's action plan was to make health a "shared function" of central and local governments (Fairbank and Gaumer, 2003).

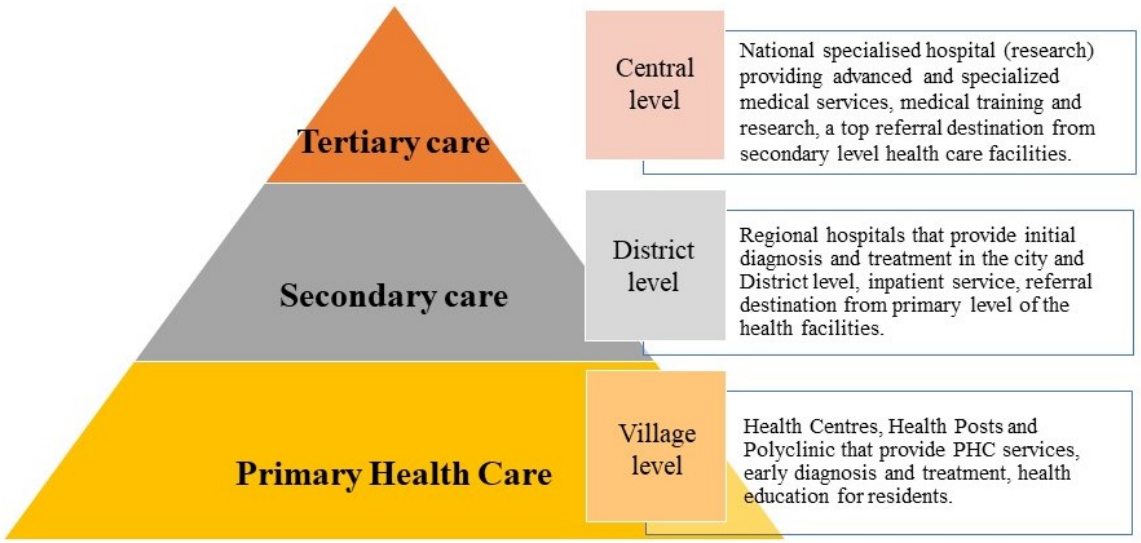
Regarding *secondary* health care, hospitals needed more authority in the areas of management, fundraising and personnel hiring and firing. In addition, hospitals, being public budgetary institutions, in many cases were used for personal illegal benefits[38] by healthcare providers (Belishova, Hana and Adhami, 2010). As consequence, many services provided were of low quality, or not available at all, in some cases the corruption level was high, and the referral system was not implemented. The government's long-term strategy published in 2004 prioritised decentralisation of service delivery, aiming to transform hospital care providers into autonomous public entities under the governance of hospital boards, while primary care providers would eventually operate as independent providers (MoH, 2004). Thus, although the ownership of primary health care centres and polyclinics in urban areas was transferred to local governments, the hospital sector remained under the administration and control of central government. Moreover, starting from 2004, the MoH would establish regional health authorities (RHA) – previously implemented with a pilot project in the region of Tirana – that would have a planning function and be in charge of managing national public health programs and regional hospital authorities, which would be independent and act in accordance with the local and national hospital development strategy. The Albanian administrative territory was divided into 36 districts and 12 regions, and there was one hospital per district whose activities were coordinated at the regional level.

After these reforms, the healthcare services remained structured on three levels: primary health care (provided in health centres/posts and polyclinics), secondary (provided in regional and/or district hospitals) and tertiary health care (only provided by the University Hospital Centre in the country, in Tirana). Figure 3.2 shows the hierarchy of the referral system a patient has to follow from primary to tertiary level. Therefore, patients need a referral from their family doctor in order to access a more specialised healthcare service

[38] Such activities included: informal payments (under the table payments to receive a better service or to receive a service at all) or informal agreements between doctors and pharmacies, in which the former receives a percentage for each prescribed drug. The more drugs they prescribe the more money they receive from pharmacies (Belishova, Hana and Adhami, 2010).

at the district level, and a referral from the specialist doctor in order to access tertiary care services. However, in practice, patients skipped the referral system and went directly to a specialist, due to long waiting lists and complex bureaucratic procedures (Marku, 2010). In this case the insured person has to pay for service.

Figure 3.2 Levels of healthcare services in Albania in 2013



Source: Author's elaboration based on JICA data (2014)

Privatisation of healthcare services

Another priority in this period was the privatisation of the health services, which had started in the early 1990s with the privatisation of pharmaceutics and dentistry. The 2004 government strategy supported the privatization process in the health service as a tool to enhance the effectiveness and efficiency in the usage of sector resources. In this regard, the priority was to strengthen the legal basis of private practices in order to monitor and protect the citizens against abuses and harmful practices. Therefore, the government improved the procedures for licensing private activities with the aim of ensuring the delivery of service in rural areas and in small towns. Private hospitals started to function only after 2004.

Similarly, the "Government Strategy for Health Development 2007-2013" prioritized the introduction of a new public-private mix as a way to increase the capacity to manage services and facilities in an effective way. As mentioned above, law no. 10383/2011 envisaged contracting with private services (art. 29). Public-private partnership was consolidated further in 2013, with the adoption of law no. 125/2013 "On Concessions and Public Private Partnership (PPP)". Its main aim was to create a favourable and sustainable framework for the promotion, absorption and creation of facilities for investments in PPPs (art. 1). The government's objective was to increase competition in healthcare delivery and reduce state-funded services (Interview 13 – Former Minister of Health).

However, despite efforts, the Albanian government remains the main provider of healthcare services. The private sector remains underdeveloped and covers only pharmaceutical, vision and dental services and some specialized diagnostic clinics and hospitals located mainly in the capital (such as American Hospital, Hygeia, German Hospital, Lady of Good Counsel University, etc.). Moreover, according to international institutions' assessment, the private sector is growing without proper legislation and regulation (European Commission, 2013; World Bank, 2014a; USAID, 2016).

To sum up, healthcare reforms in this period tried to overcome the fragmentation of health financing, administration and management by designing the HII as the single contractor and payer for healthcare services. Primary healthcare management and financing autonomy were strengthened as well, and remained under the jurisdiction of the Directories of Public Health at the district level, whereas MoH exercises jurisdiction over secondary and tertiary medical services such as Regional Hospitals. The HII covered PHC, hospital services (both secondary and tertiary) and drug reimbursement.

Still, it is worth mentioning that the reforms in the healthcare sector have developed at an unsatisfactory pace and in most cases have been slow, ineffective and lacked full implementation (Interview 2 – USAID Albania representative; Interview 3 – former Minister of Labour). This can be clearly seen by the fact that, despite the initial aim in 1994 to shift swiftly towards a Bismarckian insurance system that would rely on contribution, the healthcare financing system remained fragmented between the state budget and HII. Even during this period, only a small part of the population was contributing to the scheme due to the absence of a formal labour market, weak

administrative capacity and oversight structures (Japan International Cooperation Agency, 2014). In addition, corruption continued to be a major issue that prevented fair and equal access to healthcare services, which combined with high levels of out-of-pocket payments (especially in the form of informal payments) created additional disadvantage for poor people to access certain facilities. Although there have been attempts towards decentralisations, the system remained highly centralised and hierarchical, with the Ministry of Health focusing on administrative functions rather than policy and planning. Virtually all spheres of decision-making remained under the central authorities: appointing directors, setting hospital bed capacities and physical assets, purchasing of medical inputs, staff composition and salaries, selection of provided services, targeting public health goals, implementing technologies, strategic development and setting user charges (Sowa, 2016).

Table 3.22 Structure of the public healthcare system after the second wave of reforms

Financing	Health Insurance Institute		State budget	Out of pocket payments
	Contributions from the economically active persons + For economically inactive persons from the state budget.	State budget transfers (general taxations): • To PHC • To hospital care.	Healthcare services NOT part of the health insurance budget: mental health provided by community centres, public dental practices, hygienic and epidemiologic services, health promotion and education services and services offered by school doctors.	Every service not covered or only partially covered by the health insurance scheme.
	29.5% of revenues comes from contributions	70.5% from the state budget transfers.		
Funding sources (% of total)	10%		38%	52%
Coverage	Social insurance (those who contribute) Social assistance (the needy)		Social security (citizens)	

Source: Author's elaboration

Similar to the developments in the field of pensions, this period shows the limits of the Bismarckian insurance approach, due to high poverty levels, high labour market informality, high unemployment levels and low tax-rates compliance. Although de jure

there was a shift towards a more Bismarckian healthcare system, de facto it was heavily subsidised by the state. In this respect, as it will be discussed in following paragraph and in chapter five, recent governments realised that a social insurance approach does not allow to build a healthcare system which is effective both in terms of financial sustainability and protective capacity. Therefore, the main aim of the reforms adopted in the third period was to address the limits of the insurance approach and build a healthcare system that ensures both fiscal sustainability and social adequacy. In particular, the main priority was to reform the health financing system in order to lower patient risks, prevent poverty due to illness and improve the quality of healthcare (World Bank, 2014b).

3.3.3 The third wave, after 2013: partial reversal from social insurance to social security

Starting from 2013, further changes in the healthcare system occurred, with the largest being the new approach by the Rama government, whose main objective was to guide health policies towards universal provisions, by "*providing healthcare service in accordance with need, and not by the ability to pay*"[39]. In other words, this program aimed at universal coverage of the population, thus giving free access to health services to all residents so that no one feels excluded from receiving basic healthcare only because they cannot afford it. Accordingly, the government's priority was to shift the financing of the healthcare system entirely on general taxation[40], gradually eliminating the service fees in the public health system for uninsured persons, and make the National Health Service the unique source of funding for the health system. The NHS was then established in 2018 with the aim of reforming the health system financing in order to move towards universal coverage. In line with these reforms, during this period we observe an increased centralisation in healthcare management and planning (Balaj, 2021).

Moreover, the government's aim was to expand the range of services provided free of charge. This project was backed-up by both the World Bank and the World Health Organisation, which advocated for universal health coverage and quality accessible health services.

[39] See the Government of Albania National Strategy 2013-2017.
[40] Ibid, pg. 52 and National Health Strategy 2016-2020, pg. 2.

Therefore, starting in 2014, a free basic medical check-up (preventive health measure) is offered free of charge for the age group 40-65 years old. In 2016, the category benefiting from this service was expanded and it now covers the age group from 35 to 70 years old. In addition, starting from 2016, every resident (insured and uninsured) had the right to use the emergency service (first-aid) and choose a family doctor free of charge. If the insured is using the referral system, the rest of the services is offered free of charge. If the uninsured person is using the referral system, they will pay only 6.6% of fees for outpatient secondary care and 16% of fees for outpatient examinations at tertiary hospitals.

Even though some progress has been made in terms of expanding certain preventive healthcare services to the entire population, no attempt has been made at eliminating the social insurance system, despite promises that specific measures would be taken by the end of 2017. In fact, as of 2020 the shift towards a universal system has not been achieved yet (Balaj, 2021).

3.4 Healthcare Reforms and Institutional Change in Albania: A Summary

The post-communist healthcare system underwent three important waves of reforms (Table 3.23). The first between 1992 and 1994, which made the shift from the Semashko model to a Bismarckian social insurance model. The Health insurance institute (HII) was created as an independent body, which would organize and manage the health insurance. The scheme would be expanded gradually, initially covering only a list of reimbursable drugs and the services provided by the GPs and family doctors. Important developments also included the introduction of fees-for-services and the privatisation of pharmaceutics and dental care.

The rest of healthcare services continued to be provided by the government and financed through the state budget. However, the reforms in this period aimed to pave the way to a Bismarckian insurance model, with the final aim to make the HII the single payer of all healthcare services.

Table 3.23 Healthcare system reforms: 1992-2016

Year	Challenges to be addressed	Reform	Main content
1992 – 1994	Fiscal instability	Structural reform	***Shift from social security to social insurance***, by abolishing the right to universal access to free healthcare and introduction of healthcare contributions from economically active persons. Introduction of private medical practice (dental services and pharmaceutics);
1995 - 2013	Expand services covered by the HII; Decentralisation; Privatisation.	Parametric reform	***Implementation process: move to social insurance system*** 2004: The insurance scheme was extended to some unique tertiary care. Private hospital started to function. 2006: The insurance scheme was extended to PHC. 2008: The insurance scheme was extended to hospital services. 2011: HII was transformed into a Fund, single payer institution. 2013: The Fund could contract private services.
2013 - ongoing	Fiscal instability Social inadequacy	Policy reversal	***Partial policy reversal: move towards social security***: every resident has the right to use the emergency service (at all levels), periodic preventive population check-up package and a family doctor, free of charge.

Source: Author's elaboration

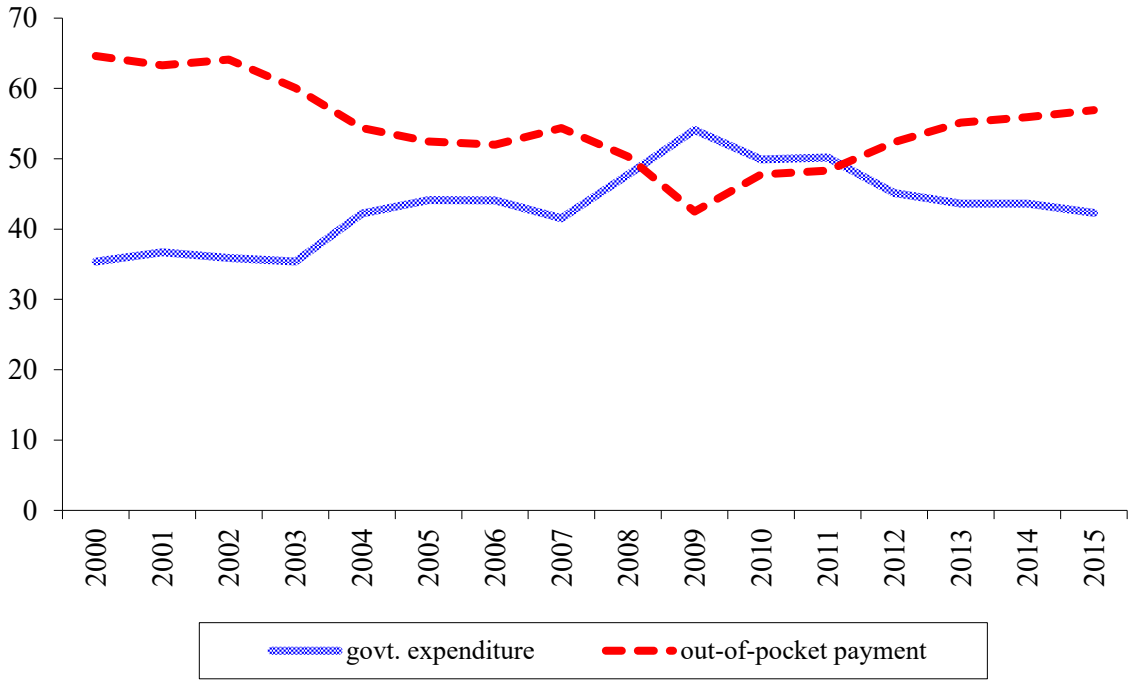
The second wave started in 1995 and it was finalized in 2013 with the HII covering primary health care services (except community centres), secondary and tertiary service (except psychiatric hospitals) and a list of reimbursable drugs. According to law no. 10383/2011, subjects responsible for health insurance contributions are economically active persons. However, the state would continue to contribute on behalf of vulnerable groups. Even though the social assistance scheme was originally intended to be as a transitional measure, by the end of the second period it was made structural. As argued above, this period showed the limits of the Bismarckian insurance approach, due to high poverty levels, high labour market informality, high unemployment levels and low tax-rates compliance. In this respect, the main aim of the reforms adopted in the third period was to address the limits of the insurance approach and build a healthcare system that would ensure both fiscal sustainability and social adequacy.

The third wave of reforms started in 2013. The main aim of the reforms in this period was to address the issues encountered during the second wave and build a healthcare system

that would prevent poverty due to illness and improve the quality of healthcare. The Albanian government's solution to these challenges was to shift the healthcare system from social insurance to social security, providing universal coverage to every resident free-of-charged and financed through the state budget.

Notwithstanding these waves of reforms, today, the health system remains a "mixed-universalistic" model (Ferrera, 1993), a universalistic floor and on top of that a contributory social insurance scheme. A basic medical package – first aid (emergency room), family doctor visits and preventive health measure – is offered free of charge to every resident. For additional healthcare services economically-active people have to contribute to the HIF, otherwise they have to pay the official fees for service. Even though out-of-pocked payments were not supposed to be a major source of the healthcare expenditure (Nuri, 2002), as we can see from figure 3.3 their share has remained relatively high throughout the years. Understanding the total contribution of each institutional sector of the economy is important, as this indicates the respective financial burden of each sector (OECD, Eurostat and World Health Organisation, 2017), which in turn plays an important role on policy choices preferred by different actors. As we will see in chapter five, the Democratic Party favoured an increase in the contributory rate in order to reduce out-of-pocked payments. On the contrary, the PS favoured a shift towards a social security system, given that the share of revenues coming from the social insurance scheme was relatively low and it could easily be absorbed by the state budget over the next few years.

Figure 3.3 OOP and government expenditure (% of total health expenditure)



Source: World Bank data 2016

As mentioned also above, other priorities of governments of different colours since 1992 have been decentralisation of competences and privatisation of certain healthcare services. Although these have been continuously considered a matter of great importance, reforms in this regard have been slow and fragmented, resulting in unclear institutional responsibilities and hence low accountability (Balaj, 2021). Today, the health system in Albania remains mainly public, with the Ministry of Health as major funder and provider of healthcare services in the field of health promotion, prevention, diagnosing and treatment (USAID, 2014). The private sector is still in its infancy, mainly covering the pharmaceutical service, vision and dental service and some clinics and hospitals mainly located in Tirana (USAID, 2014).

4. Three Decades of Institutional Change: Comparing Pensions and Healthcare

The economic and political transition in the late 1980s paved the way for a neoliberal social policy agenda in CEE countries, also sponsored the main international financial institutions (Haggard and Kaufman, 2008). Inspired by the success of the pension reform in Chile in 1980, the World Bank supported neoliberal recipes around the globe (Orenstein, 2000), typically favouring the reduction of redistributive elements and reinforcement of the links between contributions and benefits in social insurance schemes, as well as privatisation and marketization of pension and healthcare systems. These reforms aimed at transferring financing and provision of social services from the public to private sector as well as shifting costs and risks from collective to individual responsibility. In order to avoid the problem of financially unstainable public pensions, the World Bank's "new-orthodoxy" suggested a shift towards a "multi-pillar" pension system, in which the public pillar is partly replaced with mandatory private retirement savings accounts (World Bank 1994c). Likewise, deregulation and privatisation of medical services were seen as means for both limiting the role of government and improving the quality of the public sector by increasing competition (Haggard and Kaufman, 2008).

Therefore, in the early 1990s, a shift towards more neoliberal welfare solutions was seen by many post-communist governments as particularly beneficial because they were convinced that such reforms would bring significant long-term fiscal and macroeconomic gains (Domonkos and Naczyk, 2013). Supporters of such new orthodoxy claimed that the transition towards a multi-pillar system would increase long-term saving and investment as well as encourage capital market development, resulting in greatly improved macroeconomic growth (James and Brooks, 2001). Moreover, pension privatization was expected to result in a restriction of the role of the state in old-age security and a reduction of public spending in the long-term (Müller, 2007). Thus, between the mid-1990s and the early 2000s, a significant number of countries in Central and Eastern Europe introduced multi-pillar pension system, where the public pillar is combined with the private pillars – mandatory and voluntary (Müller, 1999; Orenstein, 2008; Brooks, 2009; Guardiancich 2013). Hungary in 1998 and Poland in 1999 led the way; Bulgaria, Latvia, Estonia,

Croatia, Russia and Kosovo introduced funded pension pillars between 2000 and 2002, which were followed by Lithuania in 2004, Slovakia in 2005, Macedonia in 2006 and Romania in 2008.

Regarding healthcare reforms, the financing of the public sector shifted from the general taxation to social insurance contributions, starting with Hungary, Czech Republic and Estonia in 1992, followed by Lithuania in 1996, Poland and Romania in 1997, Bulgaria in 1998 and Slovakia in 2003. In addition, the post-communist governments also introduced partial privatization of healthcare costs through user fees and co-payments for medical practices (Popic & Schneider, 2018).

Although economic and demographic challenges were similar (cf. chapter two), contrary to other post-communist countries the Albanian government did not adopt the new pension paradigm, neither did it follow the World Bank's recommendations in the case of healthcare. As illustrated in chapter three, the Albanian post-communist pension and healthcare systems underwent three waves of reforms.

During the *first wave (1991-1994)*, the long-term goal was to transform both the pension and healthcare into a Bismarckian social insurance system. Consequently, the 1993 pension reform conditioned benefits upon payment of contributions, introducing employee-employer contributions. Similarly, in 1994, the healthcare system shifted from the Semashko to a Bismarckian model, with the introduction of a health insurance scheme, which would regulate the financing of public healthcare. This law determined that the subjects responsible for health insurance contributions were economically active persons. Therefore, in both fields the initial step was the introduction of insurance schemes in the early 1990s, in order to align coverage with employment and link benefits with contributions.

However, as argued above, despite the initial aim to link benefits with contribution in both sectors, during the early 1990s both pension and healthcare systems were "adjusted" in accordance with the difficult economic and social situation that the country was facing. As such, health insurance would initially cover only the pharmaceutical sector and the services provided by the family doctors and GPs and it was expected to extend gradually in the following years, whereas the rest of the services would continue to be covered by the government through general revenues (MoH). In addition, the government would

contribute on behalf of vulnerable groups. This was intended to be a transitional social assistance measure until the economic situation recovered. Thus, even though the government had opted for a healthcare insurance system, de facto the healthcare system presented a mixed model combining social insurance and social assistance provisions, with the state contributing on behalf of economically non-active groups. Similarly, in the field of pensions, the social insurance contributions for farmers would be subsidized by the government until the economic situation recovered. All these measures stood in contrast with the ongoing deficit that both pension and healthcare systems were facing in the early 1990s (Table 3.24).

Table 3.24 Pension and healthcare systems: key data 1993-2016

	Expenditure as % GDP		Deficit of the insurance scheme		State budget contributions as % of total contributions	
Year	Pensions	Healthcare*	Pensions [a]	Healthcare	Pensions	Healthcare
1993	4.9	3.9	1.2	n.a.	29.8	n.a.
1994	4.8	2.8	- 0.2[b]	n.a.	42.4	n.a.
1995	5.1	2.4	0.5	-0.1[b]	30.2	0.0
1996	5.3	1.9	0.4	0.1	30.3	18.7
1997	5.6	1.6	0.6	0.2	31.4	40.9
1998	5.7	1.5	0.3	0.3	30.1	47.3
1999	5.6	2.0	0.2	0.3	29.3	47.9
2000	5.8	2.7	0.6	0.2	28.6	37.0
2001	5.9	2.7	0.7	0.2	28.5	39.5
2002	6.0	2.7	0.7	0.2	26.5	42.1
2003	6.0	2.6	0.8	0.3	25.6	41.5
2004	6.0	3.1	0.6	0.4	24.6	50.5
2005	6.1	2.7	0.6	0.5	24.7	54.4
2006	6.2	2.6	0.8	0.3	23.7	42.9
2007	6.3	2.7	1.4	0.5	20.0	51.2
2008	6.1	4.1	1.2	0.5	20.0	49.2
2009	6.4	4.1	1.8	1.5	17.0	76.2
2010	6.4	4.5	2.1	1.5	16.3	74.4
2011	6.6	4.3	2.1	1.6	15.6	77.2
2012	6.7	4.1	2.3	1.7	15.7	77.1
2013	7.1	4.3	2.6	1.7	15.8	75.8
2014	7.4	4.4	2.3	1.7	13.9	74.9
2015	7.5	4.4	2.6	1.6	14.2	72.5
2016	7.8	4.4	2.7	1.7	12.2	69.8

Note: * WHO database (Domestic general government health expenditure (GGHE-D) as percentage of gross domestic product (GDP) (%)) available at:
https://apps.who.int/gho/data/node.main.GHEDGGHEDGDPSHA2011?lang=en
[a] Pension deficit is higher if we consider that the government is subsidising 85% of farmers' contributions.
[b] These values refer to surplus.
Source: Ministry of Finance and FSDKSH data

Yet, in both policy fields the long-term objective was to convert them into a Bismarckian insurance model, in which benefits would rely entirely on contributions paid. In order to achieve this aim, additional regulation was needed in both pension and healthcare systems. Therefore, during the *second wave of reforms (1995-2013)*, the government's priority was to implement measures in order to convert both pension and healthcare systems into the social insurance model.

As anticipated above, the implementation phase displayed the limits of the Bismarckian insurance approach in both fields. On the one hand, the collection of social contributions was severely constrained by high labour market informality, high unemployment levels and low tax compliance. Since only a limited share of economically active persons was paying contributions, both pension and healthcare system were facing severe fiscal problems. On the other hand, due to high poverty levels, there was a need to cover the most vulnerable groups and existing social insurance schemes proved to be ineffective in terms of protective capacity.

Therefore, despite government's original aim to reduce healthcare funding from the state budget, as illustrated above, government healthcare expenditure as a share of total healthcare expenditure remained constant over the years, averaging around 38% of total healthcare expenditure in the last two decades. Moreover, as neatly outlined in table 3.24, state budget transfers as a share of total social insurance contributions in the health insurance scheme have increased in the last decade, up to around 70% of total healthcare revenues. By contrast, we see the opposite trend in pensions, with government contributions decreasing throughout the years, reaching 12.2% of total pension insurance revenues in 2016. Actually, if we do not consider government's contributions on supplementary and special pensions, this share becomes 2% of total contributions (SII data, 2016), corresponding to government's subsidy for the agriculture sector, which will decrease even further with the unification of the urban and rural pension schemes.

In other words, the institutionalisation of the social insurance approach in the field of healthcare failed. If we look at funding, although state budget transfers into the health insurance scheme were originally intended to be as a transitional measure, since this funding continued and it was increased over the years, it was made structural by the end of the second wave. As we will see in chapter five, this was a turn towards social security in the last wave of reforms. On the contrary, in the field of pensions, by the end of the second wave the system remained anchored to social insurance approach, even though the state continued to subsidize on behalf of the agriculture sector, a measure which was eventually eliminated in the third wave.

The *third wave* started in 2013. The main aim of reforms adopted in the third period was to address the limits of the insurance approach emerged during the second wave and build

a pension and a healthcare system that would ensure both *fiscal sustainability* and *social adequacy*. The pension reforms in this period aimed, on the one hand, at "rationalizing redistribution" in pensions (Myles & Pierson, 2001) so that future benefits will more closely reflect past contributions; on the other hand, they aimed at introducing more explicitly redistributive social assistance pensions in order to prevent those who did not qualify for the old-age pensions (from the social insurance scheme) from falling into poverty. In other words, the existing social insurance system underwent a parametric reform that conditioned benefits upon payment of contributions and tightened eligibility conditions. At the same time, the government extended the coverage to the poor, with the introduction of a means-tested social assistance pension. In the field of healthcare, the government's solution to above mentioned challenges was to complement social insurance with a social security approach, providing universal coverage to every resident free-of-charge and financed through the state budget.

To sum up, both the pension and healthcare systems failed to shift to insurance-based approach only. Even though the 2014 reform achieved the goal of linking benefits to contributions in the field of pensions, at the same time the government introduced a means-tested social pension to every resident above the age of 70 without sufficient contribution records. Differently, the attempts to convert the healthcare system into a Bismarckian system did not only fail: actually, the 2013 government strategy aimed at (partly) reversing the healthcare model, by prompting the shift to a social security system. Currently, the pension system differs from healthcare in terms of coverage, financial method and benefits as outlined in table 3.25 below. The public pension system is a mixed-occupational system (Ferrera, 1993), composed of two tiers. The first tier is a social assistance scheme financed by the state budget, which provides means-tested benefits to every resident above the age of 70 who does not meet the requirement for old-age pension benefits. The second tier is an insurance scheme financed through employer-employee contributions, which provides earning related pension income to the insured workers after reaching the statutory retirement age.

Differently, the public healthcare system consists of a social security scheme and a social insurance scheme, with the latter heavily subsidized by the state. A basic healthcare package, financed by the state budget, is offered free of charge to every resident. For

additional healthcare services the economically active population has to pay contributions – otherwise they have to pay the official fees-for-service – whereas, the state contributes on behalf of the inactive population.

Table 3.25 Pension and healthcare system change from Communism to date

	Communism	**1993**	**2014**
Pension System			
Model	***Centralized Soviet model.*** *(employment related)*	***Social insurance model.***	***Mixed-occupational model:*** *First tier: social assistance* *Second tier: social insurance*
Financing	State budget + employer contributions.	Contributions (long-term goal). *(finalised in 2014)*	Contributions (social insurance) State budget (social assistance).
Coverage	Employment related.	Those who contribute.	Contribution related (social insurance) Means-tested (social assistance).
Healthcare System			
Model	***Centralized Soviet model.*** *(universalistic).*	***Social insurance model.*** *(long-term goal).*	***Mixed-universalistic model:*** Social security + social insurance
Financing	State budget.	Contributions *(long-term goal).* *(finalised in 2013)*	Social security: *state budget* Social insurance: *- contributions from active pop.;* *- state budget (non-active; PHC; hospital care).*
Coverage	Universal.	Those who contribute.	Some basic packages free for everyone. The rest of the services based on contributions.

Source: Author's elaboration

CHAPTER IV

WELFARE STATE DEVELOPMENT AND CHANGE: LITERATURE REVIEW, RESEARCH GAPS AND THEORETICAL FRAMEWORK

1. Introduction

The theoretical and empirical literature on comparative welfare state development has been deeply engaged in explaining the emergence, expansion and retrenchment of social protection programs in developed capitalist democracies. After the fall of Communism many scholars started to explore the development of welfare states in Central and Eastern European (CEE) countries as well. However, as argued in chapter one, the Albanian welfare system has so far received partial, unsystematic scholarly treatment, and there are currently no studies that analysed the drivers, as well as the politics, of welfare reforms.
Against this backdrop, this chapter aims at developing a theoretical framework to interpret social policy change in the fields of Albanian pensions and healthcare and, thus, ultimately provide an answer to the main research questions underpinning this study.
To this purpose, this chapter reviews the main strands of theoretical literature on comparative welfare state development and change – functionalism, power resources theory, neo-institutionalist and partisan politics – also highlighting their main limitations to explain welfare restructuring in post-communist countries in the 1990s and beyond. Actually, in contrast with Western European countries, welfare state development in post-communist countries in the 1990s did not only imply the adoption of *retrenchment* and *restructuring* measures, but also a process of *institutional creation*. Thus, existing research in this region tried to reconcile different approaches, which consider historical legacies, institutional settings and actor interactions as determinant factors for the development and creation of new welfare institutions.
The chapter is organised as follows. Paragraphs two to five provide an overview of strengths and limits of the most relevant theories on welfare development and change in

Western European countries – respectively, functionalism, power resource theory, partisan politics and neo-institutionalism.

Subsequently, paragraph six elaborates on the main limitations of functionalism, power resource theory, classical partisan politics approach and historical institutionalism in understanding social policy change in the post-communist context.

Based on this literature review, the seventh paragraph argues that a single consolidated theory cannot be used systematically to explain the social policy development and change in the Albanian case. The main problem in this regard is the long time-frame composed of three very different phases: the transition toward democracy and market economy (1991-1994), the process of democratic consolidation and economic stabilization (1995-2013); and, the completion of the transitional period (2013 onwards). It thus introduces an actor-centred institutionalist approach, elaborating on the interplay between the "Three I's", namely, institutions, ideas and interests, as a broad theoretical framework. The last paragraph discusses the application of the three I's framework to the Albanian case.

2. Functionalist Theories

Functionalist theories link the early origins of welfare commitments to the functional requirements of industrialisation and related political demands (Stephens, 1979). Hence, Marshall (1950) sees the emergence of social rights as a gradual and sequential evolution from the previous granting of civil and political rights, which enable the citizens to equally enjoy the previous two sets of rights, by mitigating the inequalities generated by market economies. Akin to Marshall, many functionalists argue that industrialization requires the creation of welfare institutions in order to counterbalance the expansion of capitalist markets which had weakened the traditional social safety nets, such as church and family (Pryor, 1969; Flora and Alber, 1981). Moreover, other scholars add that capitalism did not only engender the need for the welfare state but also provided the material conditions necessary for its construction: industrialization led to higher productivity, which in turn created more wealth, therefore, the conditions were ripe to move resources from production to social protection (Wilensky and Lebeaux, 1958).

The so-called "logic of industrialisation" theory builds on such arguments, seeing social policy as response to the functional demands generated by the transition from agriculture to industrialism, associated with subsequent economic growth that provided the necessary resources for expanding social protection programs and expenditure (Wilensky and Lebeaux, 1958; Wilensky, 1975; Gough, 1978; 1979). In this perspective, all industrialized countries – regardless of their historical and cultural traditions or present political and economic structures – become similar through an evolutionary process resulting from the impact of economic and technological growth on the occupational system (Quadagno, 1987). In other words, functionalists objectify all processes within society – claiming that they do not depend on political preferences – and see policy developments as a "passive" response to social or non-social "forces" (Gough, 1978, p. 37).

Their central hypothesis is that public policies are easily and inevitably subject to change, and their change is prompted by transformations in other sub-systems i.e. spill-over effects of changes in the economy, modes of production and related processes. According to functionalists, the main drivers of welfare development and change are socio-economic factors, and they actually argue that countries that share *similar* levels of economic development and demographic change, develop *similar* social policies. These studies connect welfare state expansion to the "Golden Age" of post-war prosperity. Hence, relying on cross-sectional data for sixty-four countries, Wilensky (1975) argues that neither political ideology of governments nor the type of economic system is able to explain the origin and the differences in welfare state expenditure in rich countries. Rather, he concludes that economic growth and its demographic and bureaucratic outcomes are the root cause of the general emergence of the welfare state (Wilensky, 1975, p. xiii).

Even though it is difficult to imagine welfare state expansion in the 1960s in the absence of the post-World War II economic growth, critics (cf. Ferrera 1993; Myles and Quadagno 2002) argued that this theory failed to explain *differences* in policy outputs and institutional settings in countries that had similar economic conditions and socio-demographic changes. Similarly, in Graziano and Jessoula's (2018) words, Wilensky's argument "*may be convincing in terms of the quantity of welfare state provisions, but not*

satisfactory in understanding the quality (...) available in different European western states" (p. 13).

In addition, functional pressures do not provide an explanation regarding the scope and the direction of policy change that started to occur with the European integration, globalisation and the transition from a male-breadwinner[41] industrial economy to a dual-earner post-industrial context. In fact, European policy-makers responded very differently to the emergence of "new social risks"[42], related to high rates of temporary or long-term unemployment, the spread of atypical and female employment, change in size and composition of families, mounting demands for individualization and gender equality – in a context characterized by a limited capacity of welfare systems to deal with these challenges due to financial constraints (Esping-Andersen, 1999; Taylor-Gooby, 2004; Bonoli, 2005; Hemerijck, 2012). Therefore, in order to understand the scope and the direction of policy change, attention should be paid to the political and institutional dynamics, which typically filter functional pressures. In particular, the power resource theory emerged in response to functionalism, emphasizing the importance of agency and politics in explaining social policy choices.

3. The Power Resource Theory

Rather than focusing on the economic structure and resulting functional imperatives, the power resource theory (PRT) stressed the role of agency in explaining the emergence and subsequent expansion of welfare state systems: in this interpretation, key is the balance of power between capital and labour in the "democratic class struggle" which characterizes the advanced capitalist countries (Stephens, 1979; Korpi, 1983; Esping-Andersen, 1985).

[41] During the Golden Age, social protection programs were in accordance with nuclear family structures, with women taking care of children and the elderly, and, breadwinner job security for men (see Esping-Andersen 1990 for a broader view).

[42] Bonoli, as many other scholars, relates the rise of the new social risks to the socio-economic transformations that come with the transition towards the post-industrial societies: the tertiarization of employment and the massive entry of women into the labour force. Within the range of new social risks, he includes: work-life imbalance, single parenthood, long-term care, possessing low or obsolete skills and insufficient social security coverage (see Bonoli, 2005: 433-435).

According to this theory "politics-matter", and ideology becomes an important explanatory factor. Scholars in the PRT see welfare state creation as a result of working-class power and influence on social policymaking through an "alliance" between strong left-wing parties (typically social democratic) and powerful trade unions (Stephens, 1979; Korpi, 1983). The argument runs as follows: once in government, left-wing political parties can be instrumental in countering the power of the capitalist class, laying the basis for the construction of social protection schemes that, in turn, can empower the working class, providing them with the material conditions necessary for collective action and, consequently, class mobilization.

Based on a similar line of reasoning, Korpi (1983) explains the divergence in welfare state development in the OECD countries, focusing on different distribution and strength of working-class power resources. Building his argument on three main assumptions – i) the socio-economic cleavage is the most important basis for both social conflict and party system structure; ii) the working class and the capitalist class stand for these conflicting interests; iii) there is no goal displacement between social class and organizational representatives – he explains social policy development as result of the democratic class struggle, where parties that represent the interest of the working class move the struggle for distribution into the political arena, in order to use their strength more effectively (Korpi, 1983, p. 170). The strength of the working class is measured along three dimensions: trade union density, degree of centralisation and unity of unionised labour force and existence of labour parties able to achieve and maintain power for a relatively long period (Olsen, 2002). In this fashion, power resource scholars argue that countries with strong left-wing parties, powerful trade unions and significant working-class presence in the decision-making process have developed more generous as well as more redistributive welfare states than those with strong right-wing parties.

Esping-Andersen (1985) also supported such an argument, which, however, initially failed to explain a fundamental historical case that could weaken such thesis. If mobilization of the working class is the crucial element that led to welfare state formation, it is unclear why the first social policies and assistance schemes were introduced by reactionary politicians in non-democratic regimes, such as Chancellor Otto von Bismarck in Imperial Germany. Subsequently, Esping-Andersen (1990) clarified that the first social reforms were introduced in authoritarian states, precisely to prevent class mobilization.

4. Classical Partisan Politics

According to the classical partisan politics approach, political parties represent the interest of their social constituencies and policy output depends on partisan composition of governments (Hibbs, 1977; Hewitt, 1977; Castles, 1978; Schmidt, 1982). This literature offers insights about parties' preferences and the kind of change they seek to establish once in power. Thus, this approach theorizes that left-wing political parties represent the interest of the working class, and therefore advocate more generous welfare policies in order to diminish inequalities produced by markets. On the contrary, right-wing parties represent high-income voters, who demand lower levels of taxation, are in favour of reduced public sector and aim to limit welfare expenditure.

Subsequently, Van Kersbergen (1995) included in this analysis the role of state-church cleavage through conservative parties which, given their strong support to traditional family values, defended the stability of primary solidarity networks. Following the same line of argument, this approach also explains welfare retrenchment since the 1970s, arguing that political parties are main actors in the policy-making and party composition and the ideological profile of governments are important in explaining policy choices (Hicks, 1999; Huber and Stephens, 2001; Korpi and Palme 2003; Allan and Scruggs, 2004). In fact, according to this approach, we would expect an incumbent left cabinet to protect existing welfare entitlements and commit to values of equality and solidarity, whereas right-wing governments would favour market-oriented reforms, welfare retrenchment and lower taxes.

However, empirical evidence has shown that both left and right-wing parties have been involved in welfare retrenchment policies. Actually, Schludi (2005) argued that in electoral terms, it may be easier for leftist governments to curtail welfare entitlements. Likewise, underlying the "Nixon-goes-to-China" thesis, Ross (2000) argued that voters are more likely to believe that the welfare state needs to be reformed if the message comes from a left-wing party, since left parties have traditionally been associated with the promotion of social programs. Consequently, leftist governments may be subject to fewer accountability pressures due to their pro-welfare image (Ross, 2000). Moreover, leftist

parties are more likely to cooperate with trade unions, thus creating a stable political ground for welfare reforms.

5. Neo-Institutionalist Theories

The main challenge to the PRT came from neo-institutionalism, which dominated the debate on welfare state development – especially retrenchment – in the 1990s and 2000s. It argues that the oil shock in 1973 brought the Golden Age to an end, as consequence, the direction of social policy development started to change due to exogenous factors, coming from the internal nation-state environment, namely changes in socio-economic structures; and, the environment external to the nation-state, such as globalisation and European integration (Ferrera, 2008). These challenges opened a new phase of welfare development, known as the "silver" age of permanent austerity, in which welfare politics shifted from expansion to retrenchment.

In this vein, in his seminal work on *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment,* Paul Pierson (1994) argued that while the power resources approach was fruitful in understanding welfare state expansion, it cannot explain retrenchment after the mid-1970s, because the latter occurs in a different context and has different policy goals. According to Pierson, welfare state retrenchment is assumed to be a distinctive process, reflecting the "new politics" of the welfare state, which is likely to follow new rules and involve new types of interest groups – such as pensioners, the disabled and health care consumers – which make the welfare state less dependent on political parties, social movements, and labour organizations that expanded social programs in the first place (Pierson, 1996). Moreover, he argues that the politics of retrenchment differs from the political process underpinning welfare state expansion. In the former politicians seek to "avoid blame" rather than "claim credit", because retrenchment policies are unpopular and politicians have to cope with the "negativity bias"[43] among dense networks of interest groups ready to defend the *status quo* (Pierson, 1996). As a result of these factors, retrenchment is likely to be a relatively marginal

[43] Individuals will take more chances – seeking conflict and accepting the possibility of even greater losses – to prevent any worsening of their current position (Pierson, 1996, p. 146).

phenomenon, and according to Pierson this explains why the social policy record of Reagan and Thatcher had not lived up to the high expectations, even though both of them were willing to cutback the welfare state. Therefore, challenging the PRT, neo-institutionalists argue that "institutions matter" because they create major constraints and opportunities that affect the behaviour of the actors involved in the policy-making process (Pierson, 1994; Orenstein, 2005; Steinmo, 2008).

Within neo-institutionalist theories, however, it is important to distinguish between two different strands which point at two different types of "institutions" as *explanans,* or independent variable: the first strand looks at *political institutions*, which can be defined as constitutional rules that shape actors interests, goals and opportunities and structure outcomes of the policymaking process (Steinmo et al., 1992; Immergut, 1992; Bonoli 2002; Steinmo, 2001; Streeck and Thelen, 2005); the second focuses on public *policies*, conceptualized as independent *institutional structures* that constrain and orient behaviour, able to reproduce and transform themselves in a relatively autonomous way (Esping-Andersen, 1990; Pierson and Weaver, 1993; Pierson, 1994).

Many scholars have centred their analysis on the importance of political institutions – understood as both formal and informal rules – in shaping the behaviour of political actors and the policy-making process as well (Weaver, 1986; Huber et al., 1993; Immergut, 1992; Hicks, 1999; Brooks, 2002; Tsebelis, 2002). The basic assumption of this approach is that institutions are prerequisites for organized politics since politics can only exist if there is an institutional context in which it takes place (Immergut, 1992; Steinmo et al., 1992). According to Immergut (1992) political demands cannot be understood without attention to the institutional rules that allow these demands to become visible and politically significant. She argues that existing institutional rules shape policy preferences and the capacity of groups to act on those interests. In addition, Immergut (1992) argues that institutions define who the relevant actors are, their roles in the policymaking process and modes of negotiation to solve conflicts. Accordingly, she introduces the concept of "veto points" defined as *"points of strategic uncertainty where decisions may be overturned"* (Immergut, 1992, p. 27). According to her theoretical apparatus, in order to define the veto points in one country we have to look both at constitutional rules and electoral results. While constitutional rules grant the power of veto – i.e., an actor or a group of actors in the political system that have the power to block or enable any change

from the *status quo* – electoral rules and dynamics of political competition define the types of electoral majorities that are produced. Focusing on the impact of constitutional structures, Immergut (1992) explains in a comparative perspective the politics of national healthcare insurance in France, Sweden and Switzerland. She argues that healthcare politics depends on the dynamics of political contestation between executive and parliament (the French case); the availability of referendum creates opportunities to prevent the adoption of new legislation if strong interest groups oppose such policy (the Swiss case), whereas concentration of power in the executive makes the establishment of a national health service easier (the Swedish case). Therefore, if institutions in place give the government the possibility for unilateral decision-making – i.e. it has enough parliamentary seats to put forwards its proposal – the average interest group has little chance of stopping the legislation (Immergut, 1992, p. 29).

To sum up, this theory argues that political institutions shape behaviour by constraining or expanding opportunities for policy change. Neo-institutionalists thus explain the differences in social policy trajectories across different countries by focusing on variations in national political institutions. These studies argue that the concentration of political power (single chamber legislature with cohesive single party majorities) increases the likelihood of welfare state retrenchment because there are fewer veto points which can block policy change (Huber et al., 1993; Bonoli, 2000; Huber and Stephens, 2001). On the contrary, in fragmented political systems (federalism, presidentialism, bicameralism and availability of referendum), the likelihood to enact welfare state retrenchment is lower due to multiple veto points.

5.1 Historical Institutionalism

In contrast with previous literature, for historical institutionalists the role of political institutions in welfare state retrenchment is more difficult to capture as well as less linear. Pierson and Weaver (1993) argue that the concentration of power in the executive makes retrenchment actions more visible, and dissatisfied voters would thus easily know who to blame for unpopular cutbacks (see also Weaver, 1986; Pierson, 1994). Assuming that voters react more to losses (cuts in social benefits) than to gains (lower taxes) – as the former constituency tends to be more concentrated and often better organized, whereas

the latter is widely dispersed – they claim that it is risky for office-oriented politicians to promote welfare retrenchment if they want to be re-elected. On the contrary, in fragmented political systems, politicians may successfully adopt retrenchment policies by pursuing blame avoidance strategies – such as spreading responsibility among as many policy-makers as possible, or "passing the buck", deflecting the blame by forcing others to make politically costly choices (Weaver, 1986). As a conclusion, Pierson and Weaver (1993) argue that politico-institutional structures alone cannot explain why and how a retrenchment reform is adopted because the relation between the concentration of power, accountability and the likelihood to pass a reform is not linear.

They put at the core of their explanation the influence exerted by welfare state institutional structures, labelled as "policy legacies", which are the consequence of previously introduced welfare state programs (Pierson, 1994; 1996). According to this approach, known as *historical institutionalism*, previous *policies*, seen as *institutions*, determine field specific political dynamics (Pierson, 1994). Policy processes are developed in continuity with the past, in which past decisions and policy settings become themselves institutions with respect to actual decisions. Pierson argues that feedback mechanisms from previous political choices constrain future policy options because the costs of deviation are higher than the costs of continuity: this is captured by what economists call "increasing returns", implying that the cost of switching from one alternative to another increases over-time (Pierson, 2000). In turn, increasing returns generate self-reinforcing positive feedbacks, i.e., the benefits of the current policy setting increase over-time. In other words, existing commitments "lock-in" particular paths of policy development, by generating institutional routines and procedures that force decision-making in particular directions and determine both the extent of change and the type of change that may be possible (Pierson, 1994; 1996; 2000).

Moreover, according to Pierson past policies affect the strength and mobilization of interest groups (welfare beneficiaries) as well as the ability of policy entrepreneurs to help latent groups overcome their collective action problems. He argues that by the time politics of austerity began to emerge in the mid-1970s, welfare state expansion had produced its own constituency in the form of a number of strong interest groups recipients of various benefits – pensioners, the disabled, health care consumers – but also providers of public services which were usually well organized and ready to mobilize against

possible changes and moves away from the status quo. His argument can be summed up around three key elements that contribute to welfare state resistance to change: welfare state *popularity*, which leads to *institutional stickiness* and therefore, *path dependence* (Pierson, 1996). Consequently, any retrenchment policy risks severe electoral punishment and thus, even right-wing parties cannot severely cut back the welfare state.

However, Pierson argues that retrenchment is feasible in situation in which policy-makers are able to avoid blame through strategies such as: obfuscation, by diminishing the visibility of negative effects and obscure the link between the negative effect and public policies; *divide et impera*, by dividing their potential opponents, and; compensation, offering side payments to compensate those adversely affected for their losses (Pierson, 1994). In addition, the government can diffuse the blame for unpopular cuts by reaching negotiated agreements with opposition parties or social partners (even referenda requiring the consent of the "people") (Myles and Pierson 2001). However, the need for broad consensus diminishes the potential for radical reform (Pierson, 1996). Therefore, institutional development follows a pattern of punctuated equilibrium, in which long periods of stability or marginal, gradual and incremental path dependent change are punctuated by sudden and rapid moments of institutional transformation.

According to historical institutionalists, institutional innovation is considered very rare and it is attributed to exogenous shocks in so called "critical junctures" (Collier and Collier, 1991; Capoccia and Kelemen, 2007; Capoccia, 2015) such as wars or economic crisis that alter external conditions and open up opportunities for change. In these studies, critical junctures indicate the very formative phase of institutions; therefore, a close analysis of political choice and decision-making at this particular moment is needed in order to define the range of historically available alternatives and the political dynamics that lead to institutional path selection.

Indeed, historical institutionalism has proved very effective in explaining stability, continuity or gradual and incremental welfare change. However, as argued by several scholars (cf. Jessoula, 2004; Streeck & Thelen, 2005; Jessoula, 2009), it is not very effective in explaining "path departure", "path shift" or "path breaking" reforms. Adopting an interpretative framework that assigns a more prominent role to "agency", Jessoula (2009) maintains that the institutional evolution of public policies always depends on decisions taken by social and political actors *within* the *constraints* but also

the *opportunities* provided by existing institutional/policy configurations. In other words, institutions by themselves operate simply as "signals" of the possible alternatives against the background of the existing structures: their binding force – and, thus, institutional resilience – depends, however, on the interests attached to them, as well as on the relative strength of the groups carrying these interests (Jessoula, 2009). In fact, Jessoula argues that institutions should not be seen only as constraints but also as opportunities for change, as it emerges in cases when actors exploit the presence of an "institutional gate"[44] – i.e. an institution less resistant to change – in order to pursue substantial policy change. Similarly, Ferrera (1993) introduced the notion of "institutional wedge", arguing that even partial or accidental institutional configuration changes can have unintended consequences that might alter the structure of constraints and opportunities and, thus, open new possibilities for action and institutional change.

To sum up, even though institutional dynamics are important, they are not sufficient to explain the specific characteristics of social policy reforms or within-country divergence between different social policy programs. Focusing only on institutions can hardly account for what is driving policy change in the first place, therefore, attention should be drawn on actors' possibility of action within the structure.

6. Welfare State Change and Drivers of Reforms in Post-Communist Countries: A Literature Review

As argued in chapter one, existing research on the Albanian case does not identify the main drivers of social policy reforms and it mostly focuses on the policy outcomes, whereas no studies addressed the "why" question, i.e. policy output. Thus, this paragraph addresses the broader literature on welfare state change in former communist countries. The aim of this paragraph is to move from West to East in order to assess whether the theories discussed above are effective in interpreting reforms in the post-communist context. The aim is to assess to what extent this literature is relevant to address this thesis'

[44] Jessoula (2009) argues that the presence of the employee severance payment (TFR) acted as an institutional gate that facilitated the shift of the Italian pension system into a multi-pillar system. The government used the TFR to overcome the problem of "double payment" and scarcity of resources and finance supplementary funded pillars.

research puzzles, in order to make a step towards a potentially fruitful theoretical framework which will be elaborated in the final paragraph.

6.1 Functionalist Theories

The literature on post-communist social policy reforms that takes a functionalist approach argues that policy change was shaped by countries' economic situation. This theory is closely related to the traditional literature on the welfare state and especially the "logic of industrialism" approach (Wilensky, 1975). Scholars see policy-making in post-communist countries as driven by the severe financial costs of the economic transition and the "imperatives" of world economy (Deacon et al., 1997; Müller, 1999). Consequently, policy-makers, regardless of their ideological colour, are forced to adopt neo-liberal packages in different policy areas. In line with the logic of industrialism, this theory predicts that the countries with greater economic problems – larger external debts, bigger budget deficits, higher unemployment – will be more likely to cut social programs (Müller, 1999). Indeed, Armeanu (2005) acknowledges that fiscal constraints provide an effective explanation of welfare state reform, arguing that governments would engage in unpopular reforms only if forced by some kind of crisis.

However, she argues that this theory faces the same limitations as the traditional version of functionalism: it fails to explain the differences in social policy development in countries with similar economic conditions and socio-demographic changes. Even though post-communist countries shared similar economic and socio-demographic challenges, they followed rather different reform paths: some countries such as Poland and Hungary undertook neo-liberal social policy trajectories, whereas others like Czech Republic and Slovenia were more conservative. Accordingly, Kitschelt (2001) points out that fiscal constraints cannot account for the divergence between social policy changes, as they represent only the demand side of reform – or, better, what we may call "problem pressure" (i.e. functional pressure). He argues that the need for policy change does not automatically provide the supply of that policy: thus, we should pay attention to political institutions and actors in order to understand the direction and scope of policy change. Esping-Andersen (1990) adds that economic theories ignore the internal structure of welfare state programs, suggesting that a detailed structure of individual programs is as

important as aggregate spending in assessing the welfare state. Drawing from Esping-Andersen's argument, we can argue that even though Albania was facing severe financial problems, the welfare state survived – as compared to other post-communist countries which partly privatised their social programs; however, the internal structure of different social programs took divergent paths. As such, as argued in chapter three, although the communist systems of pension and healthcare were replaced in the early 1990s with social and healthcare insurance principles respectively, recent reforms have moved the pension system towards a "mixed-occupational" model, whereas the healthcare system towards a "mixed-universalistic" model. Such policy divergence across the two selected fields is hard to be explained by focusing on functional pressures only. In order to understand the actual content of reform and related policy change we should pay attention to political institutions and actors, which typically filter "remote" functional pressures.

The policy diffusion approach

Adopting a broad functionalist approach, a major part of the literature on post-communist countries also identified a wave of *policy diffusion*, arguing that financial costs and country's economic problems – large budget deficits, high external debt and rising unemployment levels – have in turn triggered powerful international actors in the policy-making process (Deacon, 1992; Holzmann, 2000; Orenstein, 2000; Deacon and Stubbs, 2007; Ymeraj, 2007; Xhumari, 2010). This debate focuses on the role of international actors to explain social policy development in the CEE countries, claiming that parties in power were severely restrained in their policy decisions by international and economic forces beyond their control. This strand of literature, also known as *policy diffusion* or *policy drawing* approach, is primarily focused on the processes of the policy change related to the phenomenon of supranational interdependence and integration, as a result of globalisation – or Europeanisation. It argues that the severity of the fiscal crisis, the extent of the external debt and lack of expertise in the field allowed the entrance of international actors into domestic policy-making processes. Based on the assumptions that policy solutions are not always available to policy-makers in time of crisis and that crisis is not a sufficient condition for policy innovation, it argues that national social

policy choices are influenced by "successful" international models (Brooks, 2001; James and Brooks, 2001; Orenstein, 2000; Deacon and Stubbs, 2007). Furthermore, this approach emphasizes the interdependence among countries in terms of policy change, claiming that some countries are influenced by similar developments in peer nations, and thus, "borrow" from them policy choices. This is in line with Simon's assumption of "bounded rationality" (Simon, 1957, p. 198), according to which policy-makers rationality is limited, rather than perfect – due to uncertainty, complexity of the problem they are facing, meagre resources and incomplete information. Building on this, Hemerijck (2005) argues that actors learn and adapt their behaviour in response to information about the changing circumstances they find themselves in. One variety of "social learning" is by relying on what Hemerijck (2005)[45] calls "international benchmarking" – in which policy actors benchmark their performance in an attempt to discover new policy solutions to prevailing policy problems, using as criterion the international standards of successes, failures and best practices.

Importantly, Deacon and Stubbs (2007) explain that this process of policy transfer can be either voluntary or coerced by powerful global actors, in which the latter play an important role in shaping policy options and implementation. In this regard, Orenstein (2000; 2005; 2008) recognises a strong advocacy role of global policy actors in putting the social policy reform on the agenda, providing also the means to push forward reforms. More specifically, acknowledging the World Bank as a powerful international actor, he argues that the latter – inspired by the success of the pension reform in Chile in 1980 – helped diffuse the multi-pillar pension scheme around the globe. In other words, the World Bank was influential not only in spreading new ideas, but at the same time providing both guidelines and economic resources (policy-based conditional loans) in order to support both the adoption and the implementation of these policy recipes. Deacon et al. (1997) add that the Bank's policy guidelines were very successful not only in achieving economic objectives (fiscal stability), but also in prompting political commitments (equitable approach to social policy).

Actually, some of the most information rich and detailed case studies on Albanian welfare policy come from international organizations, which themselves acknowledge their own

[45] Hemerijck (2005) actually identifies two varieties of social learning relevant to the study of welfare reform: domestic trial-and-error lesson drawing and international benchmarking.

relevant role during the agenda setting in shaping consistent strategies in the field of social protection (see World Bank, 2007).

Indeed, the role of international factors cannot be denied: it is my contention, however, that its explanatory power should not be overestimated. In fact, according to this theoretical approach we should have seen convergence towards a single social protection model – in line with neoliberal policy recipes – between countries facing similar economic challenges. This literature implicitly assumes that political factors have little or no effect on the relationship between (international) economic circumstances and social policy, since governments respond similarly to external constraints (Haggard and Kaufman, 2008). However, empirically, we see a divergence not only between similar countries but also between different social policy domains within a country. In other words, both this argument and economic theories fail to explain the divergence that emerged over-time and between different social policies in Albania.

It will be therefore important to explore how policy models proposed by international institutions have been "filtered" and possibly "reshaped" by domestic policy legacies and "entrenched interests" (Graziano & Jessoula, 2018).

6.2 The Power Resource Theory

Focusing its analysis on advanced capitalist democracies in order to explain the emergence and subsequent expansion of the welfare state in terms of the balance of power between capital and labour – in which the latter gains power through strong left-wing parties and powerful trade unions – PRT has rather limited leverage when applied to post-communist countries.

Aidukaite (2009) argues that in communist countries the class conflict had already been solved with the abolition of private property. Even with the transition to democracy and market economy and reestablishment of private ownership, PRT still is not well equipped in explaining social policy change in Albania. The main reason is related to the fact that, similar to other post-communist countries, after the democratic transition trade unions in Albania were extremely weak, since they had lost credibility during the communist regime and there was a general negative public opinion towards them (Krasniqi, 2005). Moreover, after the fall of communism, both informal economy and unemployment

increased at fast pace, and the unions did not have the capacity to organize workers to defend their interest. Therefore, workers began to distance themselves from the unions, which in turn reduced unions' influence in policymaking process.

Another limitation regards the fact that Central and Eastern European corporatism is substantially different from the corporatist variant of advanced West European democracies and should not be confused with corporatist practices in Western Europe (Iankova, 1998; Ost, 2000; Bohle and Greskovits, 2007). In this view, Iankova (1998) argues that contrary to the Western European corporatism – which is characterized by collective bargaining agreement between trade unions and employers' associations in social and employment policies – the Eastern European type is characterized by conflictual consensus suggesting a higher degree of structural dependencies and self-interest. This distorted activity of trade unions can be traced back during the communist period, when trade unions were more involved in property distribution than in defending the rights of working people. Ost (2000) pushes the argument further, postulating that it would be rather inappropriate to call post-communist societies "corporatist", due to weak and divided trade unions, strong state dominance, and fragmented employers' organizations. Calling it an "illusory corporatism", he argues that tripartite arrangements in Eastern Europe were only a façade for introducing neoliberal policies undermining labour interests (Ost, 2000).

6.3 Classical Partisan Politics

Similar to PRT, the classical partisan politics approach mostly considers advanced capitalist democracies. However, welfare state programs also emerged in non-democratic and non-capitalist societies (Flora and Heidenheimer, 1981). Therefore, this theory is rather limited in explaining post-communist policy change. Even with the transition to democracy and market economy, and the subsequent emergence of a pluralist party system, many scholars have argued that the dynamics of political competition on social policy reforms in CEE countries differed from the Western experience, given that the former did not have a long tradition of pluralist party systems – political parties were either reformed (e.g. Communist Parties) or created in the late 1980s – and, thus, lacked clear programmatic stances on welfare policies (Welsh, 1994; Elster, Offe and Preuss,

1998; Kitschelt et al, 1999; Riishøj, 2009). Consequently, Kitschelt et al. (1999) claim that political parties – at least during the early transition phase – did not play a significant role in reforming social policies. In their study, they find out that the left-right cleavage did not constitute the main axis of political competition in post-communist countries: in fact, they argue that both elites and mass publics in these countries largely agree on basic questions of economics and social policy (Kitschelt et al, 1999). Aidukaite (2009) follows the same line of argument, adding that party systems in CEE countries are rather fragmented and programmatic differences among political parties are not as pronounced as in well-established party systems in the West. As a result, the majority of voters do not identify themselves with any of competing parties and they are disappointed with party politics, this being reflected in low turnout levels and high electoral volatility between successive elections (Elster et al., 1998; Kitschelt et al., 1999). Similarly, studying the cases of Hungary and Slovakia, Popic (2018) concludes that partisan explanations fail the empirical test since governments of different colours pursued similar market-oriented healthcare reforms. Moreover, Armeanu (2005) adds that parties, irrespective of their political colour, position themselves either against or pro-reform based on redistributive consequences of reforms – whether costs and benefits are diffuse or concentrated. Thus, she argues that political parties' influence on social policy reform ultimately depends on the strength of the interest groups they are connected with (Armeanu, 2005).

6.4 Neo-Institutionalist Theories

Institutional factors have been particularly prominent in studies of the post-communist welfare state transformation (Kornai, 1997; Brooks, 2006; Haggard and Kaufman, 2008; Inglot 2008). Advocates of a legacy-based approach highlight the importance of timing and sequence in explaining variation between policy choices. Even here, institutions are not seen only as constraints, but also as opportunities for policy change. Hence, Brooks (2006) re-examines the concept of institutional legacy, arguing that such legacies reside within two important principles, namely the normative legitimation of what is "fair" and performance expectations of what the institution can, or should, provide. She argues that when the public opinion about the existing welfare programs is dissatisfied, social programs in question lose their normative legitimacy and the institutional legacy itself

opens the opportunity for some kind of institutional revision (Brooks, 2006). Consequently, she attributes the popularity of the "new pension orthodoxy" to the existence of a widely-shared "negative consensus" against inherited pension systems (Brooks, 2006).

In a similar vein, Guardiancich (2013) argues that the old system's crisis was at the same time a legitimacy crisis, indicating that the most progressive segments of Central Eastern European societies – namely, the young, educated and those above the median income – favoured a renegotiation of the social contract, which they believed would improve the system's equity and effectiveness.

However, historical institutionalist approach faces the same limitation raised by Western-European scholars: it lacks an endogenous theory of change (Blyth et al., 2016), attributing radical institutional change to exogenous factors in so called "critical junctures" defined as moments of openness for agency and change.

Therefore, even though transition from communism to democracy and market economy can be identified as a critical juncture in which change might occur, the existence of a critical juncture does not explain why a policy alternative was chosen over another. Specifically, in healthcare both the social insurance and social security schemes were considered as possible policy solutions and the Albanian government decided to opt for the former. Moreover, focusing on external shocks does not allow explaining why such critical moments led to change in some policy sectors but not in others. Finally, a focus only on structural settings does not explain cases of radical policy change without the presence of an exogenous shock. Referring to the Albanian case, the "path reversal" in healthcare policy in 2014 was not a response to an external shock.

7. Actor-Centred Institutionalism and the "Three I's"

Besides the limitations illustrated above, a single consolidated theory cannot be applied systematically to explain policy developments in Albania for two additional reasons. First, pension and healthcare reforms took place in three very different phases. Second, analysing policy developments in these three phases, we may detect both within policy sectors deviation and at the same time the two policies deviate from one another.

Regarding the first reason, as argued in chapters two and three, even though both pension and healthcare policies underwent continuous transformations, reforms took place in three very different phases. In the first one (the early 1990s), reforms were adopted in what represented a "critical juncture", in which there was a full comprehensive transformation of contextual factors due to the "double transition" to democracy and market economy. In this period, key foundational decisions were taken in order to set both pensions and healthcare on the Bismarckian social insurance path. Differently, the second phase (1995-2013), which included the process of democratic consolidation and economic recovery, was characterized by the implementation, as well as failed institutionalisation, of the social insurance model in both policy fields. Finally, in the third phase (2013 onward) the structural conditions were completely different, in the presence of a consolidated democratic system, a structured party system and related competitive political dynamics. In this period, pension and healthcare policies diverged, with the emergence of a "mixed-occupational" pension system and "mixed-universalistic" healthcare system.

Hence, this study covers three very different periods, with two main phases of substantial institutional innovation – during the first and the third phase – and a period of implementation and limited policy changes in between. With regard to policy developments in the first phase, all consolidated theories outlined above face limitations. In a nutshell, functionalist theories represent only problem pressure and they do not allow understanding the content of policy change. The policy diffusion approach tends to ignore domestic policy-making and how reforms proposals are filtered by domestic institutions and interests. Due to the fluid as well as de-structured and rapidly changing nature of the political-institutional context illustrated in chapter two, both the PRT and the partisanship approach are ill-equipped to explain social policy development in the early 1990s. As for neo-institutionalist theory – although recent developments conceptualize institutions not only as constraints but also as opportunities for policy change – due to its pro-stability bias, such framework does not provide clear guidance to capture what happens in "critical junctures", which are peculiar moments characterized by a more fluid character of existing institutions that consequently reduce institutional/policy resilience.

Second, analysing policy developments in the three phases, we may detect both within policy sectors deviation from the original path as set in the critical juncture and at the

same time the two policies deviate from one another overtime. Hence, as shown in chapter three, both pension and healthcare systems actually failed to shift towards a fully-fledged Bismarckian social insurance model. At the same time, the two policies deviate from one another, i.e. in the third phase, the pension system changed into a mixed-occupational model, whereas the healthcare system changed into a mixed-universalistic model. Building on these empirical puzzles, this study addresses the following research questions: why pension and healthcare policies converged towards a Bismarckian social insurance model in the early 1990s? Why did the implementation of the Bismarckian insurance model fail in both cases? What explains subsequent developments towards a "mixed-occupational" model in pensions and a "mixed-universalistic" model in healthcare?

In order to address these questions and solve related empirical and theoretical puzzles, this study will adopt an actor-centred institutionalist approach, elaborating on the interplay between the "three I's": *institutions*, *ideas* and *interests*. The following paragraphs discuss the role of institutions, ideas and interests in explaining policy change respectively.

Arguing that the policy-making process does not operate in a vacuum but in a context of already existing policies that constrain and shape the policy change (Heclo, 1974), paragraph 7.1 looks at the role of institutions, defined as policy legacies, in constraining or enabling opportunities for policy change. Discussing that politicians do not seek only vote maximisation, but are also concerned with problem solving (Heclo, 1974) paragraph 7.2 shows how the "play of ideas" about the cognitive and normative orientations influences policy change in situation of uncertainty by providing blueprints about the causes and remedies of social policy failures. However, for ideas to become influential in politics they have to enter the policymaking arena by interacting with the interests of powerful political actors (Blyth, 2002). Thus, looking at the interplay between the socio-political demand and supply, paragraph 7.3 identifies the main actors who mobilize to promote policy change or defend the status quo.

7.1 The Role of Institutions: Policy Legacies

As argued above, existing institutions, defined as "policy legacies" (Pierson and Weaver, 1993; Pierson 1994) influence the nature of the problems encountered, the resources and strength of actors that mobilize, as well as solutions adopted, thus creating institutional constraints on welfare reform, or rather opening up opportunity for change (Brooks, 2006; Jessoula, 2009). The institutional analysis of the welfare state identifies four main institutional features that are likely to influence the process of the policy change (Palier and Surel, 2005): coverage (who benefits: citizens, workers or the poor); nature and level of this benefit (in kind or in cash, fixed or proportional); mode of financing (general revenues or payroll social contribution); organizational structures (central state, decentralized or management delegated to social partners or private companies). According to Palier and Surel (2005), the difference in the legitimacy of the different modes of coverage, benefits, financing and management of social protection determines the capacities of actors to act. Thus, universalistic coverage does not enjoy the same political support as means-tested benefits targeted to the poor: in the former, everyone receives universal benefits, while in most cases means-tested benefits are received by those who do not pay taxes/contributions (Palier and Surel, 2005). Differently, employment-related coverage tends to be more supported and defended more by trade unions than means-tested and universal benefits.

Moreover, Brooks (2006) adds that if popular expectation of existing welfare programs is dissatisfactory, social programs in question lose their normative legitimacy, and then the institutional legacy itself opens the opportunity for some kind of institutional revision. At this stage we observe, as Palier and Surel (2005) define it, *"a decreasing return effect of past institutions"*. New solutions can only be introduced on the basis of invalidating past practices. In this regard, as emphasised by Popic (2018), new ideas become influential because they do not only provide the content of reforms, but they also legitimize the policy change. When new ideas become influential, they are embedded in context more or less in line with existing institutions. Once established, institutions prompt path dependent dynamics due to increasing return and "lock-in" effects (Pierson, 1994).

Against this backdrop, the role of past policies is important to explain social policy change and development in Albania in the various phases. Hence, in the first phase, after the fall of Communism, both pension and healthcare reforms were adopted by reshaping the previous systems. Positive (or negative) feedback mechanisms from previous choices are expected to constrain (or facilitate) the process of social policy change. Once established, decisions taken at the critical juncture will influence the subsequent policy trajectories. Therefore, if we look at the institutions, during the next two phases – which correspond to a period of policy institutionalisation and implementation – we should expect path dependent marginal change.

7.2 Explaining Policy Change: Ideas and Social Learning

Scholars who conceptualize ideas as the main driver of (policy) change argue that ideas give *motivation* to the *opportunities* established by institutions. Therefore, they reconcile the relationship between structure – which opens opportunities and constrains actors' behaviour – and agency – i.e. actors' goals and interests (Schmidt 2010). Most of these studies take inspiration from Heclo, who argued that "*politics finds its sources not only in power but also in uncertainty*" (Heclo, 1974: 305). Therefore, according to Heclo, (social policy) reforms are influenced by the "play of ideas" about the cognitive orientations of social issues – i.e. how problems are defined - and normative judgements about possible solutions (Heclo, 1974). In this framework, politicians do not seek only vote maximisation - "powering" - but are also concerned with problem solving engaging in so called "puzzling" activity. Thus, when existing policies are perceived as unable to solve occurring problems, policymakers search for alternative solutions. Heclo argues that past policies influence both the cognitive resources of policymakers and the solutions available during periods of crisis. He identifies policies as an important political variable, suggesting that "*what is normally considered the dependent variable (policy output) is also an independent variable (in an ongoing process in which everything becomes an intervening variable)*" (Heclo, 1974: 315). Hence, he explains policy change as a product of "social learning", in which policymakers find out what to do (positive learning) and what not to do (negative learning) in light of past experience and new knowledge. Also, Heclo acknowledges the possibility of "non-learning", that is, policymakers may be

unable or unwilling to adapt behaviour to information feedback from policy experience and flow of ideas. Therefore, for Heclo policy change is an endogenous process explained by changes in policymakers' *cognitive* and *normative* beliefs as a result of past experience and new information.

Drawing from Heclo, Peter Hall explained policy change by developing further the concepts of "social learning" and "policy paradigm" (Hall, 1993). In his seminal work on the spread of Keynesian ideas (Hall 1989; 1993) he sees institutions as historically specific and ontologically prior to the agents who occupy them: thus, institutions structure actors' choices. In other words, he suggests that the critical determinants of whether or not ideas promote policy change are institutional (Hall, 1989). His understanding of policy change as social learning implies that new policy is a consequence of past policy and policymakers will turn to new ideas when the existing policy paradigm has failed to explain persistent anomalies (Hall, 1993). New ideas are therefore mobilized through a process of policy learning. Hence, political actors consider new ideas if these ideas are effective in dealing with anomalous development and offer policy solutions. In other words, according to Hall, ideas become central to policymaking because they are seen as templates guiding policy: they define policy goals, the kind of instruments that can be used to attain these goals, and the very nature of the problems they are meant to be addressing. Hall conceptualizes this framework as a "policy paradigm", arguing that the learning process takes different forms depending on the type of change in involved policies - i.e., whether policy *goals* change, or rather the *instruments* used to attain these goals, or the precise *settings* of these instruments. Building on this distinction, he identifies three different types of policy change ì: namely, a "first order change" when only the setting of the basic instruments changes; a "second order change", when both setting and instruments change and a "third order change" when policy goals change as well. According to Hall (1993), first and second order policy changes are seen as cases of normal policymaking, namely of a process that adjusts policy at time 1 as a reaction to past policies (policy at time 0), without challenging the overall terms of a given policy paradigm. On the contrary, third order change is associated with a "paradigm shift", in which anomalies of old paradigm lead to policy failure, because the existing paradigm is not able to anticipate or explain current occurring issues. Therefore, actors will search for new policy paradigms, which will be considered when they are able to explain persistent

anomalies more accurately (Hall, 1993: 280-281). In this case, policymaking is not merely a reaction of past policies, but is rather influenced by new ideas and broader societal conflicts and debates. As mentioned above, according to Hall, ideas are structured by existing institutions. For them to have a political impact, it will depend on positional advantages of competing actors defined within a broader institutional context (Hall, 1993: 280). Thus, a paradigmatic shift is to be preceded by significant shifts in the locus of authority over policy and the process of social learning ends when the supporters of a new paradigm secure positions of authority over policymaking that enables them institutionalize the new paradigm. Hence, according to Hall (1993) "puzzling" and "powering" are intertwined in the process whereby policies change. Politicians compete for office by offering new solutions to collective problems, which appeal the electorate.

An important debate among the scholars who have turned to ideas to explain institutional change is *when* ideas do matter. According to Blyth (2002), ideas become more appealing in periods of crises (e.g., economic crisis), because during these unique events the existing institutional frameworks have failed and actors are uncertain about what their interests are. He argues that in moments of crises ideas make it possible for agents to reduce uncertainty by acting as interpretive framework that explain the nature of the crisis and provide policy solutions, help actors understand their interest and become "focal points" for coalition building (Blyth, 2002: 35). In addition, he hypothesizes that the pro-reform coalition will use these new ideas to delegitimize existing institutions and build new ones. However, in line with Heclo (1974) and Hall (1989; 1993), he points out that policy change is not a purely ideational affair (Blyth, 2002). While ideas matter, for them to become influential in politics they have to enter the policymaking arena by interacting with the *interests* of powerful political actors. According to Blyth (2002), new ideas' explanatory power matters only during moments of crises, when institution and (material) interest-based explanations have failed. Therefore, he suggests that the entire process of movement from institutional destabilization to the new institutional equilibrium needs to be analysed (Blyth, 2002).

On the contrary, Hemerijck argues that the explanatory power of ideas is not limited to moments of uncertainty, but policy actors continuously reflect on contextual or environmental changes and alter their normative and cognitive beliefs about what is appropriate, effective and legitimate based on past experience and new information. Even

though Hemerijck (2013) acknowledges that, once established, institutions tend to endure, he is rather critical of the structuralist bias in historical institutionalist analysis. He challenges the "new politics" conjecture of change-resistance welfare provision, by claiming that institutions do not always favour continuity over change. In fact, he argues that "*routines, ideas, and rules can be both resources of stability and vehicles for change*" (pp. 45). He claims that welfare states are complex systems, whose goals, functions, and institutions change over-time, however slowly and incompletely. Hemerijck provides a new theoretical perspective that is more dynamic and open in explaining welfare state change and continuity across time and is able to conceptualize policy actors as more responsive to adaptive challenges, allowing for reflexivity in actor orientations. He deploys the concept of resilience in terms of institutional capacity to accomplish change and institutional inertia as a protector of continuity. He argues that what remains fundamental is the information-feedback between radical policy change and adaptive pressures. According to him, even though social and economic pressures do not determine the direction, scope and dynamic of social policy change, such pressures should be taken seriously because they alter the effectiveness and legitimacy of prevailing social policies, thus triggering search processes for alternative policy solutions. However, while acknowledging that new ideas matter, for them to have a political impact they need powerful actors to share these ideas and become attached to some institutions. Similarly, Campbell and Pedersen (2011) argue that while ideas matter, they do not always have an impact on policymaking, because they are selected, modified, or ignored depending on constellations of power.

Against this backdrop, this study defines ideas as *normative* and *cognitive* orientations of actors, arguing that under conditions of crises, policy solutions are influenced by *"the actors' perceptions of what is desirable and legitimate (normative) and effective and feasible (cognitive)"* (Hemerijck, 2005). In other words, politicians do not seek only vote maximisation, but are also concerned with problem solving. Thus, when existing policies are defined as unable to solve occurring problems, policymakers will search for alternative solutions. However, policymaking is not merely a reaction of past policies, but is influenced by new ideas and societal conflicts (interests) (Hall, 1993).

Referring to the Albanian case, the transition from Communism to democracy and market economy created a situation of unstable institutions and weak interests. Therefore, actors

are expected to turn to new (market-oriented) ideas not only because these ideas offered explanations and solutions to the policy failures of the inherited socialist welfare system, but also because they introduced a new relationship between the state, the market and the individual, different from the "old and corrupt" communist one.

In conditions of crisis actors are more likely to look for innovative solutions and are often inspired and influenced by foreign models (Weyland, 2008). In this regard, international organisations such as the World Bank and the IMF have gained in importance as key "idea brokers" (Hemerijck, 2013), diffusing neoliberal structural adjustment programmes across the globe. As argued above, this was particularly the case in most CEE countries, which after the fall of the Communism depended on IMF and World Bank's loans (due to large budget deficits, high external debt and rising unemployment levels), thus, allowing these organizations to effectively promote welfare reforms based on fiscal stabilization, liberalization, marketization and privatization (Orenstein, 2000; 2008).

However, even though the neoliberal imprint of World Bank's multipillar pension privatisation and market-oriented healthcare policies is visible in CEE countries, Hemerijck (2013) argues that effective policy transfers must be actively managed and "pulled in" by domestic actors. In other words, as mentioned above, puzzling over policy reform is never politically neutral, but is a process influenced by domestic political motivations, cognitive and normative orientations and positional interests (Heclo, 1974). This means that even in cases when policy solutions are channelled into domestic policymaking by external actors, the proposal is never adopted as such; instead, it is filtered by national political and institutional structures. For ideas to become influential in politics they have to enter the policymaking arena by interacting with the interests of powerful political actors (Blyth, 2002). This process involves a power struggle between competing interests until a "satisficing" solution is reached (Simon, 1945). Thus, in order to understand social policy development, it is necessary to identify the actors who mobilize to either promote policy change or defend the status quo, their preferences, their relative strength, and their strategies as well.

7.3 The Role of Interests

Among various studies that have addressed the role of interests to explain institutional continuity and change, this study looks at the interplay between the socio-political demand – i.e. pressure groups and voters – and political supply – political parties (Ferrera, 2005; Ferrera et al., 2012; Garay, 2016; Natili, 2019; Jessoula & Natili 2020).

According to this literature, on the one hand, politicians who shape social policies must also secure re-election and, thus, they compete to obtain political support and consensus. On the other, social groups articulate and aggregate interests and exert pressure on political parties in order to pursue their goals and achieve their preferred policy objectives (Ferrera, 2005).

In both the pension and healthcare fields, political exchange dynamics between the political parties and voters are likely to occur, given that both these fields create dense networks of support. Thus, office-oriented politicians might be highly sensitive to pension or healthcare policy changes given that both these policy fields appeal to a broad electorate. According to Haggard and Kaufman (2008) the wider the coverage, the more generous the benefits and the more effective the services provided, the more difficult it is for policy-makers to initiate social policy changes. Therefore, governments pursuing retrenchment policies will seek blame avoidance strategies in order to avoid the concentration of accountability (Pierson, 1996).

Similar to other CEE countries, the Albanian welfare programs under Communism provided wide coverage and generous benefits. However, at the same time there was a widely-shared "negative consensus" against inherited schemes (Brooks, 2006). As argued above, in situations of crises social and political actors may reassess their normative and cognitive beliefs. At this stage, new ideas may become "*a medium by which people can imagine a state of affairs other than the status quo and such imaginings might plausibly spur them to act to try and make changes*" (Lieberman, 2002, p. 698). In other words, the post-communist welfare states cultivated not only a dense network supporting the status quo but also widespread opposition, in favour of social policy reforms (Guardiancich, 2013).

Individual interests become more influential especially if they are channelled into policy making through powerful interest groups. Therefore, the strength of these groups and their

involvement in the policy change process may be relevant to explain the content of policy change. However, as anticipated above, it is important to note the relevance of two important groups, namely, actors willing to promote policy change and defenders of the status quo. The main actors that might play a role on the demand side in Albania include trade unions in the field of pensions and the medical profession in the field of healthcare. The next section outlines the relevance of both these groups and their policy preferences for reforms.

7.3.1 Political demand: interest groups and social policy change

In the field of pensions, the potential for resistance may be high in particular when beneficiaries are mobilised by the trade unions. The latter play a crucial role in organizing and advocating the interests of workers. As supporters of welfare expansion, trade unions are often ready to mobilize against welfare retrenchment. They are particularly influential actors who use their (non-institutional) veto power, such as mass protests or even general strikes, to fight unilateral social policy changes (Ebbinghaus, 2011). Therefore, governments may consult trade unions before major welfare state change is enacted in order not to harm their electoral prospects and to overcome potential reform blockage. Reaching an agreement with trade unions may be crucial for the occurrence, direction, and scope of policy change (Natili, 2019). In addition, a consensus between government and trade unions not only creates political legitimacy for unpopular reforms, but is also very effective in ensuring the long-term political sustainability of pension policy change. However, as argued in chapter two, even though trade unions and employer' associations in Albania are part of the formal tripartite agreements with the government, their strength during various phases changed, and thus, their impact on the decision-making process needs to be tested empirically.

Another influential actor identified by the literature, in particular with respect to healthcare policy, is the medical profession (Freidson, 1970; Immergut, 1992). The argument is simple: the medical profession is considered to be a dominant actor in healthcare policy making, because healthcare policy choices directly affect their working conditions and income as well. More importantly, healthcare programs depend on cooperation of doctors, because they constitute the only professional group officially

qualified to carry out medical treatments – having both technical expertise and market monopoly on medical practice (Freidson, 1970). Physicians' preferred option is generally a market-oriented approach, as this method of financing would not only increase their income and give them more autonomy, but it would also increase their bargaining power (Immergut, 1992). However, Immergut adds that public choices should not be viewed merely as a result of demands of various interest groups competing for political influence. Instead, attention should be paid to the causal mechanisms that allow these demands to be voiced and, subsequently, received by political supply actors (parties, government, etc..). What matters most is, thus, not different interest groups' preferences, but their resources and the opportunity for using these sources of power, which in turn depend on existing political institutions in a given country (Immergut, 1992, p. 7).

In this regard, it is important to notice that even in this case there are substantial differences between Eastern and Western European countries. In fact, under communism, healthcare was considered a non-productive sector, and was therefore given low priority. In addition, resource allocation was connected to the state's need to allocate the workforce – since healthcare professionals were primarily state employees (Nuri, 2002). In accordance with the communist ideology, medicine as well had undergone a "socialization" process, which first and foremost meant the removal of "capitalistic" medicine practice (Field, 1991). Thus, doctors were no longer dependent on patients for their livelihood, but were paid and employed by the government, with the latter using doctors' certifications to serve the interests of the state[46]. This, Field argues, created a situation in which Soviet medical profession enjoyed a "hybrid" status (Field, 1991, p. 58) – they were clinically powerful but had lost their political power, as result of their economic dependence on the state, bureaucratic medical employment, low salaries, lack of corporate association defending their interests. Thus, in many post-communist countries, doctors were the initiators of reform and advocated in favour of market-oriented programs. However, similar to other interest group organisations, whether they were successful in achieving their preferred policy solution depended on their institutional access to power.

[46] Field (1991) brings evidence that doctors, in particular psychiatrists, "*participated in the charade of declaring dissidents mentally incompetent, because they saw that certification functions either as a fulfilment of good citizenship duties or the result of their not being able to resist pressures from the 'organs' (of state security)*" (Field, 1991: 54).

7.3.2 Political supply: parties, policy preferences and political competition

A more recent literature within the partisan politics tradition (Picot, 2012; Häusermann et al., 2012) challenges some of the underlying assumptions of the classical partisan politics theory, arguing that it needs to be revised and updated. Assuming a linear and direct relationship between the type of party in power and policy output, the old partisanship theory is criticized as incapable of explaining why political parties support reforms that diverge from their expectation of stable preferences. Therefore, recent research on partisan politics has increasingly highlighted the importance of the role of institutional settings, intra-party dynamics and bargaining in shaping welfare state reform (cfr. Kitschelt, 2001; Ferrera, 2005; Iversen and Soskice, 2006; Ferrera et al., 2012; Picot, 2012; Natili, 2019). According to this literature, what parties want depends on the context of the party system, party competition, coalition dynamics and electoral institutions in which they operate. In other words, these studies argue that the expected policy preference of political parties cannot be theorized isolated from the context in which they compete, but is conditional on the interaction with institutions and rival parties with which they are confronted. In particular, Natili (2019) argues that policy output may depend on coalitional strategies and power balances between different parties. Therefore, in order to better explain the scope and direction of reforms he suggests to look at party competition and coalition building dynamics (Natili, 2019). More specifically, Häusermann et al. (2012) state that parties may adjust their position on social policy issues to the position of a potential coalition partner if that partner is pivotal for forming a coalition government. In a similar vein, acknowledging that party competition matters for social protection, Picot (2012) argues that ideological differences within a government coalition may prevent radical structural reforms. Similarly, Kitschelt (2001) adds that the configuration of party competition is decisive for politicians' calculations whether or not to engage in social policy retrenchment at the expense of losing electoral support. According to him, policy formation does not depend only on the position of the governing coalition, but it is conditioned by the policy alternatives offered by the opposition parties. Hence, he points out that parties belonging to the same party families may support different social policies depending not only on whether they are competing in a two-party

or multi-party competition, but also on the attractiveness and credibility of opposition party positions. He argues that the party configuration may allow governing party/ coalitions to support welfare retrenchment without becoming concerned about voter defection, if their opponents enjoy little credibility in delivering different and better results (Kitschelt, 2001).

Arguing that actors' preferences are conditional on the institutional context, distribution of power and problem interpretation at the time and that we need to look at political exchange dynamics over-time in order to understand how policy solutions are selected, modified or ignored, this approach can be applied in the Albanian case to draw expectations about the role of the political parties in the various phases.

In a nutshell, in the first phase, due to the social costs linked to the transition from Communism to democracy and market economy, political parties are not only motivated to attend to interests as a means of gaining electoral support and mitigating social mobilisation (Haggard & Kaufman, 2008; Garay, 2016), but at the same time there is a need for "anchoring" (Morlino, 1998) organized groups (and related voters) to the new regime. In this respect, social policies targeted to key groups can be key in regime legitimation (Morlino, 1998; Ferrera et al., 2012). On the contrary, in the last two phases, as discussed in chapter two, major transformation occurred with respect to the role of the interests, such as the restructuring of the party system, a new political platform of centre-left wing party and a more effective structuring of the interest groups. Hence, in these periods the political exchange dynamics between the political offer and demand are expected to play a major role in shaping the policy content.

8. The Interplay between the "Three-I's": Theoretical Expectations

Based on the theoretical framework illustrated in paragraph seven, it now seems possible to draw some expectations about the differential role played by the "three-Is" in each of the three phases identified in this research with the aim to solve the empirical and theoretical puzzles: why did pension and healthcare policies converge towards a Bismarckian social insurance model in the early 1990s? Why, then, did institutionalisation of the new approach fail in both sectors? What explains subsequent

cross-sector divergence, that is the shift towards a "mixed-occupational" model in pensions and "mixed-universalistic" model in healthcare?

In a nutshell, in the *first phase* we have a critical juncture, in which there is a complete destruction of previous arrangements. Thus, in a context of fluid institutions – due to the transition to democracy and market economy – and when the policy status quo is de-stabilised and disqualified (conceptualised as policy failure), we may expect more room for new ideas to play a significant role. In addition, due to national actors' lack of resources and experience with democracy and market economy, the role played by external actors in providing new policy solutions to the occurring problems is expected to be strong.

Regarding the role of institutions, policy change does not operate in vacuum and reforms are adopted by reshaping the previous systems. Thus, the evolution of a policy sector should be analysed by primarily focusing on policy legacy (Pierson & Weaver, 1993). However, due to the delegitimization of previous legacies their role is expected to be ambivalent. In other words, in a critical juncture it is hard to say whether positive feedback or negative feedback prevails, because their relevance depends on the strength of the interests attached to the pre-existing structure of the social policy.

The role of interest groups depends on the structuring of both the systems of organized interests and the party system. Given that Albania had no previous experience with democracy and no previous strong organised interest groups, these groups are expected to play a limited role. However, political imperatives related with regime stabilisation and the need to build up consensus are expected to be strong. As argued above, wide coverage and generous entitlements from the communist welfare state had created strong electoral constraints against retrenchment (Haggard & Kaufman, 2008). The new political elite is thus expected to respond to these electoral expectations by protecting the groups most affected by the transition. In other words, political actors are not only interested in obtaining electoral support, but also in consolidating the new democratic regime, by "anchoring" (Morlino, 1998) to the system both interest groups and voters. Thus, in search for political legitimacy, the new political elite is expected to modify its 'original' reform choices and continue to provide welfare as a tool to stabilise the new regime.

During the *second phase*, both ideas and interests are now embedded in institutions, or policy frameworks, which are likely to evolve according to path dependent dynamics due

to increasing returns and "lock in" effects (Pierson, 1994). Social groups that have developed an interest in newly established institutions are likely to act and mobilize in order to preserve it, generating in turn mechanisms of positive "policy feedback" and increasing returns (Pierson, 1994). Therefore, decisions taken at the critical juncture are expected to influence the subsequent policy development and change. In other words, once established, inertial institutional dynamics are expected to prevail.

Moreover, implementing reforms adopted in the critical junctures implies ensuring their social and political sustainability. Thus, in case some relevant interests were disregarded in the critical juncture they might survive and return (Streeck and Thelen, 2005). Therefore, we might expect expansionary policies as result of convergent interests.

During the *last phase*, as argued above, the structural conditions had changed completely in the presence of a consolidated democratic system with structured competitive political dynamics. On the one hand, parties underwent major transformations and politicians started to compete for office by offering new solutions to collective problems which appeal to the electorate. On the other hand, this period was characterised by a structuring of organized interest groups, which might exert pressure to shape the content of the reform.

Given the long time-frame from the critical juncture to recent years and the many changes occurred in between, we may expect two different situations in this phase. First, full institutionalization of the decisions taken at the critical juncture, i.e. policy legacies are (perceived as) effective, thus, ideas and interests are entrenched. Changes in contextual factors and especially political dynamics might lead to incremental, path dependent changes. In this scenario the role of (new) ideas is expected to be weak. On the contrary, the role of institutions (past legacies) and interests is expected to be strong.

Second, failed institutionalization, i.e. past policy legacies are (perceived as) ineffective, or the interests and ideas that previously underpinned the policy paradigm have substantially changed. Hence, we might expect the activation of either *learning process*, i.e. a larger role for new ideas coming in, or *electoral incentive changes* related to the interplay between a different restructured party system and different configuration of interest groups, which in turn might lead to more substantial changes. In this scenario the role of ideas and interests is expected to be strong, by giving *motivation* to the *opportunities* established by institutions.

CHAPTER V

WELFARE STATE CHANGE IN ALBANIA: THE POLITICS OF PENSION AND HEALTHCARE REFORMS

1. Introduction

As discussed in chapter three, policy solutions implemented in the early 1990s converged the Albanian pension and healthcare system into a Bismarckian social insurance model. The government's ultimate goal was to link benefits to contribution records. However, after three decades of reforms both systems failed to shift to insurance-based approach only. The 2014 reform changed the pension system into a mixed-occupational model made up of a social assistance scheme – means-tested, poor-relief measure – and a social insurance scheme – contributory, income maintenance scheme. On the contrary, the last wave of healthcare reforms that started from 2014 aimed at transforming the healthcare system from a social insurance model to a social security one. These reforms led to a partial policy reversal, with the healthcare changing into a mixed-universalistic model made up of a social security and a social insurance scheme.

Today, the pension system differs from the one in healthcare in terms of institutional architectures, financing methods, coverage and benefits. The policy change and divergence that exist between these two policy fields is puzzling, given their similar starting position in the early 1990s and parallel reform processes in the subsequent three decades. The situation becomes even more ambiguous when we consider the strong influence international actors had on both systems since the very beginning.

Against this backdrop, this chapter aims at understanding the main drivers of pension and healthcare reforms in Albania and at explaining why these two policies diverged over-time. More specifically, this chapter aims at answering the following research questions: how and why governments of different colours supported specific reform proposals? Which political exchange dynamics shaped the reform process that led to policy change?

For this purpose, this chapter provides an empirical analysis on pension and healthcare policy-making processes from 1991 to 2016. It maps the relevant actors involved in the policy-making process, their preferences and positions towards reform and their political exchange dynamics. In addition, this chapter provides an interpretation related to policy changes in both fields, which in turn, will allow us to explain the policy variation between pension and healthcare system and draw theoretical implications in chapter six.
The rest of this chapter is organized as follows. The next paragraph discusses the politics of pension in Albania, whereas the third paragraph focuses on the national debate over healthcare reform.

2. The Politics of Pension Reform in Albania

As illustrated in chapter three, the post-communist pension system underwent three waves of reforms punctuated with several legislative provisions. The first wave of pension reforms (1991-1994) provided the legal framework of the Bismarckian social insurance model in the new market economy. The implementation phase (1995-2013) displayed the limits of the Bismarckian insurance approach, typically for a country with high labour market informality, low tax-rates compliance and also a large share of the self-employed especially in the agriculture sector. Consequently, the main aim in the third wave of reforms (2013 onwards) was to address the limits of the Bismarckian approach and build a pension system that ensures both fiscal sustainability and social adequacy. Table 5.1 below an overview of the parliamentary elections and pension reforms in Albania from 1991 to 2014.

Table 5.1 Pension Reforms, Parliamentary Elections

Year		Main party(-ies) in the government/ reform
1991	Parliamentary elections	Labour Party (communist party)
1992	Parliamentary elections	Democratic Party (right-wing government)
1993	Pension reform	Introduction of a two-tier pension scheme & employee's contributions; establishment of autonomous SII; unification of urban and rural plans.
1995	Pension reforms	Introductions of voluntary private pension scheme
1996	Parliamentary elections	Democratic Party (right-wing government)
1997	Parliamentary elections	Socialist Party (left-wing government)
2001	Parliamentary elections	Socialist Party (left-wing government)
2002	Pension reform	Increase in retirement age (men from 60 to 65 and women from 55 to 60 years old), reduction of contributory rate.
2005	Parliamentary elections	Democratic Party (right-wing government)
2005	Pension reform	Development of the private pension scheme, fully funded, DC (private insurance scheme was adopted in 1995, but private pension institutes began work in 2006 by the creation of its legal basis).
2009	Parliamentary elections	Democratic Party (right-wing) + Socialist Movement for Integration (central-left)
2009	Pension reform	Consolidation of the legal basis for the private pension market. Creation of both voluntary occupational pension schemes and voluntary personal pension schemes.
2013	Parliamentary elections	Socialist Party (left-wing) + Socialist Movement for Integration (central-left)
2014	Pension reform	Increase in retirement age; introduction of social pension; unification of urban and rural schemes.

Source: Central Election Commission (KQZ), Social Insurance Institute

Against this backdrop, the main focus of this paragraph will be on the policy-making processes that led to the adoption of each major pension policy change after the fall of Communism. It will provide a thorough empirical investigation aimed at mapping the actor constellations in various junctures and at linking the political dynamics with pension policy trajectory. This analysis is important in order to understand the relevance of various actors in driving policy change, why they supported specific reform proposals and what were their strategies, interactions and exchange dynamics.

The rest of this paragraph is structured as follows. Sections 2.1, 2.2 and 2.3 discuss the policy-making process of the three main waves of pension reforms (defined in chapter three) respectively. The last section briefly illustrates the policy-making process in the third pillar. Even though the main focus of this study is on the politics of public social policies, a brief introduction to the development of private pension schemes is needed in order to provide a complete picture of pension politics in Albania.

2.1 The Policy-Making Process: The First Wave of Pension Reforms, 1991-1994

As discussed in chapter three, in addition to inherited problems, the transition to capitalism brought the communist pension systems into crisis. Large drops in employment and the expansion of informal labour markets due to the massive downgrading and closing-down of the state-owned enterprises, the expansion of informal labour markets, coupled with looser early retirement provisions meant that a smaller group of contributors had to support a larger group of retirees. Moreover, following the dissolution of agricultural cooperatives in May 1991, transitional arrangements for the Cooperative Farmers Plan (CFP) remained unclear. Likewise, with the creation of the private enterprises, there was a need to cover employees working in this sector, as the current scheme did not create the opportunity for social protection for this category of workers, since during communism private enterprises were forbidden.

The initiative for pension reform was made by a group of Socialist Party deputies in June 1991, who urged the government, in the form of petition and protest (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature I[47], 1992, p. 2389) to submit the bill on social insurance to the parliament for approval, in order to deal with the issues that the existing scheme was facing. Their main concern was to provide a clear legislation on how to deal with categories that were not benefiting any longer (farmers) and categories that were not benefiting at all (private sector employees).

They were later joined by the trade unions who asked for a revision of the social insurance law in order to adjust it to the changing economic and social circumstances[48]. In addition, they criticised the existing pension benefit levels, proposing an increase for all categories (old-age, survivor and disability pensions) to a minimum level of subsistence and providing an indexation of pension benefits afterwards.

However, even though these problems were acknowledged by all the stakeholders – i.e., the government, parliament, social partners and public – concrete measures were not taken until 1993, because the pension reform was not considered a high priority sector.

[47] Author's translation, original title in Albanian *"Republika e Shqipërisë, Punimet e Kuvendit, Seancat Plenare, Legjislatura e parë"*.

[48] Sindikalisti (1993, March 1). Ç'kërkon BSPSH nga qeveria. *Sindikalisti BSP.* p.1

Meanwhile, in order to deal with high unemployment rates, the government's initial response was to allow employees the option of early retirement up to 5 years before they reached the statutory retirement age and pension benefit was calculated as 60% of the average wage[49]. Moreover, the government obliged employers to pay staff 80% of their salaries if they were laid-off (Clunies-Ross and Sudar, 1998). The government saw these measures as a way to ease the unemployment situation and defuse public dissatisfaction (Interview 1 – Political Parties Expert). However, both these policies created a further pension deficit, which in 1993 accounted for 3.8% of GDP (IMF data, 2001).

Table 5.2 Main Measures Prior to the 1993 Reform

Jan. 1991	Early retirement scheme (decree no. 7464/1991).
June 1991	The initiative for pension reform by a group of PS deputies.
Nov. 1991	Unemployment benefits (law no.7521/1991).
Feb. 1992	Social safety net draft legislation for Albania (World Bank).
Mar. 1992	The PD won the parliamentary elections.
Apr. 1992	Government appointed a committee to coordinate the process of social insurance reform.
Sept. 1992	The social insurance bill for Albania (World Bank).
Feb. 1993	Government's Policy Framework Paper.
Feb. 1993	TUs asked for a revision of the social insurance law in order to adjust it to the changing economic and social circumstances.
May 1993	Pension reform adopted.

Source: Author's elaboration

The World Bank urged the government to take measures in order to deal with the scheme's fiscal imbalance and social inadequacy. It claimed that the existing social insurance system was providing "*too low benefits to too many people at a very high cost*" (World Bank, 1993). It proposed a project that would assist the government's efforts to reform its social protecting system so as to alleviate the disruption resulting from the economic transition, while at the same time configuring the pension system to be compatible with a market-oriented economy (World Bank, 1993).

[49] Decree no. 7464 date 31.01.1991 "On some amendments to law no. 4171 of 1966 and law no. 4976 of 29.06.1972".

The reform reached the agenda of Meksi's government (1992-1996), a coalition of right-wing parties led by the Democratic Party, which faced a weak and fragmented opposition. In April 1992 the Ministry of Labour and Social Protection was created[50]. With assistance from the World Bank, the Government appointed a standing committee, comprised of the Ministry of Labour, Ministry of Finance, the Trade Unions and Employers' Organisations, to coordinate the process of social insurance reform (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, p. 1008; World Bank, 1993). The new government made it clear since the beginning that its intention (see box 5.1) was to reduce state involvement in social insurance and increase individuals' and employers' responsibility for the financing of benefits (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, p.1010). The World Bank supported the proposed government's initiatives and assisted the Albanian government in developing a modern, sustainable and comprehensive social insurance system (World Bank, 1993).

Box 5.1 Government's Pension Policy Objectives

Link Benefits to Contributions and Tighten Eligibility Criteria:

- Abolishing privileges of certain groups of insured, rethinking the criteria for eligibility and award of benefits to improve targeting and efficiency of benefits delivery. This will be achieved by increasing the effective retirement age, tightening disability and survivors' conditions, introducing an insurance-based, flat-rate unemployment benefit scheme, and blending other short-term benefits into a comprehensive system providing coverage of temporary contingencies with employers' liability to bear the cost of the sickness benefit for the first 14 days;
- Improving institutional capacity of the social insurance system to deliver efficient services through reorganized management and administration.
- Minimizing and rationalizing reliance on the State budget for financing the autonomous SII in order to achieve a balanced actuarial system.

Source: Government of Albania Policy Framework Paper (1993)

In June 1992, the government delegated the role of administering the pension schemes to the Social Insurance Institution (SII)[51], therefore separating the pension system from the state budget. The SII was created as an autonomous body to administer all aspects of the

[50] Prior to 1992 neither a Ministry of Labour nor a Ministry of Welfare existed in Albania (World Bank, 1994c).
[51] Approved by the Council of Ministers' decree no. 249 of 05.06.1992.

public system and became responsible for collecting contributions, keeping records, and calculating pensions.

In May 1993 the government presented the bill on social insurance to the parliament (box 5.2). The reform proposal came from a government committee comprised of the Ministry of Labour, Ministry of Finance, the Trade Unions and Employers' Organisations, which worked closely with experts from the World Bank (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, p.1008; World Bank, 1993). The main aim of the reform was to deal with the fiscal unsustainability of the pensions system and adjust the scheme to the market development. Bismarckian social insurance was the government's favourite choice because some kind of this welfare arrangement had already been in place in the communist period – the state-socialist system of social protection was work-related with respect to coverage – and the new government objective was to link pension benefits to contributions based on the principle that pension benefit is an entitlement linked to employment and contributions paid, thus allowing workers to maintain their standard of living and stable levels of consumption during retirement (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, pp. 1006-1011; Government Strategy 1992-1996, 1992).

The bill proposal conditioned benefits upon payment of contributions by tightening eligibility conditions of practically all benefits. In addition, social expenditure on social insurance from the state budget would be gradually eliminated and replaced by employees' contribution. The proposal introduced a two-tier pension system consisting of a mandatory basic scheme (for every employee, employer and self-employed), providing support as a sum of a flat rate component at minimum subsistence and a variable component based on individual records, and a voluntary insurance scheme (within the public scheme). Even though it was a non-contributory part of the benefit formula, the flat rate component was embedded in a contributory context, in which a contributory period of up to 35 years was required. Moreover, according to this proposal urban and rural retirement plans would follow the same eligibility criteria. However, the government would subsidize farmers' contributions until the country's economic problems were normalized. The retirement age did not change and it remained 55 years old for women and 60 years old for men.

Box 5.2 Government Committee Bill Proposal "On Social Insurance"

Main Elements of Bill Proposal:

- Condition benefits upon payment of contributions; tighten eligibility conditions of practically all benefits; introduce a two-tier pension system consisting of a mandatory basic scheme providing support as a sum of a flat rate component at minimum subsistence and a contribution-related component based on individual records and optional insurance schemes. The total amount of pension will be calculated as 75% of net average wages of three last years of employment.
- Create actuarial balance of the system over-time;
- An immediate substantial reduction of social expenditure on social insurance from the State budget: the state budget would be gradually eliminated and replaced by employees' contribution. Thus, starting from 1996 the scheme would be financed by employers and employees' contributions, set to 31.2% of payroll (21.2% paid by the employer and 10% by the employee – before 1996 this 10% was paid by the government). Increase the total contribution rate (pensions, sickness and maternity leave) over several years to 35% of payroll.
- Retirement age: 60 years old for men and 55 for women, provided they have completed 35 years of insurance (for both genders). Minimum insured period of at least 20 years in order to benefit partial old-age pension.
- Urban and rural retirement plans would follow the same eligibility criteria in order to unify both plans in the future.
- Establish autonomous social insurance administration and funding.

Source: Author's elaboration based on Parliamentary archives[52]

Even though in the early 1990s the left and the right camps were clearly divided in their post-communist versus anti-communist political cleavage, between the Socialist Party (PS) and the Democratic Party (PD), political parties did not differ on their position towards welfare reforms (Interview 1 – Political Parties Expert). The socialists shared the same view for reform, arguing that *"the bill proposal preserves the continuity of the previous social insurance system, as it continues to be employment related. Moreover, the law has no consequences for the persons who are insured to date"* (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, pp. 1018-1021). Therefore, they agreed in principle with the proposed bill. Moreover, in the discussions for the approval of the bill proposal the socialists raised two remarks. First, they were against the increase of the contributory years to 35 years for both genders. Instead, they proposed an increase to 30 years for women and 35 for men which would correspond also to the existing retirement age of 55 for women and 60 for men. However, when this proposal came to a vote it was overruled. Second, they proposed to keep the

[52] Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, p. 1002-1109.

method of measuring earnings to calculate benefits as it was before, i.e., 75% of the net average wage of three best years over the last 10 years prior to retirement, and not as proposed in the bill, i.e., 75% of net average wage of three last years. The socialists argued that their proposed method would provide more generous benefits, assuming that the last three years prior to retirement are not the highest earning years for most occupations (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, p. 1074). This remark was approved by the majority of the MPs.

Another change was proposed by the minister of Labour and Social Protection, who pointed the necessity for an increase in the contribution rate made by the employers by 1%, from 25% to 26% of the payroll. According to him this increase would help ensure the fiscal sustainability of the scheme (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, p. 1106). This change was approved by the majority of the MPs. Besides these remarks the voting process went smoothly and the bill was finally approved on May 11, 1993 (box 5.3).

Box 5.3 Government's Bill Proposal and Law no. 7703/1993: The Main Changes

Government bill proposal	**Law no. 7703/1993**
• Employers contribute 25% of payroll; • Employees contribute 10%; • Total contribution 35%, of which 2.3% for maternity leave, 31.2% for pensions and 1.5% sickness. • The total amount of pension will be calculated as 75% of net average wages of three last years of employment.	• Employers contribute 26% of payroll; • Employees contribute 10%; • Total contribution 36%, of which 2.8% for maternity leave, 31.7% for pensions and 1.5% sickness. • The total amount of pension will be calculated as 75% of net average wages of three successive years in the 10 last years of employment.

Source: Author's elaboration

Even though social partners were part of the government committee, their presence was rather symbolic and in practice they did not play any significant role (Interview 3 – former Minister of Labour; Interview 10 – social policy expert; Interview 14 – former Deputy Minister of Social Welfare and Youth). As discussed in chapter two, after 1992, trade unions lost their credibility and power to protect workers' interests. Similarly, the newly

created employers' associations were weak and fragmented, thus, they were not effective in influencing the decision-making process either.

On the contrary, the World Bank provided support to the pension system reform through policy advice and lending. As discussed in chapter four, a major part of the literature argues that the main relevance of the World Bank in the reform process derives from both an ideational side – its capacity to propose policy solutions, especially to countries with low administrative capacity like Albania – but also from the fact that these countries were eager to get the loans by the World Bank, and consequently, it was hard to resist the recommendations coming from the Bank. However, it is worth mentioning that there was no disagreement between the Albanian government's proposal and the World Bank's proposal in the field of pensions. From the beginning, in 1992, the new government objective was to link pension benefits to contributions based on the principle that pension benefit is an entitlement linked to employment and paid contributions, thus allowing workers to maintain their standard of living and stable levels of consumption during retirement. The World Bank supported the government's initiative in developing a sustainable and comprehensive Bismarckian social insurance system. It provided policy advice and technical expertise (gained from past lending and sector work in other countries) in drafting the bill proposal in line with the Albanian government's preferences (Interview 2 – USAID Albania representative; Interview 5 – World Bank Albania representative).

After the bill was adopted the Bank and the Albanian government reached an agreement on a *Technical Assistance Project for Social Safety Net Development* which would support the implementation of the social insurance reform. This project was linked to a loan of $5.5 million and it complemented the World Bank's program to assist in the social aspects of Albania's economic transition (World Bank, 1993).

Table 5.3 Actors' Constellation: The 1993 Reform

Actors involved	Preferences	Position towards reform	Speeches in Media
Govt. (PD)	Reduce state involvement in social insurance and link benefits with paid contributions.	In favour	Focused on transmitting only the positive achievement. No mention of cuts.
Opposition (PS)	Did not have alternative proposal	In favour	Focused on cuts and how they were against them.
World Bank	Make the system sustainable and adequate.	In favour	Focused on positive achievement and what remained to be done in the future.
TUs	Expand coverage to include all workers; increase benefits.	In favour	n.a.

Source: Author's elaboration

In a nutshell, although the strength of the key actors varied greatly, namely the government had the power for unilateral decision-making and it faced very weak opposition and social partners, the entire policy-making process went smoothly because there was no (important) disagreement on the reform proposals. All parties (the government, opposition and trade unions) were in favour of a social insurance system, because this model took into consideration workers' rights, based on the principle that pension benefit is an entitlement linked to employment and contributions paid. According to them, the shift towards an insurance model was said to represent the "good way", for a stable and especially an effective social protection system. Even though the government needed the World Bank's approval (because the Bank was the one who would provide the loan), the latter did not make specific policy proposals. Instead, the Bank supported the government's policy preferences and it provided policy advice precisely in that direction, i.e., how to create an adequate and sustainable social insurance system.

In conclusion, the analysis of the politics in the early-1990s critical juncture showed that new *ideas* to change the pension system into a Bismarckian social insurance-based model played a key role, by offering both solution to the policy crises and legitimacy for policy change. Indeed, changes in actors' *cognitive* and *normative* orientations of what is fair and effective launched the policy change from the centralized Soviet model to a Bismarckian insurance model. Moreover, as expected, the *political imperatives* related to regime stabilisation and the need to build up consensus were strong. As argued above, in search for political legitimacy, the government introduced a number of exclusionary clauses in order to protect farmers. As for the role played by the external actors, the empirical analysis argued that there was a difference between the bill proposal and the

adopted pension law, showing that the World Bank proposals were mediated by internal political dynamics.

2.2 The Policy-Making Process: The Second Wave of Pension Reforms, 1995-2013

The period from 1995 to 2013 corresponds to the implementation phase, which shows the limits of a Bismarckian insurance approach, typically for a country with high labour market informality, high unemployment levels, low tax-rates compliance and also a large share of the self-employed especially in the agriculture sector. In this regard, two important parametric adjustments were introduced in order to restore the fiscal sustainability of the pension system and ensure effective social protection. The left-wing government adopted some retrenchment measures in 2002. On the contrary, starting from 2005 the right-wing government went for some pension expansion. The following two sections will discuss the policy-making processes of these reforms respectively.

2.2.1 The 2002 reform: divisive policy-making and lack of consultation

As discussed in chapter three, in the following years, the pension system continued to be characterized by high spending, a high system dependency ratio, high earmarked payroll taxes and persistent deficits. Evasion, whether through outright informality or underreporting of income, was prevalent in Albania, similar to all other transition economies in the CEE. The downward trend in the number of contributors reached its peak in 1997, with the civil unrest having a negative impact on the pension system as well. According to the World Bank data, in 1997, the pension deficit amounted to 2.3% of the GDP (World Bank, 1998).

In order to deal with the limited resources available for pensions and with demographic aging on the horizon, the World Bank's recommendations included the following: to maintain the real level of pension benefits as economic growth recovers and coordinate with the government's broader poverty alleviation agenda to help protect pensioners from falling below the poverty line; the government should avoid raising the marginal payroll tax rates which could further erode the tax base and also have a negative impact on economic growth; and benefits should be well targeted and transparent (World Bank,

1998). In addition, the Bank recommended that in the long term, the private sector should play a greater role in the provision of pensions once capital markets have developed and the prerequisites of an adequate macroeconomic, financial, and regulatory environments are met. However, it recognized that times were not yet ripe to propose a funded scheme, particularly after the 1997 crisis, which was a sudden warning that further improvement in government capacity was needed before Albania's economy could accommodate a multi-pillar pension system (World Bank, 2007).

Therefore, the Bank consistently urged the government to take action toward reform in reducing the contribution rate, gradually increasing the retirement age for men and women to 62 years old by 2014, introducing a near contribution-based pension formula (with reference to the whole working career), indexing past wages to the growth rate of the wage bill, and correcting benefits for early retirement. In addition, in order to promote long-term sustainability, the Bank recommended to phase out rural pension scheme and provide for voluntary contribution of farmers on the same basis as urban self-employed, to design transparent and inexpensive transition for farmers to enter urban pension scheme and to place rural pension scheme in central budget for accounting purposes (see box 5.4).

In 1997 there was a government alternation and the Socialist Party remained in power for 8 years. However, even though the World Bank came with concrete proposals on how to improve the pension scheme, the government did not take any concrete measures until 2002.

Box 5.4 The World Bank Reform Proposal

Poverty alleviation

- Maintain current benefit levels in real terms;
- Maintain current relatively flat distribution of urban pensions.

Promote long-term sustainability of pension system

- Broaden contribution base by including allowances and eliminating ceiling contributions;
- Pass legislation to raise retirement age of men and women to 62 gradually by 2014;
- Phase out rural pension scheme and provide for voluntary contribution of farmers on same basis as urban self-employed;
- Design transparent and inexpensive transition for farmers to enter urban pension scheme;
- Place rural pension scheme in central budget for accounting purposes;
- Improve database and produce long-run projections for pension finances.

Source: World Bank, 1998

Therefore, in 2002 the socialist government acknowledged as the main problem the deterioration of the contributor-beneficiary ratio, as a result of labour market informality, high unemployment level and demographic ageing (due to high emigration level among young people) (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature V, 2002, p.826). In line with the Bank's recommendations, the government proposed the following parametric reforms (box 5.5) in order to enhance the pension system sustainability, reduce the burden of payroll taxes, and make the system more appealing to the public (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature V, 2002, pp. 829-839). The total contribution rate would be reduced from 31.7% to 29.9% of the payroll, whereas the retirement age would increase gradually (6 months per year), from 55 to 60 for women and from 60 to 65 for men. On the administrative side, the collection of contributions for the urban plan would be transferred from the SII to the Tax Department of the Ministry of Finance as a way to reduce contribution evasion and avoid the duplication of functions within the administration.

Box 5.5 The Government's Bill proposal

Ensure long-term sustainability of pension system

- Increase the range between the minimum and maximum benefit/ contribution bases;
- Increase the contribution rate paid by farmers 2.4%;
- Reduce the contribution rate from 31.7% to 29.9% of the payroll;
- Gradual increase of the retirement age over the next ten years, until reaching the age of 65 for men and 60.
- Maintain eligibility for early retirement: age 57 for women and 62 for men, provided 35 years of service had been completed, but the pension level would be subject to actuarial correction.

Source: Ministry of Labour and Social Affairs *"On the Social Insurance Development Strategy until 2002"*

According to the government, these measures were necessary in order to address the fiscal instability of the pension scheme – pension deficit was high, amounting to 1.2% of GDP (IMF, 2001). According to government's experts, the increase in the retirement age was expected to limit pension spending, while reduction of contribution rate would increase incentives to participate in the scheme, thus raising revenues (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature V, 2002, pp. 830-833).

Therefore, the government overemphasised that its policy objective was to reduce pension spending and increase its revenues in order to make the scheme sustainable.

Table 5.4 Actors' Constellation: The 2002 Reform

Actors involved	Preferences	Position towards reform	Speeches in Media
Govt. (PS)	In favour of retrenchment because the WB and the IMF demanded that the revenues need to be found domestically.	In favour	Claimed to have saved the pension system.
Opposition (PD)	Did not have an alternative proposal.	Abandoned the parliamentary session	Focused on cuts and promised to reverse the reform once in power. Later they admitted they were against it in order to avoid blame.
World Bank and the IMF	In favour, they pushed for reform in order to ensure the fiscal sustainability of the scheme.	In favour	Focused on positive achievement and what remained to be done in the future.
TUs	Against/ were not consulted	Tried to bring the reform to halt.	Organized protests in many cities.
Empl. Org	n.a.	n.a.	n.a.

Source: Author's elaboration

The right-wing opposition parties, led by the Democratic Party did not have an alternative proposal. They strongly criticized this reform and abandoned the parliamentary discussion before the bill proposal came to vote. The bill was passed anyway, with no changes compared to the initial proposal, with 63 votes in favour out of 78[53] deputies present in the parliamentary session (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature V, 2002, pp. 825-840). However, the opposition's move to abandon the parliamentary session, instead of voting against the bill, casts doubt on whether they were really against this reform. For a parliamentary session to continue discussing a law that requires a simple majority more than half of the MPs should be present in the voting process, namely 71 out of 140 MPs. The law on social insurance requires a simple majority among the present MPs to be changed. Had the opposition MPs been present in the voting process, 63 votes pro out of 130[54] would have not constitute a simple majority for the bill to pass. Nonetheless, the PD positioned itself against this reform and claimed to reverse it once in power. It argued that raising the retirement age was not the solution given high unemployment and labour market informality levels[55].

[53] The PS had a majority of 73 seats in the parliament. However, 10 MPs were missing.
[54]10 MPs were absent during that plenary session.
[55] Gazeta Shekulli (2002, April 26). Paguaj 40 vjet kontribute, pastaj…vdis. *Gazeta Shekulli,* p.6.

Instead, the PD suggested that the government should secure stable and quality employment, encourage labour market formalisation and create new jobs.

A stronger opposition came from the trade unions, which had not been consulted. The Unions were against the increase of the retirement age and they organized strikes in the main cities to block the proposed cutbacks[56]. After the bill proposal was adopted, trade unions tried to bring the new law to a halt through a referendum, demanding the repeal of the increase of the retirement age. However, it was ruled illegal by the Constitutional Court[57], referring to the Constitution of Albania according to which "*issues related to … state budget, taxation and financial obligations of the state … cannot be submitted to a referendum*" (Alb. Const. art. 151/2).

2.2.2 Parametric changes under the right-wing government, 2005-2013

During the 2005 parliamentary election campaign, the PD used retrenchment against the left-wing government and promised it would double pension benefits and decrease the retirement age once in power[58]. Even though the Democratic Party positioned itself against the 2002 reform, it did not reverse the reform when it came into power (2005-2013). In fact, later the democrats admitted they were against the reform because they knew they could claim political credit by accusing the Socialist Party for cutbacks (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VI, 2008, pp.1344-1345).

However, it is worth mentioning that even though the right-wing government did not change the institutional structure of the pension system (by reversing the 2002 reform), it promoted expansionary policies. During its incumbency, the PD followed the Bank's recommendation to reduce the contribution rate in order to provide incentives to participate in the formal labour market (World Bank, 2007). Therefore, the contribution rate was decreased from 29.9% to 23.6% in 2006 and reduced even further to 21.6% in 2009. The outcome of these reductions was not as hoped, because the increase in the number of contributors was not associated with the decrease in the contribution rate,

[56] Kurani, S. (2002, April 16). Një ditë përpara votimin në Kuvend, sindikalistët pushtojnë sheshin. *Gazeta Shekulli,* p.1.
[57] Constitutional Court of the Republic of Albania v-31/03, of 19.11.2003.
[58] Rilindja Demokratike (2005, June 2). Dyfishim i menjëhershëm i pensioneve. *RD,* p.1.

which led to further fiscal deficit in the pension scheme (World Bank, 2007). Moreover, rather than maintaining the benefit structure, the government enhanced benefits, raising pensions substantially. In 2005 and 2006 pensions were raised 8% and 5% respectively in the urban system, much higher than the inflation rates of 2.5% and 2.2% (World Bank, 2013). In addition, the government followed a pattern of raising rural pensions by much more than urban pensions each year in an effort to equalize minimum pensions in both schemes by 2012 (Government Program 2009-2013).

By 2010 the pension deficit amounted to 2% of the GDP (World Bank, 2013). The government recognized the increasing challenges in the current pension system and requested technical assistance from the World Bank in providing recommendations in order to address these challenges (World Bank, 2013).

The World Bank's Proposals

After conducting a study on the current situation of the pension system in Albania, the World Bank concluded that the current Albanian pension system was on the one hand fiscally unsustainable and on the other, it focused almost exclusively on poverty alleviation alone, i.e., the system did not focus on income replacement. Based on this assessment, the Bank made two reform proposals.

According to the first option (box 5.6), the goal of pensions would remain the same, i.e., income maintenance. In order to ensure the fiscal sustainability of the existing social insurance system, the Bank suggested to improve the incentives to contribute, by tightening the link between benefits and paid contributions, thus enhancing the ability of the pension to replace the income earned during the working years. In addition, in line with increases in life expectancy, the Bank recommended an increase in the retirement age for women to age 65 by 2020, followed by an increase in the retirement age for both men and women to age 70 by 2080. In order to address the social inadequacy of the scheme, the Bank suggested the introduction of a means-tested social pension to every resident above the age of 70.

Box 5.6 The World Bank Reform Proposal: First Option

Improving incentives to contribute

- Linking benefits to contribution paid, without the repressive impact of the current cap;
- A gradual increase in the maximum pension, with the maximum pension indexed to 150% of nominal wage growth from 2014 onwards;
- A gradual elimination of the basic benefit, with the basic benefit held constant in nominal level from 2014 onward. The accrual rate of 1% per year of service remains intact;
- Restoration of a gap between average and minimum pension, by holding the minimum pension constant in nominal terms until 2020 and then indexing it by inflation onwards;
- Indexation of the average pension to inflation from 2014 onwards. The combination of this element and the previous element will result in an average pension equal to twice the minimum by 2021 and then forward as well;
- A rise in retirement age for women to age 65 between 2014 and 2020, followed by an increase in the retirement age for both men and women to age 70 by 2080, in line with increases in life expectancy;
- Institution of a social pension equal to the 2014 minimum pension for rural workers, who do not qualify for the urban pensions, but only available at age 70. The rural pension system with its subsidized contribution rates will be eliminated, with farmers no longer being required to pay contributions, but in turn receiving only the social pension. Current contributors in the rural system who are willing to make the full urban contribution without subsidy are welcome to continue contributing and will then receive the same pension as an urban worker upon retirement.

Source: World Bank, 2013

On the contrary, the second option focused on the poverty alleviation objective (box 5.7). Given that pension benefits were almost the same for all urban pensioners and slightly lower, but the same for all rural pensioners, the Bank suggested as a simpler solution to eliminate the contributory scheme completely and institute a basic pension that will be available to every resident above a certain age. This social security system would allow those who are unable or unwilling to contribute to receive at least some basic protection in old age. In addition, this model would eliminate the need to speed time and energy collecting contributions and maintaining records, only to end up not differentiating much between pensioners. The basic benefit could be supplemented by voluntary private savings for those who want greater consumption smoothing in old age.

Box 5.7 The World Bank Reform Proposal: Second Option

Focus on Poverty Alleviation

- Eliminate the contributory system altogether and implement a flat pension for all residents at retirement age;
- Holding the minimum pension constant in nominal terms until 2020 and then indexing it by inflation onwards;
- Indexation of the average pension to inflation from 2014 onwards;
- A rise in retirement age for women to age 65 between 2014 and 2020, followed by an increase in the retirement age for both men and women to age 70 by 2080, in line with increases in life expectancy; and,
- No contribution required for either rural or urban sector, with past urban contributors receiving what they have accrued in the former pension system or the social pension whichever is higher and the rural contributor receiving only the social pension, which is equal to the minimum rural pension that they would have receive in any case;
- New labour tax in the amount of 21.6% of wage initially, to be decreased over-time as fiscal space opens up.

Source: World Bank, 2013

Following the World Bank's recommendations, in February 2012, the PD urged the opposition to jointly draft the pension reform, claiming that such reform was of vital importance and therefore it required a qualified majority of two-third of the entire MPs (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VII, 2012, p. 97). The opposition denied that such law required a two-third majority. According to them, the government was making such claims in order to avoid the political costs of pension reform (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VII, 2012, pp. 102-106). This was an (failed) attempt to use one of the obfuscation strategies (Pierson, 1994), in which the government tried to reach a negotiated agreement with the opposition parties in order to spread the blame for unpopular cuts.

The PD bill proposal included further parametric reforms such as raising the retirement age, which according to the Minister of Finance was a necessity in order to deal with the deficit that the scheme was dealing with and the public debt in general[59]. However, the government postponed the bill until after the 2013 parliamentary elections (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VII, 2012, pp. 102-106).

[59] Bode, R. (2012, March 19). Borxhi ynë është i madh, por nuk paraqet rrezik. Duhet rritur mosha e pensionit. *Gazeta Tema*. Retrieved from http://www.gazetatema.net/

In other words, the right-wing government did not adopt a counter-reform as promised, which shows its commitment to the existing structure of the pension system. Instead, despite the financial difficulties that the pension scheme was facing, the right-wing government promoted expansionary policies, a strategic move for which they claimed credit in the 2013 parliamentary elections.

To sum up, the process tracing of two decades of implementation shows that pension system institutional development followed *path dependent* changes. Despite the ongoing fiscal pressures to alter the policy measures taken at the critical juncture, political parties committed at the ideational level to the existing structure of the pension system in order not to risk their re-election goal. However, on a more *interest-based* and *power-based* level they competed towards pension expansion, seeking political support and legitimacy, at the expense of increasing the fiscal deficit of pension scheme. Even during this period, the World Bank continued to provide support through policy proposals and lending. However, as shown above, governments of different colour were able to postpone and modify the Bank's reform proposals.

2.3 The Policy-Making Process: The Third Wave of Pension Reforms, after 2013

The pension issue was an important topic during the 2013 electoral campaign. Both main trade union confederations (the KSSH and the BSPSH) acknowledged that pension reform was a necessity. Prior to the elections, the Confederation of Trade Unions (KSSH) signed an alliance with the Socialist Party, where it demanded, among other requests, a reform in the social insurance system, which would ensure the scheme's fiscal sustainability and the introduction of a social pension (means-tested) for every citizen who had reached the retirement age, in order to prevent poverty in the old age[60]. Differently, the United Independent Albanian Trade Unions (BSPSH) supported the Democratic Party. It demanded the reduction in the retirement age for miners and were in favour of the introduction of a mandatory occupational fully-funded second pillar[61].

[60] KSSH (2013, May 07). KSSH i kërkon koalicionit të majtë "Aleanca për Shqipërinë Europiane" të kryesuar nga Partia Socialiste për të nënshkruar një memorandum bashkëpunimi para dhe pas zgjedhor. Retrieved from: kssh.org/

[61] BSPSH (2013, May 18). 22 vjetori i grevës së sindikatave. Retrieved from: bspsh.org.al/

During the 2013 parliamentary elections the Socialist Party (PS) promised[62] a pension reform, which would contribute to tackle the issues of unemployment and informality in the labour market and introduce a social pension for elderly above 75 years old who did not have any other source of income.

On the contrary, the incumbent party (the PD) focused on the achievement it had made regarding this category, such as decrease of the contribution rate and increase in pension benefits[63]. The PD claimed credit for these expansionary policies and promised to increase the benefits even more if re-elected.

2.3.1 Pension policy changes under the left-wing government

When the Socialists took office in 2013, pension reform was unpreventable (World Bank 2014; IMF, 2014). One year later the left-wing government introduced the bill to the parliament, which was a modified version of the second option suggested by the World Bank to the previous (right-wing) government (see box 5.8).

This time the socialists had the support of one of the two main trade union confederations (Confederation of the Trade Unions of Albania - KSSH), which was in favour of a pension reform that would ensure the sustainability of the pension scheme[64]. In addition, the KSSH supported the introduction of a means-tested social pension for every citizen who had reached the retirement age. Even though the KSSH was against the increase in the retirement age, a compromise was reached to gradually increase the retirement age for women to 63 by 2032, followed by an increase in the retirement age for both men and women to age 67 by 2056. The original proposal by the World Bank suggested an increase in the retirement age for women to 65 by 2020, followed up by an increase for both gender to age 70 by 2080 (box 5.8).

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[62] PS (2013, June 03). Ripërtëritje e Shoqërisë: Shqiptarët meritojnë shumë më mirë. Retrieved from: https://www.ps.al/files/1/programi/Riperteritja-e-shoqerise.pdf

[63] (2013, July 17). Berisha: Rritja e pagave dhe pensioneve në fokus, keqdashësit përhapin panik. *Sot*. Retrieved from: https://sot.com.al/politike/berisha-rritja-e-pagave-dhe-pensioneve-n%C3%AB-fokus-keqdash%C3%ABsit-p%C3%ABrhapin-panik

[64] KSSH (2013, May 07). KSSH i kërkon koalicionit të majtë "Aleanca për Shqipërinë Europiane" të kryesuar nga Partia Socialiste për të nënshkruar një memorandum bashkëpunimi para dhe pas zgjedhor. Retrieved from: kssh.org/

Box 5.8 Government's bill proposal and the WB's Proposal: Main Changes

Government's bill proposal	WB's proposal
• A rise in retirement age for women to age 63 between 2014 and 2032, followed by an increase in the retirement age for both men and women to age 67 by 2056, in line with increases in life expectancy;	• A rise in retirement age for women to age 65 between 2014 and 2020, followed by an increase in the retirement age for both men and women to age 70 by 2080;
• Reduction in the retirement age for underground miners from 60 to 55 years;	• n.a.
• Introduction of a social pension (means-tested) financed by the state budget, for every resident above the age of 70 years old who does not meet the requirement for old-age pension benefits. The rural pension system with its subsidized contribution rates will be eliminated, with farmers no longer being required to pay contributions, but in turn receiving only the social pension. Current contributors in the rural system who are willing to make the full urban contribution without subsidy are welcome to continue contributing and will then receive the same pension as an urban worker upon retirement;	• Institution of a social pension equal to the 2014 minimum pension for rural workers, who do not qualify for the urban pensions, but only available at age 70;
• Unification of the urban and rural plan, applying the same criteria and calculation formula for both the urban sector and the self-employed in agriculture. A reference salary is set for former agriculture cooperative workers by eliminating the privileges for some persons and categories. Starting from 2018, the self-employed in agriculture will pay equal contribution to the self-employed in the urban area;	• n.a.
• Linking benefits to contribution paid, by removing the cap on the maximum pensions;	• Same;
• Change in the pension formula: the basic pension is replaced by the social pension, while the rest remains the same, based on individual contributions and is calculated 1% of average wage of entire working career.	• A gradual elimination of the basic benefit, with the basic benefit held constant in nominal level from 2014 onward. The accrual rate of 1% per year of service remains intact.

Source: Ministry of Social Welfare and Youth (2014)

The Employers' Association supported the pension reform, arguing that it would improve the finances, fight informality and increase workers' pressure on employers for participation in the pension scheme[65].

Differently, the Union of the Independent Trade Unions of Albania (BSPSH) was against the reform, stating that the bill proposal discriminated against most of the workers and favoured only senior officials, who were well paid. This result would be due to the change in the calculation formula, which tightened the link between contributions, the average wages and pension benefits and replaced the basic pension with the social pension, which

[65] (2014, June 16). President of Business Albania and vice-president of the National Labour Council, Mr. Bregasi opinion during tripartite social dialogue on Pension Reform. Retrieved from www.panorama.com

clearly reduced the benefit amount for low-paid workers. The president of the BSPSH, Mr. Kalaja, described this reform as unacceptable, and warned the government that if an agreement was not reached with the social partners, the only solution would be to protest[66]. A compromise was reached with the reduction in the retirement age for miners from 60 to 55 years, which had been the BSPSH main demand for years.

From the Pensioners Association viewpoint, providing a social pension to individuals who have not contributed to the scheme was a wrong move, which would only worsen the deficit of the scheme. According to them, increasing the contribution rate for rural areas would give farmers no incentives to contribute at all since they could benefit a social pension. Until 2014 farmers had paid subsidized contributions, which used to be twice as low as the contributions of employees in the urban areas. The new law defined equal contributions for both urban and rural areas. In the words of the President of the Pensioners Association, Mr. Terziu[67]: "*this will destroy the rural pension plan and the sustainability of the pension system in general, because farmers will neither be able nor will have any incentives to pay the new level of the contributions."*

On the contrary, the opposition, led by the PD, refused to participate in the negotiation with the ruling party, thus avoiding a constructive dialogue. Even though it did not present an alternative policy proposal, the PD positioned itself against the increase in the retirement age, as well as the introduction of a social pension, which according to them would increase informality and would provide disincentives to work. The introduction of a social pension was considered both unfair and illegal, given that the current law linked pension benefits to employment and contribution records and those who did not meet the minimum contributory period had no right to a pension benefit (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VIII, 2014, p. 289). Calling this reform a "social catastrophe", the PD promised reversal once in power and abandoned the plenary session before the bill came to vote[68].

However, the bill was passed on July 31, 2014 with 88 out of 140 votes in favour, meaning that the opposition's vote would not have mattered anyway (contrary to the 2002 voting process).

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[66] (2014, June 01). Mr. Kalaja's interview for Ora News. Retrieved from www.oranews.tv

[67] (2015, January 09). Mr. Terziu interview for Rilindja Demokratike. Retrieved from www.rd.al

[68] Basha, L. (2014, July 24). S'e pranojmë, katastrofë shoqërore. *OraNews.* Retrieved from www.oranews.tv

The socialists considered this reform a success and an important change they should take credit for, claiming that they had saved the scheme, provided wider coverage and higher benefits. Moreover, they blamed the opposition for not being present during the voting process, arguing that by this action the opposition had abandoned the citizens and the voices that they represent in the parliament[69].

It is also worth mentioning that this reform was part a program of reforms that the World Bank considered as critical for the country's economic and social development (World Bank, 2015). Thus, the Bank applied conditionality in the policy-based lending of a $575 million loan. Moreover, the Bank considered the reform of the first pillar an urgent issue that could not wait for a new private second pillar to be introduced (Prince, 2014). In fact, a structural reform was not part of the government's agenda (Interview 6 – Social Policy Expert).

Table 5.5 Actors' Constellation: The 2014 Reform

Actors involved	**Preferences**	**Position towards reform**	**Speeches in Media**
Govt. (the PS)	Make the system sustainable and adequate.	In favour	Considered it as a reform they should take credit for, claiming that they had saved the scheme, provided wider coverage and higher benefits. Moreover, they claimed that the increase in the retirement age was recommended by the WB, but was not the government's preferred option.
Opposition (the PD)	Did not have an alternative proposal.	Abandoned the parliamentary session	Focused on cuts and promised to reverse the reform once in power.
World Bank	Ensure the fiscal sustainability and social adequacy of the pension system	In favour	Considered the reform a success.
TUs	Ensure the sustainability of the pension scheme; Against the increase in the retirement age	Compromises were reached	Against the increase in the retirement age. Reduction in the retirement age for miners was considered as their success.
Empl. Org	n.a.	In favour	Considered the reform a success.

Source: Author's own elaboration

In a nutshell, the 2014 reform's goal was to address the limits of the existing social insurance system, which proved to be ineffective both in terms of financial sustainability and protective capacity. In order to tackle both these issues, the left-wing government

[69] Rama, E. (2015, Mars 26). Rritje reale e pensioneve. Opozita ka braktisur qytetarët. Retrieved from https://kryeministria.al/newsrooms/deklarata-per-shtyp/

aimed on the one hand at rationalizing redistribution in pensions by tightening the link between benefits and contributions and on the other hand, at introducing more redistributive social assistance pensions in order to prevent those who do not qualify for the old-age social insurance pensions from falling into poverty. Therefore, to some extent, the insurance model was hybridized, with the introduction of a social pension.

Both these policy measures were heavily criticized by the (right-wing) opposition parties. The PD's position towards cuts can be interpreted as a strategy to avoid blame for unpopular reforms, considering that the PD's bill proposal in 2012 (when it was the ruling party) included retrenchment measures, such as raising the retirement age, but postponed the bill until after parliamentary elections in order not to risk its re-election chances. On the contrary, the introduction of a social pension was criticized on a more rights-based approach, which the PD considered as "unfair and illegal", given that the Albanian social insurance model was employment-related, pension benefits were linked to contribution records and those who did not meet the minimum contributory period had no right to a pension benefit.

Contrary to the 2002 parametric changes, the adoption of the 2014 reform involved bargaining with the main trade union confederations. Trade unions contributed to raise the political salience of pension reform focusing on the necessity of ensuring an adequate and sustainable social insurance system. In addition, the trade unions managed to lower the rise in the retirement age for women (from 65 years old by 2020 to 63 years old by 2032) and decrease the retirement age for miners from 60 to 55 years old.

The World Bank supported the government's policy preferences in developing a sustainable and adequate pension system. Similar to previous pension reforms, the Bank's involvement consisted in providing policy advice and technical expertise in drafting the bill proposal in line with the government's preferences (Interview 2 – USAID Albania representative; Interview 5 – World Bank Albania representative).

In conclusion, *ideas* and *interests* supporting the existing pension policy paradigm did not change substantially in the last wave of reforms. In fact, as argued above, the final policy output was shaped by existing *institutions' inertial dynamics* and the *political exchange dynamics* between the left-wing government and trade unions.

2.4 A Structural Reform

In 1995 the PD introduced the bill on voluntary private fully-funded pillar to the parliament and yet again all parties agreed on principle. The socialist considered it a good initiative that would complement the compulsory social insurance scheme. According to them, such schemes were defined as "fair" because they based benefits on individual contributions, meaning that those who contribute more would benefit more during retirement (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1995, p. 826). The adoption of the voluntary pillar was not controversial, since it had no effects on the existing PAYG system.

However, even though voluntary funded schemes were established in 1995, they took off in 2006, after enacting a necessary law that would regulate voluntary supplementary pension insurance. This gap can be partly explained by the fact that the World Bank' assistance strategy in Albania was revised after the 1997 crisis. The Bank recognized that the country's conditions were particularly difficult due to lack of resources and any conceptual basis for reform. After the 1997 crisis, the Bank advised that it would be useless, and possibly even harmful, to propose the three-pillar system, in a country that could barely keep its "head above water" (Fornero and Ferraresi, 2007). Similarly, the IMF did not advise the creation of a mandatory, funded second pillar at this stage, arguing that it would threaten the financial sustainability of the PAYG system. Instead, they recommended a combination of parametric reforms consisting of a rise in the contribution ceiling combined with a reduction of contribution rates and an increase of the retirement age (IMF, 2001).

At the same time, the collapse of pyramid schemes undermined public confidence in the financial system (Guardiancich, 2008). Even since trust in financial institutions has remained below average in Albania. A recent study by the World Bank shows that fewer than 30% of the adult population choose to have access to a formal financial account as compared to 50%-80% for the closest neighbours (Prince, 2014). In 2014, only 38% of the adult population had a bank account (and 8% had some formal savings) compared to 72% and 83% of adults with bank accounts in Macedonia and Serbia respectively (World Bank data).

In addition to the distrust in the financial institution, the early 2000s were characterised by popular mistrust and discontent concerning the existing democratic deficits, the informal practices, the incompetent elites and dysfunctional institutions (Kajsiu, 2015). According to Kapstein and Milanovic (2002), another troublesome risk in the Albanian case stemmed from widespread political corruption, most commonly in the form of the political use of fiscal resources either to benefit cronies or to advance electoral aims.

Given this situation, in the early 2000s no significant political actor has advocated pension privatisation (Interview 1 – Political Parties Expert; Interview 3 – former Minister of Labour). Hence, when pension reform reached the government's agenda in 2002 there was no mention of a private pillar.

Interest in the third pillar returned into the government's agenda after the election of the Democratic Party in 2005, pushed by the World Bank and the IMF. Hence, in 2005, the IMF in its *Albanian Financial System Stability Assessment*, among other policy recommendations, suggested the Albanian government to accelerate efforts to assure the necessary prudential framework for a private, voluntary funded pension scheme (IMF, 2005). This report found out that the Albanian financial market was not vulnerable anymore and it could support a well-regulated private pension fund industry. Therefore, under the supervision of both the IMF and the World Bank (FSA, 2007), in 2006[70], the Albanian Financial Supervision Authority (FSA) was set up, to supervise the private pension market. This institution would monitor and regulate the functioning of private companies, as a central mechanism not only for the drafting of a legal basis, but also as a regulator for the operation of their pension market, in terms of managing risk and audit all activity of the subject. The private pension schemes would be completely voluntary and provide defined contribution (DC) pension benefits.

In December 2009[71,] a new regulatory framework for the private schemes was adopted and provided the basis for the creation of voluntary pension. Consequently, the first companies started to operate as private pension funds in 2009. However, the new law was adopted without the presence of the opposition, because the latter had boycotted the parliament over claims of election fraud and refused to recognize the legitimacy of the

[70] Law no. 9572 of 03.07.2006 "On Albanian Financial Supervision Authority".
[71] Law no. 10197 of 10.12.2009 "On Voluntary pension funds".

government after the 2009 parliamentary elections (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VII, 2009, pp.941-948).

Nonetheless, the third pillar' coverage remains low, with the size of the private pension market accounting for 0.11% of the GDP in 2016 (FSA data). The slow growth of the voluntary pension system is dedicated to low employer and employee awareness, trust, and resistance from employers due to difficulties in claiming tax benefits (Hado and Ashcroft, 2018). Moreover, informal employment constitutes a further obstacle, because employers who were under-declaring employees or salaries for contributions to the public scheme (first pillar), were reluctant to participate in voluntary schemes in order not to draw attention to non-compliance under the compulsory public scheme (Hado and Ashcroft, 2018). Hence, a reform to strengthen compliance in the first pillar became a prerequisite for expanding the coverage of the third pillar (Prince, 2014).

When it comes to introducing a mandatory second pillar, the issue has been brought up several times since 2007 but no concrete proposal has been made by any influential actor. Even though the Socialist Party had included the introduction of a multi-pillar pension system in its 2013 electoral platform, a structural reform was never a part of its government's agenda (Interview 6 – Social Policy Expert). As a matter of fact, both the World Bank and the IMF have recommended to postpone the introduction of a second pillar into the future, given country' legacy of distrust for financial services. As a first step they recommended that the government needs to build trust and confidence in the private market and postpone the introduction of a mandatory second pillar in the long-term (Prince, 2014).

3. The Politics of Healthcare Reform

As discussed in chapter three, similar to pensions, the post-communist healthcare system underwent three important waves of reforms. The first wave of reforms (1991-1994) launched the shift from the Semashko model to a Bismarckian social insurance model. The health insurance institute (HII) was created as an independent body, which would organize and direct the health insurance contributions and purchase healthcare services from healthcare providers. The health insurance scheme would be expanded gradually,

initially covering only a list of reimbursable drugs and services provided by family doctors and GPs. The reform in this period paved the way to a Bismarckian insurance model, with the final aim to make the HII the single payer of all healthcare services.

The second wave of reforms (1995-2013) includes the implementation period. The aim of the reforms in this period was to provide the necessary regulations in order to expand services covered by the health insurance scheme, thus making the HII the single payer institution of all healthcare services. However, similar to the case of pensions, this phase showed the limits of the Bismarckian insurance approach to ensure fiscal sustainability and social adequacy of the healthcare system, due to high unemployment levels, high labour market informality levels, limited administrative capacity and weak oversight structures. In addition, corruption continued to be a major issue that prevented fair and equal access to healthcare services, which combined with high levels of out-of-pocket payments (especially in the form of informal payments) created additional disadvantages for poor people to access healthcare facilities.

Therefore, in the third wave (2013 onwards), the government's goal was to address the challenges encountered during the second wave. It launched the transition towards a social security model, as a solution that would resolve both the fiscal and social instability of the healthcare system. Consequently, the reform in the last period partially reversed the healthcare model, by introducing universal healthcare packages for every resident free-of-charge.

Table 5.6 below provides an overview of the parliamentary elections and healthcare reforms from 1991 to 2014.

Table 5.6 Healthcare Reforms, Parliamentary Elections

Year		Main party(-ies) in the government/ reform
1991	Parliamentary elections	Labour Party (communist party)
1992	Parliamentary elections	Democratic Party (right-wing government)
1993	Healthcare reform	Abolished right to universal free healthcare
1994	Healthcare reforms	Introductions of compulsory healthcare insurance Introduction of private medical practice (dental services and pharmaceutics).
1996	Parliamentary elections	Democratic Party (right-wing government)
1997	Parliamentary elections	Socialist Party (left-wing government)
2001	Parliamentary elections	Socialist Party (left-wing government)
2004	Healthcare reform	HII as the single source of finance for some unique tertiary care. Private hospitals started to function.
2005	Parliamentary elections	Democratic Party (right-wing government)
2006	Healthcare reform	HII as the single source of finance for PHC.
2008	Healthcare reform	HII as the single source of finance for hospital services.
2009	Parliamentary elections	Democratic Party (right-wing) + Socialist Movement for Integration (central-left)
2011	Healthcare reform	HII was transformed into a Fund.
2013	Parliamentary elections	Socialist Party (left-wing) + Socialist Movement for Integration (central-left)
2014	Healthcare reform	Every resident has the right to use the emergency service (at all levels), periodic preventive population check-up package and a family doctor, free of charge. The Fund can contract health service providers abroad.

Source: Central Election Commission (KQZ), Health Insurance Institute, Ministry of Health

Against this backdrop, the main focus of this paragraph will be on the policy-making processes that led to the adoption of each major healthcare reform after the fall of Communism. It will provide a detailed empirical analysis aimed at mapping the actor constellations in various junctures and at linking the political dynamics with healthcare policy trajectory. The rest of this paragraph is structured in three different sections (3.1, 3.2 and 3.3), each of which discusses the policy-making process of the three main waves of healthcare reforms.

3.1 The Policy-Making Process: The First Wave of Healthcare Reforms, 1991-1994

As mentioned in the third chapter, despite its inherited problems, the Albanian healthcare system during the last communist decade remained unchanged. Even though some studies acknowledged the issues the healthcare system was facing, no one had the courage to suggest policy changes. The communist elite was not willing to consider any form of

policy change, whereas, actors who could act as potential advocates of change, such as healthcare personnel, were not only politically powerless but also afraid that their actions might have consequences if they challenged the Labour Party's monopoly on thought and power (Nizich, Laber & McClintock, 1996).

After the collapse of communism immediate actions were required not only to prevent further deterioration of basic services and transform the health care system into a financially sustainable one, but also because citizens were complaining about the quality of the services provided and physicians openly expressed their dissatisfaction with the low salaries (World Bank, 1994b).

Ideas about healthcare policy change emerged only after the fall of communism both from within the reformed communist party and from opposition deputies. The first post-communist government, led by the Socialist Party, acknowledged the problem in this sector and healthcare restructuring was included in the government's agenda (Government strategy 11 May – 04 June 1991). Its main aim was to encourage privatisation in healthcare financing and delivery in line with market economy demands. In healthcare financing the aim was to partially transfer the healthcare costs onto patients through co-payments and users' fees in order to generate additional resources for healthcare. In terms of healthcare delivery, the aim was to introduce gradual private sector involvement in healthcare provision. Yet, the government recognized the importance of maintaining public healthcare structures as a legal obligation to ensure "*health as a fundamental human right*" (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature I, 1991, pp. 1927-1929). However, no concrete measures were taken, as the government prioritised other areas which required immediate measures.

Even though reform in healthcare was not considered a priority for the first democratic government (1991-1992), ideas on reform proposals started to circulate. One important actor in this regard was Tritan Shehu, a doctor and PD deputy, who later would become minister of health (1992-1996). His main concern was how to increase the health budget and encourage the healthcare personnel to improve their work performance. He identified as the main problem the existing financial mode of the healthcare system, which had created a situation in which the medical personnel were not motivated to work (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature I, 1991, p. 479). Everyone was getting the same salary, regardless of their positions and work performed

and according to him, this situation had discouraged the personnel to give quality healthcare services. As a solution to this problem, he suggested giving up the general concept of universal free healthcare and moving to some forms of social insurance, which he considered to be the most rational way to supplement and strengthen the state healthcare budget. Moreover, acknowledging the severe conditions which Albania was facing at the moment, he recommended to leave in place free healthcare only for the most vulnerable groups. He advocated for privatisation of the healthcare facilities, as a way to increase competition between public and private healthcare providers, which in turn would motivate the medical staff to provide better quality healthcare services since they would have to compete for patients. He justified these ideas as being pushed and favoured by the World Bank and were not exclusively Albanian ideas, but were being implemented elsewhere in other post-communist countries as well (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, p. 1231).

It is important to note that the first report on healthcare system problems and subsequent recommendations on how to solve them came from the World Bank in 1992. Therefore, in their report *Albania: Health Sector Reform during the Transition*, the Bank highlighted the importance of reassessing the entire healthcare structure and promoting realistic targets to be achieved within the existing fiscal constraints (World Bank, 1992). The Bank's main objectives were to deal with the inefficiencies the system was facing and improve the quality of services provided. Regarding the financing of the health system the World Bank recommended two possible alternatives. The Bank's first proposal was to rely on the State budget. Such a decision would move the health system towards a Beveridgean model. A second proposal was to move towards a Bismarck model, and financing would be based on direct contributions from the citizens. However, according to the World Bank (1992) this model was considered as very difficult to become functional, due to lack of experience and weak market structure and mechanisms. Moreover, according to the Bank, this proposal faced another challenge: the inconvenience of collecting health contributions as well as the establishment of a new structure (insurance system) in that period. The Bank argued that health insurance contributions would increase even more the burden on wages in the formal sector and thus could induce many enterprises to shed labour or try to evade the tax, which could

have an overall negative impact on formal employment and on social insurance revenues (World Bank, 1992).

Box 5.9 The World Bank's Position on the Social Insurance Model

A health insurance law cannot be adopted without sufficient preparation of the health insurance system itself and without further reflection on its links with other aspects of health system reform and, for that matter, other aspects of global economic reform.
Health insurance systems must be financially viable. That is, total contributions into the system should be set at a level sufficient to cover the total cost of services financed through the system plus the cost of administering the system. The development of a health insurance system would thus require extensive preparation to: (a) identify the cost elements (medical consultation, equipment use, drugs, medical supplies, hospitalization) of different services to be provided in health facilities; (b) examine alternative payment/reimbursement schemes (how will each service and each cost element be financed by the health budget, the health insurance fund or other sources?); (c) examine alternative contribution schemes (who will pay how much into the health insurance fund(s) and on what basis? who will make contributions on behalf of non-income or low-income earners?); (d) determine the administrative requirements and costs of alternative contribution and reimbursement schemes; (e) analyse the financial viability of alternative combinations of contribution and payment; and finally (f) select the appropriate insurance/financing scheme.
No viable health insurance scheme can be established until some stability is achieved in the country's economic transformation. In effect, health insurance contributions would only add to the already heavy burden of contributions that the social insurance fund now imposes. These social fees, combined with direct and indirect taxes on the private sector, would impose a global fiscal burden that would not be affordable to either employers or employees. Finally, the establishment of the health fund itself, including the institutional setting for administering the fund (or funds), will require time and initial investment. For all these reasons, a health insurance system should be introduced only after the above studies and analyses have been performed, reliable contributions can be assured and an administrative system established. The stabilization of the existing social insurance system would be a good indicator of the economy's readiness for health insurance.

Source: World Bank (1992)

Consequently, from the beginning, the World Bank opposed the establishment of an insurance system in Albania and recommended it only as a long-term goal to be implemented gradually in the future.

Moreover, the Bank encouraged a gradual introduction of private healthcare services, initially only in dentistry and pharmaceutics, recommending at the same time the provision of dental services under the new government management schemes as well as subsidies for essential pharmaceuticals to remain in place over the short-term (World Bank, 1992). The Bank recommended reconstructing the healthcare system on the basis of more appropriate technical and social norms, before attempting to transfer ownership to the private sector or encourage large-scale development of private services. According to the Bank, there were strong *"economic (efficiency) and equity arguments for keeping health services in the public domain even when other sectors in the economy are being*

liberalized and the state must find an appropriate role for itself in financing, providing, regulating and/or setting policy for health services to allow it to ensure that efficiency and equity are both maintained" (World Bank, 1992).

Nevertheless, concrete measures on healthcare were not taken until 1993, after the Democratic Party came in power and Tritan Shehu became the new minister of health, who had an articulated position on healthcare reform. In response to the Bank's recommendations, the Ministry of Health presented its own sector reform proposals in April 1993, in *A New Policy for the Health Care Sector in Albania* (MoH, 1993). Despite the Bank's proposal, the Government decided to set up a health insurance system from the beginning. The establishment of health insurance was the government's favourite choice because it would shift the responsibility from the state to individuals, in line with the new market economy developments (Interview 3 – former Minister of Labour; Interview 13 – Former Minister of Health). In addition, this system was expected to raise extra funds without worsening the financial situation of the state budget, which was favoured by the Ministry of Finance as well. Moreover, according to the government such a scheme would facilitate the process of healthcare services privatization (MoH, 1993). The government preferred a single payer system (cf. chapter three), rather than a multiple payer one, because such a system was expected to better cover the country's small population, act as a strong regulator and keep administrative costs low (Nuri, 2002).

The Albanian government sought external support for its health policy program. The bill proposal was drafted with assistance from the World Bank and it was influenced by the French healthcare social insurance legislation (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1994, p. 1062). Even though the Bank did not favour the introduction of an insurance system at this stage, it supported the government's policy preferences. However, the Bank recommended the government to initially set the contribution rate at a low level in order not drastically increase the burden on wages. Even though the minister of health aimed at setting the contribution rate at 7% of the payroll, a compromise was reached with the World Bank to initially set the contribution rate at 3.4% and to gradually increase it to 7% of the payroll in the following years once the economic stabilisation was achieved and a well-functioning healthcare insurance system was established (Interview 13 – Former Minister of Health; Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1994, pp. 1060-1062).

The Bank provided a $800'000 loan, a part of which would be used for the establishment of the Health Insurance Institute (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1993, pp. 1231-1232). Agreement on a second loan would be reached after the health insurance bill was adopted (discussed below).

Box 5.10 The Government's Healthcare Medium-Term Strategy

Objective: ensure access to comprehensive primary care, rationalize delivery of secondary and tertiary care, increase efficiency, control costs and improve the quality of care at all levels.
A medium-term strategy of:

- streamlining the network of public health facilities, through an approximate 50 percent reduction in the number of health posts and primary health centres, and a 35 percent reduction in the number of hospital beds;
- progressively rehabilitating and reequipping this streamlined network of public facilities;
- retraining and redeploying existing medical personnel, and improving pre-service training in the areas of family medicine and basic inpatient specialties;
- decentralizing planning and management of health services to the district level;
- eliminating bottlenecks in the supply of critical inputs, especially drugs;
- developing new financing mechanisms through the introduction of earmarked payroll contributions, user fees and new pricing policies and payment mechanisms for pharmacies, outpatient care and hospitalization in order to: i) create financial incentives for increased efficiency, cost containment and improved quality of care; and ii) facilitate private sector development by remunerating public and private providers equally, on the basis of services rendered;
- encouraging the development of private sector providers and pharmaceutical suppliers;
- building institutional capacity for policy analysis and planning at all levels of the health sector;
- enhancing the Ministry of Health's capacity for regulation and quality control of drugs and health services.

Source: MoH (1993) A New Policy for the Health Care Sector in Albania

In July 1993 the BSPSH sent a petition[72] to the Minister of Health, requesting that the bill on the healthcare reform should consider the following issues: i) higher salaries for healthcare workers, ii) privatisation on the health sector should favour most and foremost the employees of the enterprises and institutions that will be privatized, iii) to rely on country's experts (and not foreign ones), because the former know the country context better, and, iv) drafting of a collective bargaining between parties in the health sector.
In October 1994 the government presented the bill proposal on healthcare insurance to the parliament. There was a general agreement among different parties that the need for reform was immediate and all parties were in favour of the introduction of an insurance system with more liberal incentives, privatisation of certain services, such as dentistry

[72] Gina, A. (1993, August 13). Shëndetësia jashtë kujdesit: pikëpyetje mbi reformë. *Sindikalisti BSP.* p. 2-3

and pharmaceutics, and introduction of co-payments (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1994, pp. 1060-1062). The opposition parties did not propose alternative reform options and they agreed in principle with the government's bills. Hence, the government managed to successfully pass its proposals in the parliament without much debate (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1994, p. 1067).

In November 1994 the World Bank's *Health Services Rehabilitation Project* was approved. This project was designed to support the government's healthcare strategy and it was linked to a loan agreement of $12.4 million between the Albanian government and the World Bank (World Bank 1994b).

Table 5.7 Actors' Constellation: The 1994 Reform

Actors involved	**Preferences**	**Position towards reform**	**Speeches in Media**
Government	Shift to an insurance scheme.	Proposed the bill	Claimed credit.
Opposition	Did not have an alternative proposal.	In favour	Claimed to be against privatisation.
World Bank	Maintain social security.	Provided assistance	Focused on progress and what remained to be done in the future.
Professional associations	Both pharmacists and dentists were against privatisation.	Changed opinion when realised the reform was in their own interest.	

Source: Author's elaboration

In the context of extreme poverty, the government introduced a step-by-step approach regarding health insurance funding (Gjonca & Gjonca, 2000; Nuri, 2002). Contributions would be paid by economically active persons, whereas the government would contribute on behalf of inactive groups (retirees, unemployed and persons benefiting from social assistance programs). This social assistance intervention was intended to be a transitory provision. The generosity of the early social protection measures was driven by the popular expectation that the state should provide everything (Interview 1 – Political Parties Expert), based on the inherited communist welfare legacy, in which the state provided free and universal healthcare services. Consequently, the political elite responded to this popular expectation and continued to protect its citizens from the transition induced social costs as a way to secure political support for the reforms and reduce mobilisation against reforms (Interview 1 – Political Parties Expert).

Moreover, in order to make the transition towards social insurance as smooth as possible, the health insurance scheme would initially cover only a list of essential pharmaceuticals and healthcare services provided by family doctors and GPs. Service coverage would only increase when the economic situation improved and the Health Insurance Institute achieved some stability. Moreover, the introduction of private healthcare services would follow a step-by-step approach as well, initially only in dentistry and pharmaceutics and would be gradually extended to other services as well, which would supplement and reinforce the services of the public sector.

The switch to health insurance changed the healthcare financing system through the introduction of healthcare contributions and partial transfer of healthcare costs onto patients through out-of-pocket payments and introduction of a new institution for healthcare financing, i.e., health insurance institute. Implementation of the law was followed by the privatisation of the pharmaceutical sector and dental care.

Nonetheless, as argued in chapter three, reforms adopted during this period showed only limited progress[73] in term of improving the quality and adequacy of healthcare services, namely, health outcomes lagged behind those of other countries in the South East Europe; physical and human resources in the sector were ill-aligned with the population's health needs; productivity in the health sector was low, both for primary and hospital care, with substantial differences across regions and individual facilities; low income groups were unprotected from health shocks and easily thrown into poverty as a result of out-of-pocket spending[74] on healthcare (World Bank, 2006a, Nuri, 2002, Ahmeti, 2004).

In conclusion, similar to pensions, the political analysis in the early-1990s critical juncture showed that new *ideas* in line with the new logic of the market economy played a key role to shift the healthcare system from Semashko to a Bismarckian social insurance-based model. Moreover, as expected, even in the field of healthcare, the *political imperatives* related to regime stabilisation and the need to build up consensus

[73] It is important to note that the civil unrest in 1997 and the Kosovo war in 1999 had a direct impact on the performance of the healthcare system in general and on the implementation of reforms in particular (a number of reforms were not carried out successfully), with the former causing extensive damage to the healthcare infrastructure, disruption of essential services and abandonment of posts by the medical staff, whereas the latter, as reported by the World Bank (2006a) consuming a significant amount of resources and bringing to half nascent structural reforms in the sectors.

[74] Although the law provides for free inpatient care, World Bank data showed that essentially everybody who was hospitalized incurred substantial costs and that informal payments accounted for at least one quarter of these costs (World Bank, 2006a).

were strong. In fact, the need for democratic regime stabilisation had an impact on the decisions taken at the critical juncture. As argued above, redistribution, especially in favour of groups most affected by the economic transition, was seen as a tool to consolidate the new democratic regime. However, contrary to our expectations, the healthcare reform proposal by the World Bank was ignored by the Albanian government. The Bank supported social security model in the field of healthcare. However, as shown above, a coalition against social security model emerged and it was able to block the reform proposal by the World Bank.

3.2 The Second Wave (1995-2013): The Implementation Process

The period between 1995 and 2013 corresponds to the implementation phase. The main goal was to fully implement the social insurance system and convert the HII into the single-payer institution of all healthcare services. In order to achieve this aim additional regulations were needed. During this period governments of different colour followed the same strategy: gradually shifting towards a healthcare insurance system by implementing a step-by-step approach regarding healthcare insurance funding, decentralisation towards lower levels and introduction of private healthcare services to supplement the services of the public sector.

However, similar to the case of pensions, the implementation phase revealed the limits of a Bismarckian insurance approach, typically for a country with high poverty levels, high labour market informality and high unemployment levels. In this regard, starting from the mid-2000s the political program of the two main parties differed substantially in terms of healthcare policy solutions. The PD maintained the same policy preferences as before, i.e., continued the implementation of the healthcare insurance system. On the contrary, the PS promoted a shift towards a social security system, as a solution that would guarantee equal and affordable access to healthcare for everyone. The following two sections will discuss the policy-making processes under the left-wing and right-wing governments respectively.

3.2.1 The implementation phase under the left-wing government, 1997-2005

The introduction of the health insurance scheme was seen both as a way to reduce state expenditure in healthcare and as a means to increase healthcare resources. However, in practice, the implementation of budget constraints was impeded by an ongoing commitment to universal access. Even though in theory benefits were legally limited to those who contribute, in practice care was extended to all citizens and doctors treated all patients without discrimination (Nuri, 2002).

Moreover, the implementation process witnessed additional problems, such as, the widespread phenomenon of informal payments (World Bank, 1997), slow moving decentralization process due to lack of clarity regarding which roles and responsibilities would be delegated (Cook, McEuen & Valdelin, 2005) and more importantly the health financing system remained fragmented between the HII and the state budget. In addition, there was little continuity within the Ministry of Health (and public administration in general) every time there was a government alternation or reshuffle, and its institutional memory was lost with changes in personnel. Each government replaced the senior and even middle level managers and much documentation went with them. Thus, the Ministry of Health was not able to set up a system of preserving its "technical memory" (Interview 2 – USAID Albania representative).

The socialists, who were now in power (1997-2005), continued the same strategy as the democrats before them. The main aim of the reforms was to expand the health insurance scheme in order to make the HII the single buyer of the health services. Therefore, the left-wing government adjusted the legal framework to gradually expand the services covered by the HII budget (MoH, 2001; 2004).

Accordingly, in 2002 the parliament amended the legal basis to make the HII the single source of payment for healthcare (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature V, 2002, p. 1970). By 2004 the services covered by the insurance scheme were extended to tertiary healthcare. It is important to note that there was no disagreement between the two main parties in terms of healthcare model. The 2004 bill, a continuation of the 1994 reforms, was approved by a majority of 99 MPs out of 106 (present at the plenary session) (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature V, 2004, p. 565).

Stakeholder groups, such as professional associations, unions and consumer groups, played little or no role in planning and regulation. Therefore, despite resistance from hospital doctors, who were against restructuring, the HII was on its way to becoming the primary purchaser of healthcare services (Nuri, 2002).

Table 5.8 Actors' Constellation: The Implementation Phase (2002-2004)

Actors involved	Preference	Position towards reform
Govt. (the PS)	Continue previous strategy.	In favour
Opposition (the PD)	Did not have an alternative proposal.	In favour
World Bank	Shift to social security.	Provided assistance
Prof. assoc.	Hospital doctors were against restructuring.	Delayed the project for 2years.
HII	Become the single purchaser of all services.	In favour

Source: Author's elaboration

In addition, the 2004 government's healthcare strategy supported decentralisation of service delivery – aiming to transform hospital care providers into autonomous public entities under the governance of hospital boards, while primary care providers would eventually operate as independent providers (MoH, 2004) – and extension of private health service provision to supplement and reinforce the services of the public sector. In terms of decentralisation, the ownership of primary healthcare centres and polyclinics in urban areas was transferred to local governments, however, the hospital sector remained under the administration and control of the central government. On the administrative side, the collection of contributions was transferred from the SII to the Tax Department of the Ministry of Finance (which then transfers the revenues to the SII), with the purpose of reducing contribution evasion and avoiding the duplication of functions within the administration. Moreover, in 2004 the MoH established regional health authorities (RHA) that had a planning function and were in charge of managing national public health programs and regional hospital authorities. The RHAs would be independent and act in accordance with the local and national hospital development strategy. However, decentralisation was not accompanied by a clear definition of responsibilities and various government entities lacked the political will to discharge their duties (Nuri, 2002). Such a situation created tension between different stakeholders – there was confusion and disagreement between the MoH and the HII, between central government and local

government, between the HII and the RHA – which in turn delayed the implementation process. The RHA preferred model was to keep all health resources under its direct management and control, and delegation of authority and responsibility from central to regional bodies. On the contrary the HII preferred to be a direct purchaser of healthcare services from public and private providers (Nuri, 2002).

Regarding the privatisation process, the government improved the procedures for licensing private activities with the aim of ensuring the delivery of the service in the rural areas and in small towns (CMD no. 238/2003). Private hospitals started to function after 2004.

3.2.2 The implementation phase under right-wing government, 2005-2013

Due to high poverty, informality and unemployment levels, by 2005 the social insurance system was neither sustainable nor adequate. In order to deal these issues, in 2006, the World Bank recommended as a possible solution to shift entirely the financing of the healthcare system to general taxation – given that only 7% of public sector spending on health came from non-budgetary contributions to the HII, accounting only for 0.2% of GDP, it could easily be absorbed by the general budget over the next few years (World Bank, 2006a). This in turn would have a direct impact on the low-income groups, meaning that a single basic benefits package would be introduced for all, since the funding would be based purely on general revenues. Additional recommendations included: improve the healthcare service delivery and sectoral management.

Box 5.11 The World Bank's Proposal

- Pool all public sector resources under one funding agency:

To improve efficiency in resource mobilization and allocation and ensure maximum accountability of the funding agency and providers, all public sector resources, meaning budgetary funds and health insurance funds, should be pooled and channelled through one agency (the Health Insurance Institute), which will then purchase health care on behalf of Albania's population from health care providers. Pre-conditions for successful expansion of a payroll tax based social insurance system are not met in Albania. Preconditions include a large formal labour market, strong administrative capacity for contribution collection, good regulatory and oversight structures, and strong economic growth. If these conditions are not met, and they rarely are in middle income countries, payroll tax based social insurance results in substantial inequity in access to health care; a problem, which Albania is already beginning to face.

- Rely on general taxation rather than payroll tax contributions as the main source of public funding for health care:

This note recommends that Albania consider phasing out the current 3.4 percent payroll tax contribution for health insurance and shift entirely to general taxation as a public source of funding health care, fiscal space permitting. Currently, only 7 percent of public sector spending on health comes from non-budgetary contributions to HII, this amounts to only 0.2 percent of GDP and could be absorbed by the general budget over the next few years.

A second-best solution would be to maintain, but not increase, the current health insurance contribution rate, pool contributions with general revenues under the Health Insurance Institute (HII) and introduce a two-tiered benefits package. However, this solution would administratively prove substantially more demanding. In view of HII's limited administrative capacity, it would appear more prudent to focus on building up HII's capacity on the purchasing side and rely exclusively on a general revenue financed system in the years to come.

- Clearly define the health care benefits, which will be made available from public funds, and introduce copayments for a wider range of services, including inpatient care;
- Combine the introduction of increased copayments with broad based action to root out informal payments.

Source: World Bank (2006a)

After the 2005 parliamentary elections the position of the two main parties in the field of healthcare differed significantly. As argued in chapter two, after they lost the 2005 elections, the socialists changed their leadership and deeply reformed their political program, approaching the model of social-democratic parties in Western Europe (Krasniqi, 2015). In the field of healthcare, they promoted universal healthcare coverage for every citizen financed by the state budget (general taxation), arguing that healthcare is a human right and that a tax-financed healthcare system would be much better in ensuring efficiency and equality of access (Interview 8 – Former Minister of Health; Interview 12 – Former advisor to the Minister of Health).

On the contrary, the government led by the Democratic Party (2005-2013) took charge of the reform process building on their previous strategy. The leader of the Health Committee was Tritan Shehu, previous Health Minister, who had initiated the healthcare transformation into a Bismarckian system in the early 1990s.

The government's objective was to make the HII the only purchaser of the health services, continue the decentralisation process and increase private healthcare facilities (National Strategy for Development and Integration 2007-2013). Therefore, by 2009 they extended the insurance scheme to the entire healthcare services. Meanwhile, hospitals received a new legal status by Council of Ministers Decision (CMD) no. 1661/2008, as contracting authorities, responsible for planning and procurement, with an independent budget.

In 2011 the government introduced a bill proposal that would transform the Health Insurance Institute into a Fund and link benefits entirely to contributions. In line with its new political orientation, the PS was against this proposal and accused the government of failing to reach a negotiation with them and other stakeholders (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VII, 2011, pp. 133-135).

The 2011 bill was passed anyway, with 72 votes in favour (out of 116 MPs present in the parliamentary session). The new law transformed the HII into a Fund – the insurance scheme covered the entire primary, secondary and tertiary healthcare services – linked benefits to contributions and introduced fee-for-services for those who did not pay contributions.

The socialist heavily criticized the government for unilateral decision making, arguing that a sustainable compulsory health insurance system needs first and foremost a broad political consensus (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VII, 2011, pp. 133-135). They warned the government that if an agreement was not reached, the reform would face implementation issues and it would be reversed in the future. In the meantime, the opposition prepared a competing proposal, which would have a central role in its 2013 electoral campaign.

Table 5.9 Actors' Constellation: The 2011 Reform

Actors involved	Preferences	Position towards reform	Speeches in Media
Govt. (the PD)	Continue previous strategy.	In favour	
Opposition (the PS)	Universal coverage.	Voted against	Promised policy reversal once in power.
World Bank	Shift to a tax-financed system.	Provided assistance	Focused on what remained to be done in the future
Prof. assoc.	Continue previous strategy.	In favour	n.a.
HII	Become the single purchaser of all services.	In favour	n.a.

Source: Author's elaboration

In sum, during the second wave of reforms, at the regulatory level, the healthcare followed *path dependent* changes, in line with the ideational framework adopted in the first wave. However, as shown in chapter three, during the first two waves of healthcare reforms there was an inconsistence between the regulatory framework going towards Bismarckian approach and the on-going state budget transfers into the healthcare insurance scheme. As argued above, due to high unemployment and labour market informality levels, not only the (low) contribution rate could not increase further (as initially planned) to sustain the insurance system, but at the same time the collection of the social contributions was very difficult. Therefore, despite government's original aim to reduce healthcare funding from the state budget, as illustrated in chapter three, state budget transfers as a share of total social insurance contributions in the health insurance scheme increased throughout the years. In other words, if we look at funding, the institutionalisation of the social insurance approach in the field of healthcare basically failed. This inconsistency between the regulatory framework going towards Bismarckian approach and the on-going state budget transfers into the healthcare insurance scheme can be traced back in the early 1990s *critical juncture* when the decision to move towards social insurance was taken. Although state budget transfers into the health insurance scheme were originally intended to be a transitional measure until the economy recovered, by the end of the second wave, since this funding continued and it was increased over the years, it was made structural. In other words, decisions taken at the critical junctures, affected subsequent development and *failed implementation* in the field of healthcare, opening the opportunity for *path*

reversal in the third wave of reforms. In fact, as it will be argued below, this was a step which anticipated the shift towards social security in the third wave of reforms.

3.3 The Third Wave, after 2013: a Partial Policy Reversal

The reforms in the healthcare sector have been slow, ineffective and in some cases lacked full implementation (Interview 2 – USAID Albania representative; Interview 3 – former Minister of Labour). Moreover, in the context of fiscal constraints governments of different colour have been advised to reduce expenditures in the healthcare sector (Interview 2 – USAID Albania representative). However, even though the introduction of the insurance scheme was seen both as a way to reduce state expenditure in healthcare and as a means to increase healthcare resources, in practice, the implementation of budget constraints was impeded by an ongoing commitment to universal access (Nuri, 2002). No political party has engaged in risky cutbacks in the public healthcare sector in order to avoid jeopardizing their re-election goal (Interview 2 – USAID Albania representative). At the same time, there has continuously been a strong negative public perception of the healthcare system, with more than 55% of the respondents being dissatisfied with the public healthcare system as compared to 39% in Europe and Central Asia (LiTS survey 2010). The public health sector is perceived by Albanians to be the most corrupted public service, with 71% of payers paying bribes to doctors and 47% to nurses (World Bank, 2015). However, political parties have used this negative perception only in their electoral campaign in order to gain votes, but after the elections there has been no political willingness to improve the situation (Interview 2 – USAID Albania representative; Interview 3 – former Minister of Labour). Actually, the Ministry of Health has been used as a political ploy to satisfy the interests of the small parties in the government coalition (see table 5.10), as this ministry has one of the largest administrations in the country, therefore, it gives these smaller parties not only the possibility to employ a higher number of "militants" but also to engage in other illegal activities (Interview 3 – former Minister of Labour). Political appointees remain an on-going problem in the Albanian public administration and show that parties are first and foremost interested in satisfying their constituents rather than implementing the intended reform goals. Corruption, clientelism and semi-authoritarian tactics have been constantly used by the political parties to

maintain political control (Bogdani & Loughlin, 2007; Krasniqi & Hackaj, 2015; Kajsiu, 2017).

Table 5.10 Ministry of Health and Political Parties

Minister of Health	Time in office	Political Party	Main Party in Government	Government term in office
M. Cikuli	Jan. 1994 – Mar. 1997	PD	PD	1992-1996
A. Kalenja	Mar. 1997 – Jul. 1997	National Front	Technical gov.	1997 (March-July)
L. Solis	Jul. 1997 – Nov. 1999	PBDNJ	PS	1997-2001
G. Koja	Nov. 1999 – Jan. 2002	PS	PS	
M. Xhani	Feb. 2002 – Dec. 2003	Independent	PS	2001-2005
L. Solis	Dec. 2003 – Sept. 2005	PBDNJ	PS	
M. Cikuli	Sept. 2005 – Mar. 2007	PD	PD	2005-2009
N. Ndoka	Mar. 2007 – Jul. 2008	PDK	PD	
A. Godo	Jul. 2008 – Sept. 2009	PR	PD	
P. Vasili	Sept. 2009 – Jun. 2012	LSI	PD	2009-2013
V. Tavo	Jun. 2012 – Apr. 2013	LSI	PD	
H. Kosova	Apr. 2013 – Sept. 2013	PD	PD	
I. Beqaj	Sept. 2013 – Mar. 2017	PS	PS	2013-2017
O. Manastirliu	Mar. 2017 – May 2017	PS	PS	
A. Beqiri	May 2017 – Sept. 2017	PD	PS	
O. Manastirliu	Sept. 2017 – incumbent	PS	PS	2017-2021

Source: Ministry of Health

In addition, by giving the administration of the Health Ministry to these smaller parties, the main political parties have been able to avoid responsibility when criticized "why no measure is taken in order to improve the situation of the healthcare system", by blaming the small parties that run the ministry (Interview 1 – Political Parties' Expert). Moreover, staff turnover, prompted by political factors, remains a problem in the public administration and has significantly undermined the pace of implementation, causing a loss of experience and institutional memory with new appointees not always having the requisite capacity (World Bank, 2014b). In a similar vein, Balaj (2021) attributes the ineffectiveness of healthcare reforms to political instability and politicization of the public administration. In more detail, she argues that frequent ministerial changes and staff turnover, often substituted with unqualified militants, have contributed to the lack of policy implementation (Balaj, 2021). In fact, this is the case of the health insurance institute as well, which remains more politicized than ever – its leaders are decided by the ruling party and abuse power for private gain (Vian, 2011).

Building on this negative perception and in line with their new position on healthcare policy, the socialists promised that they would reverse the healthcare financial scheme once in power. In the 2013 parliamentary elections, healthcare system was among top priorities of their electoral campaign, in which they promised universal free healthcare provisions to the entire population financed through general taxation[75]. According to them, the existing scheme was failing because only around 30% of the population (FSDKSH data) was contributing to the insurance scheme due to high unemployment and informality levels. They argued that a tax-financed healthcare system would guarantee equal access to healthcare for everyone and at the same time would reduce the incidence of unofficial payments and bribes in healthcare facilities (Interview 8 – Former Minister of Health).

After the socialists won the 2013 elections, the new government's main objective was to guide the healthcare policies towards universal provisions. This was justified by strong ideological arguments in order to "*provide healthcare service in accordance with the need, and not by the ability to pay, based on the principle that healthcare is a human right and that a tax-financed healthcare system would be much better in ensuring efficiency and equality of access*"[76]. In other words, this program aimed at universal coverage of the population, thus, giving free access to healthcare services to all residents so that no one felt excluded from receiving basic healthcare only because they could not afford it. In this regard, the government's priority was to shift the financing of the healthcare system entirely on general taxation[77] and gradually eliminate the service fees in the public healthcare system for uninsured persons. Moreover, the government's aim was to expand the range of services provided free of charge.

[75] PS (2013, June 03). Ripërtëritje e Shoqërisë: Shqiptarët meritojnë shumë më mire. Retrieved from: https://www.ps.al/files/1/programi/Riperteritja-e-shoqerise.pdf

[76] Government of Albania National Strategy 2013-2017.

[77] Government of Albania National Strategy 2013-2017, pg. 52 and National Health Strategy 2016-2020, pg. 2.

Box 5.12 Government's proposal

Move toward universal health care coverage financed through general revenues
(i) a gradual transition from the current hybrid model of financing public service provision through both payroll insurance premiums and general revenues, to a model financed purely by general revenues. Increase the share of general revenue financing; and has a longer-term goal of entirely eliminating the payroll tax and shifting to total general revenue financing.
(ii) expanding the breadth and depth of health coverage for the entire population.
Financing universal health coverage through general revenues means to ensure that all people obtain the health services they need independently of their employment status.

Source: World Bank (2014a)

This project was backed-up by both the World Bank and the World Health Organisation, who advocated for universal coverage and quality accessible healthcare services (World Bank, 2014b; WHO, 2014). This reform was linked to a conditional loan agreement between the Albanian government and the World Bank. The Bank considered as a main priority the reform of the healthcare financing system in order to lower patient risks, prevent poverty due to illness and improve the quality of healthcare (World Bank, 2014b). However, this approach was heavily criticized by the (right-wing) opposition parties, who voted against every bill presented in the parliament (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VIII, 2014, p. 194; Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VIII, 2015, p. 232). They supported the *status quo* in the healthcare sector and their proposal aimed to make the existing scheme sustainable by increasing the contribution rate from 3.4% to at least 12% of the payroll (Interview 13 – Former Minister of Health). Moreover, they favoured further decentralisation in the hospital sector, outlining the importance of entrepreneurial management in achieving desirable outcomes, such as lower costs, better quality and improved access. The opposition called the government's move towards re-centralisation "a step back", which in turn would increase the political influence and control over budget decisions in the healthcare policy (Interview 13 – Former Minister of Health).

Nonetheless, the left-wing government had the power for unilateral decision-making. Therefore, starting from 2014 a free basic medical check-up (preventive health measure) was offered free of charge for the age group 40-65 years old. Moreover, given that the out-of-pocket payments accounted for around 50% of total healthcare spending, with the pharmaceuticals being the major driver, accounting for about half of total OOP payments, the government reduced the margin from 29% to 25% of the retail price and the wholesale

margin from 14% to 11% (CMD no. 53/2014). The government argued that this measure was taken in order to provide medicines at lower prices and to reduce state budget expenditures on reimbursable drugs. In addition, in the framework of fighting corruption and providing quality healthcare, the government promoted an initiative aimed at testing physicians and nurses' professional qualifications.

In 2016, the category benefiting from free basic medical check-up was expanded and now covers the age group from 35 to 70 years old. In addition, starting from 2016, every resident has the right to use the emergency service (first-aid) and choose a family doctor free of charge (decree no. 28/2016). If the insured is using the referral system, the rest of the services are offered free of charge. If the uninsured persons are using the referral system, they will pay only 6.6% of the fee for outpatient secondary care and 16% of the fee for outpatient examinations at tertiary hospitals. The National Health Service was established in 2018 with the aim of reforming the health system financing in order to move towards universal coverage (CMD no. 419/2018). The government's objective is to make the National Health Service the unique source of financing for the health system by the end of 2020 (National Health Strategy 2016-2020).

Pharmacists protested against the margin reductions which according to them would decrease their profits significantly[78]. They argued that interest groups were not consulted before the government took this arbitrary measure. Later, the Order of the Physicians asked the government to put an end to the fictitiousness and falsity of a free healthcare system[79]. Doctors found some of these new measures demeaning and argued that they were determined to protest[80] until their demands were met (see box 5.13).

[78] (2014, Feb. 07). Farmacistët: Protestë për ndryshimin e marzheve të fitimit. *Gazeta Shqip*. Retrieved from: www.gazeta-shqip.com

[79] (2016, Jan. 08). Çfarë fali qeveria te vizitat pranë mjekut të familjes?! *Gazeta Mapo*. Retrieved from: https://www.gazetamapo.al/; J. Costa (2017, Oct. 25). 11 Arsyet Pse Programi i "Check-up" është një humbje e madhe parash që duhet të marrë fund. Retrieved from: https://www.historiaime.al/

[80] (2015, Feb. 25). Mjekët nuk tërhiqen, sot protesta para Kuvendit: Beqaj të japë dorëheqjen. Retrieved from: https://www.balkanweb.com/

Box 5.13 Physicians' Demands

Professional autonomy and self-regulation regulated by law;
Improved working conditions, medicines, facilities, tools and modern equipment;
Increase the level of safety in health facilities;
National clinical protocols for diagnosis, treatment and follow-up;
Reassess the role and academic involvement of medical staff in university hospitals, including medical staff in regional hospitals who have academic degrees
Continued education and training as the cornerstone for the continuation of the qualification of the professional medical staff, by improving the functioning system of the National Centre for Education;
Withdrawal from the illegal initiative of mass testing of white t-shirts;
Doubling salaries, similar to neighbouring countries;
Resignation of the Minister of Health.

Source: BalkanWeb (2015)

However, similar to other healthcare stakeholders, such as trade unions and consumer groups, the professional associations remain unorganized and weak and they play little role in the process of healthcare reform (Interview 8 – former Minister of Health; Interview 9 – former deputy Minister of Health). Therefore, despite their demands, the government implemented all the above-mentioned changes.

Table 5.11 Actors' Constellation: Third Wave of Reform (2013 onwards)

Actors involved	**Preferences**	**Position towards reform**	**Speeches in Media**
Govt. (the PS)	Shift to a tax-financed system.	Proposed the bill	Claimed credit
Opposition (the PD)	Supported the SQ.	Voted against	Criticized the government for political influence in the HC system.
World Bank	In favour of change.		Focused on progress and what remained to be done in the future.
Professionals Assoc.	Supported the SQ.	Against	Asked the government to put an end to the fictitiousness and falsity of a free healthcare system.
HIF	Become the single purchaser of all public and private services.	Supported the government	

Source: Author's elaboration

In a nutshell, in the early 1990s there was a shared agreement that the insurance-based was the fair and right model in the field of healthcare, given that it would link individual benefits to individual contributions, it was expected to raise extra funds without worsening the financial situation of the state budget and it would facilitate the process of healthcare services privatization. However, the final policy output was shaped by the

political imperatives motivated to secure regime stabilisation by continuing to protect the groups most affected by the transition to democracy and market economy and *past policy legacies* which were kept in place (the state budget transfers into the HII would continue to play an important role until a functional insurance system was set up).

Regarding the role of the *international institutions*, the World Bank's recommendations in the early 1990s were not followed in the field of healthcare. Even though the government needed the World Bank's approval (because the Bank was the one who would provide the money), the latter supported the government's policy preferences to introduce a social insurance system from the beginning. Similar to pension reforms, the Bank's involvement consisted in providing policy advice and technical expertise in drafting policy solutions in line with the governments' preferences (Interview 2 – USAID Albania representative; Interview 5 – World Bank Albania representative).

In the following years, due to labour market (high unemployment and informality levels) and socio-demographic (high poverty rates) challenges and the *interest* of the political elite not only in re-election, but also in securing regime stabilisation and democratic legitimation, both these measures which were initially meant as transitory only, were kept in place and they were made structural. Therefore, by the end of the second phase, if we look at funding (state budget transfers into the health insurance scheme) and coverage (the government continued to contribute on behalf of economically inactive groups) the *institutionalisation* of the healthcare insurance model *failed*. Moreover, according to experts' evaluation, the existing scheme was considered as both unsustainable and inadequate.

Building on this observation and on the negative public opinion regarding the healthcare system, starting from 2011 the PS promoted a social security system, as a solution that would resolve both the fiscal and social instability of the healthcare system and would guarantee equal and affordable access to healthcare for everyone. In line with its new political views, when it came to power, the PS unilaterally launched a reform process, with the final aim of shifting the healthcare system to a security model which would provide universal coverage, free of charge at the delivery point for every resident, financed from the state budget (general taxation).

Regarding the role played by the *interest groups*, differently from the field of pensions, *political exchange dynamics* between political parties and interest groups did not occur

in the field of healthcare. Even though in principle the Order of the Physicians negotiates with the Ministry of Health on drafting important laws and documents in the field of healthcare, it has no real impact on the decision-making process (Interview 8 – former Minister of Health; Interview 9 – former deputy Minister of Health). In addition, as argued above, even though physicians were against the last reform, in the end the reform was implemented anyway.

To sum up, the social insurance policy paradigm adopted in the early 1990s lacked *full-institutionalisation* in the field of healthcare. *Ideas* and *interests* that previously underpinned this policy paradigm changed substantially in the recent decade. Reassessment of what is fair and effective and which policy choice provides the best solutions was crucial in formulating the healthcare policy solution. In the absence of strong *interest groups*, the *political exchange dynamics* took place between the electorate, which favoured a public tax-financed healthcare system (cf. chapter two), and the left-wing government.

CHAPTER VI

EXPLAINING POLICY CHANGE AND DIVERGENCE, IN & AFTER CRITICAL JUCTURES

1. Introduction

The political and socio-economic transformations in the early-1990s critical juncture showed that the Albanian pension and healthcare models inherited from Communism were fiscally unsustainable and socially inadequate. In order to address these challenges, the Albanian government opted for a public, social insurance approach in both fields. The government's ultimate goal was to transform the pension and healthcare systems into fully-fledged Bismarckian insurance models. However, reform implementation was constrained and, after three decades of reforms, the full shift to an insurance-based model failed in both pensions and healthcare. Despite initially similar policy responses, institutional trajectories in the two sectors have recently diverged, namely, the pension and healthcare systems currently differ in terms of institutional architectures, financing methods, coverage and benefits.

Against this backdrop the aim of this thesis was threefold. First, to reconstruct the pension and healthcare policy trajectories in Albania by using the appropriate classification and corresponding definitions of "solidarity models" (Ferrera, 1993) and "three-order change" (Hall, 1993). Second, to investigate the politics of pension and healthcare reforms. Third, to elaborate on related theoretical implications. While the two first goals were addressed in chapter three and chapter five respectively, this chapter elaborates on the third goal of this thesis.

The rest of the chapter is organized as follows. Paragraph 2 is divided into two sections. Section 2.1 summarises the pension and healthcare policy trajectories using the analytical framework defined in chapter one. Subsequently, section 2.2 illustrates the main findings related to the politics of pensions and healthcare. Paragraph three sets the stage for

theoretical interpretation. Based on this, sections 3.1, 3.2 and 3.3 aim at explaining the different trajectories in pension and healthcare systems outlining which factors were key in driving policy change in the various phases.

2. Reconstructing the Policy Trajectories and the Political Dynamics in the Fields of Pensions and Healthcare

2.1 Reconstructing the Post-Communist Policy Trajectories in the Fields of Pensions and Healthcare

As argued in chapter three, even though both pension and healthcare policies underwent continuous transformations, reforms took place in three very different phases. In the first one (1991-1994), reforms were adopted in what represented a "critical juncture", in which there was a full transformation of contextual factors due to the "double transition" to democracy and market economy. Differently, the second phase (1995-2013) referred to the process of democratic consolidation and economic recovery. Finally, in the third phase (2013 onward) the structural conditions were completely different, in the presence of a consolidated democratic system, a structured party system and related competitive political dynamics.

The reconstruction of post-communist pension and healthcare trajectories revealed that during the first phase pension and healthcare systems *converged* towards a Bismarckian social insurance model. However, the implementation phase (1995-2013) revealed that the Bismarckian approach did not allow to build effective pension and healthcare systems in terms of financial sustainability and protective capacity (adequacy). Despite similar functional pressures by the end of the second phase - i.e. fiscal instability and social inadequacy - during the third phase different policy solutions were adopted to address these challenges. Subsequently, the two policy sectors *diverged* from one another: namely, the pension system changed into a "mixed-occupational" model, i.e. the social insurance approach was hybridized with the introduction of a social assistance pension scheme, whereas the healthcare system changed into a "mixed-universalistic" model,

made up of a social security scheme a contributory social insurance scheme and on top of the former.

In more detail, in the field of pensions, during the first phase of reforms (1991-1994) the government's goal was to transform the Albanian pension system from a centralized Soviet model into a social insurance Bismarckian model, by eliminating the state contribution into the pension insurance scheme and replace it with employer-employee contributions, set at 31.7% of the payroll. The reform in this period conditioned benefits upon payment of contributions by tightening eligibility conditions of practically all benefits. In other words, these reforms aimed at income maintenance, allowing workers to maintain their standard of living and stable levels of consumption during retirement. Law no. 7703/1993 shaped the current pension system in Albania, by providing the legal framework of the Bismarckian social insurance model in the new market economy. It introduced a two-tier pension system consisting of a mandatory basic scheme (for every employee, employer and self-employed), providing support as a sum of a flat rate component at minimum subsistence and a variable component based on individual records, and a voluntary insurance scheme (within the public scheme). Even though it was a non-contributory part of the benefit formula, the flat rate component was embedded in a contributory context, in which a contributory period of up to 35 years was required. Moreover, according to this proposal urban and rural retirement plans would follow the same eligibility criteria. However, the government would subsidize farmers' contributions until the country's economic problems were normalized. The retirement age did not change and it remained 55 years old for women and 60 years old for men.

The second wave of pension reforms (1995-2013) was characterised by two main developments. First, Albania followed a different policy trajectory compared to other post-communist countries. While most CEE countries followed World Bank's "new-orthodoxy" and started to introduce mandatory private pensions, the Albanian government instead decided to restore the sustainability of the pension system by reforming the existing public PAYG system. In other words, as shown in the previous chapters, during this period the pension system institutional development followed *path dependent* marginal changes. Second, this period showed the limits of the Bismarckian insurance approach in a country with high labour market informality, low tax-rates compliance and a large share of self-employed, especially in the agriculture sector. In this

respect, starting from 2013 the Socialist Party realised that a pure Bismarckian occupational model (Ferrera, 1993) does not allow to build a pension system which is effective both in terms of financial sustainability and protective capacity – i.e. adequacy and equity (Jessoula & Hinrichs, 2012).

Subsequently, during the third wave of pension reform (after 2013), when the Socialists took office, their main aim was to address the limitations of the Bismarckian approach and build a pension system that ensures both fiscal sustainability and social adequacy. In order to deal with the fiscal instability of the scheme, the 2014 pension reform aimed at rationalizing redistribution in pensions so that future benefits will more closely reflect past contributions. In this regard, law no.104/2014 strengthened the link between benefits and contributions, changed the eligibility criteria for pension benefits, unified the urban and rural schemes, by eliminating the government subsidy for the self-employed in the agriculture sector, and increased the retirement age for both gender to 67 by 2056. In order to deal with the social inadequacy of the pension system, the social insurance approach was to some extent hybridized, with the introduction of a social pension aimed at alleviating poverty in the old-age.

After these three waves of reforms, the structure of the public pension system in Albania changed into a "mixed-occupational" model (Ferrera, 1993), which includes a social assistance pension scheme – flat rate and means-tested – and a social insurance scheme. In line with the transformation from a Bismarckian social insurance model to a mixed-occupational model, the coverage and financing of the pension system changed, i.e. the coverage was expanded to the poor and the financing was divided between the SII (financed through employer-employee contributions) and the state budget financing the social assistance scheme.

Turning to the post-communist policy trajectory in the field of healthcare, as observed, during the first wave of reform the healthcare system underwent a *paradigmatic shift* from Semashko to a Bismarckian social insurance model. The Health Insurance Institute (HII) was created as an independent body, which would organize and manage the health insurance. The *path departure* towards healthcare insurance changed the healthcare financing system through the introduction of healthcare contributions and the partial transfer of healthcare costs onto patients through out-of-pocket payments. These reforms determined that the subjects responsible for health insurance contributions were

economically active persons and the contribution rate was set at 3.4% of the salary (1.7% paid by the employer and 1.7% by the employee). In order to make the transition towards a Bismarckian model as smooth as possible, initially the state would contribute on behalf of inactive persons. The government's long-term goal was to establish a healthcare insurance system, in which benefits would be linked to contributions. Its aim was to increase the contribution rate further after the economic and labour market situation was stabilised in order to make the healthcare insurance scheme the main source of financing. However, initially, the state budget would continue to play an important role until a stable and effective healthcare contributory system would be put in place. Thus, the financing of the healthcare system was divided between the state budget, the HII and co-payments. Regarding healthcare delivery, certain healthcare facilities, such as the pharmaceutical sector and most dental care, were privatised. The rest of services remained public. Moreover, these reforms made attempts to devolve responsibilities from a centralized, hierarchical and state-dominated system to the regional and the local levels. The government's ultimate aim was to set up a health insurance system, which would be implemented gradually, with the intention to make the HII a single payer institution, responsible for financing and purchasing of medical services from healthcare providers.

During the second wave the healthcare system institutional development followed *path dependent* changes. This wave started in 1995 and it was finalized in 2013 with the HII covering primary health care services (except community centres), secondary and tertiary service (except psychiatric hospitals) and a list of reimbursable drugs. According to law no. 10383/2011, subjects responsible for health insurance contributions are economically active persons. However, the state would continue to contribute on behalf of vulnerable groups. Even though the social assistance scheme was originally intended to be a transitional measure, by the end of the second period it was made structural. As argued above, this period showed the limits of the Bismarckian insurance approach, due to high poverty levels, high labour market informality, high unemployment levels and low tax-rates compliance.

Subsequently, the main aim of the reforms adopted in the third period was to address the limits of the insurance approach and build a healthcare system that would ensure both fiscal sustainability and social adequacy. The Albanian government's solution to these challenges was to prompt a major shift of the healthcare system from a social insurance

to a social security approach, providing universal coverage to every resident free-of-charged and financed through the state budget.

The reforms in the last period changed the healthcare system into a "mixed-universalistic" model (Ferrera, 1993), made up of a universalistic floor and on top of that a contributory social insurance scheme. In line with the transformation from an insurance model to a mixed-universalistic model the financing and coverage of the healthcare system changed. The social security scheme is financed by the state budget, whereas the social insurance scheme is financed through employer-employee contributions. A basic medical package – first aid (emergency room), family doctor visits and preventive health measure – is offered free of charge to every resident. For additional healthcare services economically-active people have to contribute to the HIF, otherwise they have to pay the official fees for service.

To sum up, the reconstruction of post-communist pension and healthcare trajectories identified three waves of reforms punctuated with several legislative provisions. The first wave reforms (1991-1994) launched the *convergence* towards social insurance models in both fields. Even though during the implementation phase (1995-2013) both sectors followed *path dependent* changes, this period displayed the limits of the Bismarckian insurance approach to ensure fiscal sustainability and social adequacy in both sectors, which in turn led to partial or failed *institutionalisation*. However, although the functional pressures were similar, in the last wave of reforms (after 2013) we observed *policy and institutional divergence* across the two policy fields. Hence, both pension and healthcare systems actually failed to shift towards a fully-fledged Bismarckian social insurance model: however, analysing the policy trajectories in the three phases we observed both within policy sector deviations and a process whereby the two policies deviate from one another overtime.

The reconstruction of policy trajectories thus raises the following empirical and theoretical puzzles. Why did pension and healthcare policies converge towards a Bismarckian social insurance model in the early 1990s? Why did the implementation of the Bismarckian insurance model fail in both cases? What explains the subsequent developments towards a "mixed-occupational" model in pensions and a "mixed-universalistic" model in healthcare?

In order to give an answer to these questions chapter five provided detailed empirical research aimed at both mapping the actor constellations in various junctures and reconstructing the policy-making processes in the fields of pension and healthcare, discussed below.

2.2 The Politics of Pensions and Healthcare in post-communist Albania

The empirical investigation in chapter five showed the main features of the politics of pension and healthcare reforms in Albania, along a time frame composed of three very different phases, i.e. the transition towards democracy and market economy (1991-1994), the process of democratic consolidation and economic stabilization (1995-2013) and the completion of the transitional period (2013 onwards). It addressed the politics in both sectors by phases and in each phase, it identified as relevant actors for policy output the political parties, interest groups and the World Bank. The empirical reconstruction of the political processes leading to healthcare and pension reforms revealed different actors' preferences, positions, strength and political dynamics in each phase.

As discussed above, in the early 1990s there was a full transformation of contextual factors due to the "double transition" to democracy and market economy. During this period, the political parties lacked clear programmatic stances on welfare policies, whereas, interest groups were unorganized and weak. Even though social partners were part of the tripartite social dialogue with the government, their presence was rather symbolic and in practice they did not play any significant role. Nevertheless, there was a shared understanding among various actors on the welfare model. All parties were in favour of a social insurance system because it shifted responsibility from the state to the individuals by linking individual contributions with individual benefits. As for the role played by the external actors, contrary to the overall consensus in the existing literature that welfare reforms in Albania were mainly driven by international organization and policy diffusion dynamics, the empirical chapter shed light on the relevance of the internal dynamics. As illustrated in the empirical chapter, in the field of healthcare a coalition against 'external pressure' emerged in the early 1990s and it was able to block the reform proposal by the World Bank. Furthermore, also in the positive case of 'adoption' in the field of pensions, the World Bank proposals were mediated by internal political dynamics.

During the implementation period (1995-2013), both the Socialist Party and the Democratic Party committed to the existing structure of the social insurance model. However, on a more interest-based and power-based level they competed towards social policy expansion, seeking political support and legitimacy. This period was characterised by divisive policy-making and lack of consultation with the opposition parties and interest groups. Interest groups remained weak and divided, thus, they were not effective in influencing the decision-making processes. Politicians tried to avoid blame for unpopular reforms using different strategies such as delays, obfuscation and compensation. Even during this period, the World Bank continued to provide support to the pension and healthcare system reforms through policy advice and lending. However, even though the parametric pension reforms in this period were in line with the Bank's recommendations, the political elite was able to modify the Bank's proposal. Instead, the World Bank's proposal to reverse the financing of the healthcare system back to general taxation was completely ignored by the Albanian government.

Differently, in the last phase the structural conditions changed completely in the presence of a consolidated democratic system with competitive political dynamics. Political parties underwent major transformations and politicians now compete for office by offering new solutions to collective problems which appeal to the electorate. In the recent years the ideological differences between the two main parties have become more visible and there is a clear difference between the left-wing and the right-wing parties in terms of both pension and healthcare reforms. Another difference observed during the last phase concerned the mobilisation of interest groups. Differently from the previous periods, in the last phase there is a more effective structuring of the trade unions, they are aligned with political parties and they were influential on pension policymaking. On the contrary, professional associations remain unorganized and weak and they play little role in the process of healthcare reform. Regarding the role played by the external actors, once again, chapter five showed that even during this period there was no clear association between the policy proposals of the World Bank and the policies adopted. As illustrated in the empirical chapter, political elite not only were given a range of options to choose from, but also, they were able to modify the Bank's proposals.

3. Explaining Policy Change in Various Phases: The Interplay between Institutions, Ideas and Interests

In the theoretical chapter 4 we outlined how the interplay between institutions, ideas and interests determines policy change. In particular, we argued that we should expect a differential role played by the "three-Is" in the three phases due to the changing political and institutional context over-time.

In a nutshell, the first phase (1991-1994) may be conceptualized as a "critical juncture", in which there is complete de-structuring of previous political and economic institutional arrangements. Therefore, in a context of "potentially" fluid institutions we expect more room for new *ideas* to play a significant role. Regarding the role of policy legacies (or, *institutions* à la Pierson), in a critical juncture it is difficult to postulate *ex-ante* whether positive feedback or negative feedbacks prevail, because their relevance depends on the strength of the interests attached to pre-existing (social) policy structures. Thus, the role of policy legacies is expected to be ambivalent. As for the role of *interests*, given that Albania had no previous experience with democracy and no previous strong organised interest groups, we expected interests to play a limited role. However, political imperatives related to regime stabilisation and the need to build up consensus are expected to be strong. Thus, in search for political legitimacy, the new political elite is expected to continue to provide welfare as a tool to stabilise the new regime. In addition, due to national actors' lack of resources and experience with democracy and market economy, the role played by external actors in providing new policy solutions to the occurring problems is also expected to be strong.

During the second phase (1995-2013), decisions taken at the critical juncture are expected to influence subsequent policy development and change. In other words, once established, inertial institutional dynamics are expected to prevail. Thus, the role of *institutions* (policy legacies) and *interests* is expected to be strong, whereas the role of new ideas is expected to be weak.

In the last phase (2013 onwards), the structural conditions were completely different in the presence of a consolidated democratic system with structured competitive political dynamics. On the one hand, parties underwent major transformations and politicians started to compete for office by offering new solutions to collective problems which

appeal the electorate. On the other hand, this period was characterised by a structuring of organized interest groups, which might exert pressure to shape the content of the reform. Therefore, we may expect two different situations in this phase.

First, full institutionalization of the decisions taken at the critical juncture, i.e. policy legacies are (perceived as) effective, thus, ideas and interests are entrenched. Changes in contextual factors and especially political dynamics might lead to incremental, path dependent changes. In this scenario the role of (new) ideas is expected to be weak. On the contrary, the role of institutions (past legacies) and interests is expected to be strong.

Second, failed institutionalization, i.e. past policy legacies are (perceived as) ineffective, or the interests and ideas that previously underpinned the policy paradigm have substantially changed. Hence, we might expect the activation of either *learning process*, i.e. a larger role for new ideas coming in, or *electoral incentive changes* related to the interplay between a different re-structured party system and different configuration of interest groups, which in turn might lead to more substantial – or non-path dependent – changes. In this scenario the role of ideas and interests is expected to be strong, by providing *motivations* to the *opportunities* established by existing institutions.

The following paragraph shows how the differential role played by the "three-Is" in the three phases led to different policy trajectories in the fields of pension and healthcare. The rest of this paragraph is organised as follows. Section 3.1 will address the first theoretical puzzle with the aim to understand how decisions were taken at the critical juncture and what role was there for institutions and agency – i.e. ideas and interest. Section 3.2 aims at providing an answer to the second research puzzle, trying to explain what happened after decision taken in the critical juncture. Finally, section 3.3 turns to the third theoretical puzzle, aiming at explaining the different trajectories in pensions and healthcare in the last phase.

3.1 Explaining Convergence Towards a Social Insurance Model: What Happened in Critical Juncture?

The empirical reconstruction presented in chapter three and five showed that in the early 1990s the communist pension and healthcare policies were de-stabilised and disqualified – not only due to their ongoing fiscal instability but also due to perceived failure of the

socialist welfare programs to deliver adequate and equitable benefits, which helped delegitimize the said policy creating opportunity for change (Brooks, 2006). The new political elite searched for new solutions in line with the new logic of the market economy, which would shift responsibility from the state to individuals. Against such backdrop, there was a shared understanding among various actors, i.e. the government, the opposition and the interest groups, that the right, fair and effective system was the Bismarckian social insurance model. As argued in chapter five, it is important to note that the World Bank supported a social insurance model in the field of pensions, but not in the field of healthcare, arguing in favour of a social security model instead. However, the healthcare reform proposal by the World Bank was ignored by the Albanian government. Differently in the field of pension, the government worked closely with the World Bank in drafting the bill proposal. Nevertheless, as illustrated in chapter five, there was a difference between the bill proposal and the adopted pension law. Therefore, contrary to the overall consensus in the existing literature that emphasize the role of external actors in shaping welfare reforms in Albania, the empirical chapter shed light on the relevance of domestic political dynamics.

Despite this shared agreement among the national actors, the reforms in the early 1990s had to deal with Albania's institutional and political constraints, which heavily conditioned the content of social policy reforms. Even though the Albanian government aimed at rationalizing redistributions in both fields by strengthening the link between benefits and contributions, the wide coverage and generosity of the communist healthcare and pension systems enjoyed broad public support (Interview 1 – Political Parties Expert). At the same time, there was a need to protect the citizens from the transition induced social costs as a way to secure political support for the reforms and reduce mobilisation against reforms (Interview 1 – Political Parties Expert). In other words, the need for democratic regime stabilisation had an impact on the decisions taken in the first phase of reforms (and subsequently in the implementation phase). Redistribution, especially in favour of groups most affected by the economic transition, was seen as a tool to consolidate the new democratic regime (Interview 1 – Political Parties Expert).

Therefore, even though the pension reform was influenced by the German social insurance legislation, it was not implemented as in the German case (Interview 3 – Former Minister of Labour; Interview 8 – Former Minister of Health). The main problem was

represented by agricultural workers, who constituted the poorest segment of the population. This category was discriminated against during Communism and farmers continued to receive very low wages even after the transition to market economy. Thus, in order to protect this category from the transition's costs, the government would subsidise their social insurance contributions until the economic situation recovered (Interview 3 – Former Minister of Labour).

In the field of healthcare, the reference model for policy reform was the French Bismarckian social insurance model (Interview 8 – Former Minister of Health; Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1994, p. 1062). However, even in this case there was a deviation from the original proposal in order to protect the most vulnerable groups. In fact, initially, the government would contribute on behalf of economically-inactive persons in order to make the transition towards a Bismarckian model as smooth as possible. This social assistance intervention was intended to be a transitory provision. The generosity of the early social protection measures was driven by the popular expectation that the state should provide generous social protection (Interview 1 – Political Parties Expert) – based on the inherited communist welfare legacy, in which the state ensured full employment and provided free and universal healthcare services. Consequently, in search for political legitimacy, the new political elite responded to this popular expectation and continued to protect citizens from the transition induced social costs as a way to secure political support for the economic reforms and reduce mobilisation against reforms (Interview 1 – Political Parties Expert). All these measures stood in contrast with the ongoing deficit that both pension and healthcare systems were facing in the early 1990s.

To sum up, the empirical analysis confirmed that new *ideas* to shift both the pension and healthcare system towards social insurance-based models played a key role in the early-1990s critical juncture, by offering both solution to the policy crises and legitimacy for policy change. Policymakers' *cognitive* and *normative* orientations of what is fair and effective changed in favour of a social insurance model, which would shift responsibility from the state to individuals, by linking individual contributions with individual benefits. In other words, changes in actors' cognitive and normative frameworks launched the *path departure* from the centralized Soviet model to a Bismarckian insurance model. Moreover, as expected, the *political imperatives* related to regime stabilisation and the

need to build up consensus were strong. In search for political legitimacy, the government introduced a number of exclusionary clauses in order to protect farmers in the field of pensions and inactive groups in the field of healthcare, whose contributions would (continue to) be subsidised by the state budget until the economic situation recovered. In other words, there was a deviation from a pure Bismarckian approach due to these transitory arrangements dictated by political imperatives.

Regarding the role of international institutions and policy diffusion dynamics, even though the World Bank provided support to social policy reforms through policy advice and lending, the empirical chapter showed that the Bank's proposals were mediated by internal political dynamics. More specifically, in the field of healthcare a coalition against 'external pressure' emerged in the early 1990s and it was able to block the reform proposal by the World Bank. Also, in the positive case of 'adoption' in the field of pensions, the Albanian government was able to modify the Bank's proposal. As illustrated in chapter five, the final policy output was influenced by *past legacies* (rural retirement plans was kept in place) and *political exchange dynamics* (popular expectations and government's interest not only in re-election, but also in securing democratic stabilisation and legitimation).

3.2 Explaining Implementation and Failed Institutionalisation: What Happened after the Critical Juncture?

As shown in the empirical chapter, even though at the regulatory level both sectors followed path dependent changes, during the implementation phase (1995-2013) the Bismarckian insurance approach proved to be ineffective in terms of financial sustainability and protective capacity. During this period, both labour market and socio-demographic developments operated as functional pressures for social policy change. The collection of the social contributions continued to be very difficult due to high labour market informality, high unemployment levels and low tax-rates compliance. Since only a small number of economically active persons were paying contributions, both pension and healthcare systems were facing severe fiscal problems (cf. table 3.24 chapter 3). Another issue which continued causing fiscal deficits was the fact that the transitory measures dictated by political imperatives taken at the critical juncture continued even

during this phase. In the field of pensions, the government was actually subsidising more than 85% of the total amount the self-employed in agriculture should contribute (SII data). However, rural pensions played a very important role in poverty alleviation for this category (Interview 3 – former Minister of Labour). In the context of fiscal constraints governments of different colour were advised to unify the urban and rural pension schemes, by eliminating the government's subsidy. However, during this period, even though the trade unions remained weak, no political party engaged in unpopular reforms in order to avoid the risk of electoral punishment (Interview 3 – former Minister of Labour). Thus, transitory policy arrangements taken at the critical juncture were sustained during implementation, despite the ongoing fiscal pressures to alter them. Both the Socialist Party and the Democratic Party committed to the existing structure of the social insurance model adopted in the early 1990s. However, on a more interest-based level they competed for political legitimacy and support, enhancing pension benefits, with the risks, which then materialised a few years later, of enlarging the pension deficit.

Similarly, in the field of healthcare, due to high poverty levels, there was a need to protect the most vulnerable groups. In the context of fiscal constraints governments of different colour were advised to reduce expenditures in the healthcare sector (Interview 2 – USAID Albania representative). However, even though the introduction of the insurance scheme was seen both as a way to reduce state expenditure in healthcare and as a means to increase healthcare resources, in practice, the implementation of budget constraints was impeded by an ongoing commitment to universal access (Nuri, 2002). No political party engaged in risky cutbacks in the public healthcare sector in order to avoid jeopardizing their re-election goal (Interview 2 – USAID Albania representative).

Therefore, although the social assistance scheme was initially intended to be a transitional measure, given that the government continued to contribute on behalf of inactive groups, in the following years this measure became structural. As seen in chapter three, state budget transfers as a share of total contributions in the health insurance scheme increased throughout the years and in the last decade, they account for around 70% of the total healthcare contributions. Differently, in the pension system we see the opposite trend, with the government contributions decreasing throughout the years, reaching 2% of total pension insurance contributions in 2016 (SII data, 2016).

In other words, if we look at financing, the Bismarckian system was never implemented in the field of healthcare. On the contrary, there was a trend towards a more Beveridgean approach with a larger role for the state. At the regulatory level, however, there were attempts to go towards Bismarckian approach in line with the ideational framework adopted in the first phase.

This inconsistency between the regulatory framework going towards Bismarckian approach and the on-going state budget transfers into the healthcare insurance scheme can be traced back at the genesis phase when the decision to move towards social insurance was taken.

While in the field of pensions some insurance-related features already existed in the previous communist pension system – i.e. contributions were paid by the employers – in the field of healthcare the contributory system had to be built from scratch. Thus, initially, the state budget transfers into the newly established health insurance scheme would play an important role until a stable and effective contributory system would be put in place. The 1994 healthcare reform set the contribution rate at 3.4%. The government's aim was to increase the contribution rate further after the economic and labour market situation was stabilised in order to make the healthcare insurance scheme the main source of financing (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature II, 1994, pp. 1060-1062). In other words, in the first phase, there was an accommodation due to the crisis, which affected subsequent development and failed implementation in the field of healthcare. Even though the contribution rate was supposed to increase once the economic stabilisation was achieved, in the following years the contribution rate remained unchanged due to (negative) labour market development. Moreover, for the same reason (high labour market informality and unemployment levels), the collection of contributions was very difficult. Consequently, over the years the healthcare insurance scheme became more and more heavily funded by the state.

In other words, the implementation of the Bismarckian social insurance approach in the field of healthcare de facto failed. If we look at funding, although state budget transfers into the health insurance scheme were originally intended to be as a transitional measure, by the end of the second phase (1995-2013), since the state budget transfers into the HII not only continued but also increased over the years, this type of funding was made structural. In other words, decisions taken at the critical junctures, although initially

seemed as transitory-only and unimportant, affected the reform output. In the following years these decisions became institutionalised, opening the opportunity for path reversal in the third phase, i.e. this was a step which anticipated the shift towards social security in the third wave of reforms. As it will be discussed in the following section, based on these data, the World Bank recommended as the best solution to shift towards a social security healthcare system. Given that only 7% of public sector spending on healthcare came from non-budgetary contributions to the HII, accounting only for 0.2% of GDP, it could easily be absorbed by the general budget over the next few years (World Bank, 2006a). This in turn would have a direct impact on the low-income groups, meaning that a single basic benefits package would be introduced for all, since the funding would be based purely on general revenues.

On the contrary, the communist pension system was financed by contributions paid by the employers and the state budget, and the contribution rate prior to the 1993 reform was 19% of the payroll. The 1993 pension reform increased the contribution rate to 31.7% of the payroll, by introducing employees' contributions. Therefore, given that the contribution rate in the field of pensions was high from the beginning in the early 1990s, the reform strategy in the mid-2000s was to reduce the rate in order to provide incentives to contribute. By the end of the second phase the pension system remained a social insurance approach, even though the state continued to subsidize on behalf of the agriculture sector, a measure which was eventually eliminated in the third wave.

To sum up, the implementation phase revealed the limits of a Bismarckian insurance approach in both fields, typically for a country with high poverty levels, high labour market informality and high unemployment levels. However, even though the functional pressures were similar, decisions put in place already at the genesis continued to have an impact also during the implementation phase. Despite the ongoing fiscal pressures to alter the transitory measures taken at the critical juncture, political parties committed to the existing structure of the pension and healthcare system in order not to risk their re-election goal. Furthermore, politicians pursued expansionary policies in search for political support at the expense of increasing the fiscal deficit of both schemes.

3.3 Explaining the "Double Divergence": Mixed-Occupational Pension System vs. Mixed-Universalist Healthcare System

In the last phase, both social insurance pension and healthcare systems were neither sustainable nor adequate. However, even though the deterioration of pension and healthcare systems was an important trigger for policy-makers to promote policy reforms, functional pressures alone do not provide an explanation regarding the content of policy change. As a matter of fact, although functional pressures were similar, in this period we observe a "double deviation": first, within policy sectors deviation from the original path since both systems failed to shift towards a pure Bismarckian insurance model; second, the two policies deviate from one another, i.e. in the third phase, the pension system changed into a mixed-occupational model, whereas the healthcare system changed into a mixed-universalistic model. In other words, even though the policy crises were similar, different policy solutions were adopted. Against this backdrop, this section aims at addressing the third theoretical puzzle: what explains the policy hybridization towards mixed-occupational model in pension and partial path shift towards mixed-universalism in healthcare?

The reconstruction of the political processes leading to healthcare and pension reforms showed that in the last wave the political discourse on the issue of fairness and best policy solutions changed. In both fields the initial proposals for reform came from the World Bank. As anticipated above, the Bank proposed a policy reversal towards social security in the field of healthcare as the best solution to solve both the fiscal instability and social inadequacy of the existing healthcare insurance system. In the field of pension, the Bank made two recommendations. The first proposal was to change the pension system into a mixed-occupational model, made up of a social insurance and a social assistance scheme. Then, the second proposal recommended a path departure towards a social security, i.e. a basic pension for every citizen upon reaching the retirement age. Even though the World Bank provided policy advices in both fields, as it will be argued below, its proposals were mediated by strong internal political dynamics. In other words, political elite were not only given a range of options to choose from, but also as discussed in chapter five, they were able to modify or ignore World Bank's recommendations.

The right-wing party completely disregarded the social security options in both fields. In the field of pensions, it showed commitment to the existing structure of the social insurance model, supporting workers' rights. It argued that the pension benefit is an entitlement linked to employment and individual contribution records. For the same reason, it was against the shift towards a mixed-occupational model that would introduce a means-tested social pension targeted to the poor. The PD criticized the possible introduction of the social pension, considering it as both unfair and illegal, arguing that those who do not meet the minimum contributory period have no right to a pension income (Republic of Albania, Proceedings of the Assembly, Plenary Sessions, Legislature VIII, 2014, p. 289).

Differently, the PS argued that pensions had to be employment-related, however, it acknowledged that there was a need to protect the poor as well. Hence, it supported the first reform proposal recommended by the World Bank and it subsequently promoted the introduction of a means-tested social pension.

Similarly, the trade unions were divided on this issue: while the KSSH, affiliated with the PS, favoured the introduction of a social pension for every citizen who had reached the retirement age aimed at poverty relief, the BSPSH, linked to the PD, argued that the pension system should remain occupational-related. After the PS won the parliamentary election in 2013, it had the power for unilateral decision-making which led to the introduction of a social assistance pension scheme. However, the parties' preferences alone do not entirely explain the policy change in 2014. The original proposal was modified as a result of political exchange dynamics between the government and social partners. As shown in chapter five, trade unions played an important role both in raising the political salience of pension reform focusing on the necessity of ensuring an adequate and sustainable social insurance system and in lowering the rise in the retirement age for women (from 65 years old by 2020 to 63 years old by 2032) and decreasing the retirement age for miners from 60 to 55 years old.

In sum, the path departure towards a social security pension system was not supported by any actor. Even though there was a shared agreement on the existing pension insurance system, the preferences of the political and social actors differed in terms of coverage, i.e., who should benefit from the pension system. The right-wing party and the BSPSH were against the introduction of a social pension, arguing that the pension system should

be occupational-related only. On the contrary, the left-wing party and the KSSH promoted the introduction of a means-tested social pension, arguing that the coverage should be expanded to the poor. Subsequently, the political dynamics between the left-wing government and the trade unions led to the introduction of a social assistance pension scheme.

The interplay between the "three-Is" that led to partial policy reversal in the field of healthcare was different. In this regard, the preferences of the two main political parties differed substantially. The PD considered the policy reversal towards social security as a "step back" (Interview 13 – Former Minister of Health), referring to the communist model. Instead, they argued in favour of the existing healthcare insurance model, proposing an increase in the contribution rate from 3.4% to 12% of the payroll, as a solution to deal with the fiscal instability of the healthcare insurance scheme.

On the contrary, the socialists promised that they would reverse the healthcare financial scheme once in power (Interview 12 - former advisor to the Minister of Health). They considered the policy status quo as a failed system incapable to ensure fiscal sustainability and social adequacy. Inspired by the British NHS model, in 2011, the PS renewed its political program on the healthcare program, promoting universal healthcare coverage as a human right, financed by the state budget (general taxation), as a solution that would deal with both the fiscal and social instability of the healthcare system and would guarantee equal and affordable access to healthcare for everyone (Interview 8 – Former Minister of Health; Interview 12 - former advisor to the Minister of Health). Its healthcare program was set in line with the World Bank's and the WHO's proposals and initiatives, which promoted universal healthcare coverage (Interview 12 – Former advisor to the Minister of Health). After the 2013 government alternation, the PS unilaterally launched a reform process towards a social security model, which would provide universal healthcare coverage, free of charge at the delivery point for every citizen, financed from the state budget.

Differently from the field of pensions, political exchange dynamics between political parties and interest groups did not occur in the field of healthcare. As shown in the empirical chapter, even though the interest groups were against recent healthcare reforms, these groups were very weak and had no impact on the decision-making process. On the contrary, Albanian public opinion manifested a strong preference for universalism in

healthcare, with 50% of respondents preferring public healthcare financed from general taxation and 32% in favour of public healthcare financed partially from the general taxation and partially from fee-for-services (cf. figure 2.6 chapter two). The healthcare reform launched in 2014 respond to these preferences and the government's aim was to achieve good performance results in order to get re-elected (Interview 12 – Former advisor to the Minister of Health). The decision to introduce a policy reversal reform was framed in a credit claiming perspective by the PS, which argued that it had made the healthcare system more affordable, efficient and easily accessible. This reform changed the healthcare system into a mixed-universalistic model, composed of a universalistic floor (basic benefit packages free of charge at the delivery point for every citizen) and on top of that a contributory social insurance scheme (for the rest of the services).

To sum up, different type of interplay between institutions, ideas and interests ultimately led pensions towards a mixed-occupational model and healthcare towards a mixed-universalistic model. In the field of pensions, the interests and ideas supporting the existing policy paradigm did not change substantially, thus, the final policy output was shaped by existing institutions' inertial dynamics and the political exchange between the left-wing government and trade unions. On the contrary, the social insurance policy paradigm in the field of healthcare lacked full-institutionalisation and the ideas and interests that previously underpinned the policy paradigm changed substantially. Reassessment of what is fair and effective and which policy choice provides the best solutions was crucial in formulating the healthcare policy solution. In the absence of strong interest groups, the political exchange dynamics took place between the electorate, which favoured a public tax-financed healthcare system, and the left-wing government that supported a universalistic healthcare system and wanted to deliver good performance results in order to get re-elected.

CONCLUSIONS

In many CEE countries, the World Bank's involvement was crucial to put restructuring on the agenda and many governments used World Bank's conditionality as a "blame avoidance" strategy for unpopular policy measures (Guardiancich, 2013). The neoliberal recipes promoted by the World Bank typically favoured typically the reduction of redistributive elements and reinforcement of the links between contributions and benefits, as well as privatisation and marketisation of pension and healthcare systems (World Bank, 1994d). Therefore, under the influence and with the technical and financial support of the World Bank, between the mid-1990s and the early 2000s, a significant number of countries in CEE opted for partial or full pension privatization (Müller, 1999; Orenstein, 2008; Guardiancich 2013). Likewise, in the field of healthcare, many governments saw deregulation and privatisation of medical services both as a way of limiting the state role in healthcare and as a means of improving the quality of the public sector by introducing greater competition (Haggard and Kaufman, 2008).

Similar to other Central Eastern European (CEE) countries, after the fall of Communism Albania embarked on welfare reforms – the most important being in the fields of pensions and healthcare. The urge for immediate measures to deal with transition challenges as well as the lack of both experience and financial resources triggered international actors – such as the International Monetary Fund (IMF) and the World Bank – into the decision-making process, thus creating an opportunity for these institutions to exert pressures for a substantial restructuring of the pension and healthcare systems (Müller, 1999). From the early stages of the transition in Albania, the World Bank emphasised the need of a well-designed, sustainable, and adequate social safety net and loaned money to restore the economic and social challenges in the country.

However, *contrary* to other post-communist countries the Albanian government did not adopt World Bank's "new pension orthodoxy", nor did it follow World Bank's recommendations in the field of healthcare. Instead, the government opted for a public

social insurance approach in both fields. The long-term goal was to transform the pension and healthcare systems into fully-fledged Bismarckian models. Accordingly, the 1993, pension reform conditioned benefits upon payment of contributions (and tightened eligibility conditions). Similarly, in 1994, the healthcare system shifted from the Soviet Semashko model to a Bismarckian model, with the introduction of a healthcare insurance scheme.

Despite the initial aim to link benefits with contribution in both schemes, in the subsequent three decades both pension and healthcare systems have failed to shift to an insurance-based approach only. Against this backdrop the aim of this thesis was threefold. First, to reconstruct the policy trajectory by using the appropriate classification and corresponding definitions of the solidarity models. Second, to understand and explain the politics of welfare reforms. Third, to elaborate the theoretical implications of the above-mentioned policy changes, divergence and partial reversal, challenging both historical institutionalism and policy diffusion approaches.

Regarding the first, the overarching goal was to illustrate the most relevant reforms in the fields of pensions and healthcare. To that end, this thesis showed that the Albanian government adopted similar policy responses in the early 1990s, which launched a *convergence process* towards social insurance models in both fields. Even though during the implementation phase (1995-2013) both sectors followed *path dependent* changes, this period displayed the limits of the Bismarckian insurance approach to ensure fiscal sustainability and social adequacy in both sectors, which in turn led to partial or failed *institutionalisation*. However, although the functional pressures were similar, in the last wave of reforms (after 2013) we observed *policy and institutional divergence* across the two policy fields. Hence, both pension and healthcare systems actually failed to shift towards a fully-fledged Bismarckian social insurance model: however, analysing the policy trajectories in the three phases we observed both within policy sector deviations and a process whereby the two policies deviate from one another overtime. In fact, pension and healthcare currently differ in terms of institutional architectures, financing methods, coverage and benefits, with a mixed-occupational pension system (Ferrera, 1993), which includes a social assistance tier – flat rate and means-tested – and a social insurance tier, and a mixed-universalistic healthcare system (Ferrera, 1993) combining elements of both the Bismarckian and the Beveridgean models. The reconstruction of

policy trajectories thus raises the following empirical and theoretical puzzles. Why pension and healthcare policies converged into a Bismarckian social insurance model in the early 1990s? Why did the implementation towards Bismarckian insurance models fail in both cases? What explains subsequent developments towards mixed-occupational model in pension and mixed-universalism in healthcare?

The second goal of this study was to provide an answer to these questions. To that end it drew expectations about the interplay between institutions, ideas and interests in the various phases, i.e. critical juncture (1991-1994), implementation phase (1995-2013) and recent policy developments, characterised by substantial institutional innovation (2013 onwards). We argued that we should expect a differential role played by the "three-Is" in the three phases, due to the changing political and institutional context over-time. In more detail, during the first phase, in a context of fluid institutions – due to the transition to democracy and market economy – and when the policy status quo is de-stabilised and disqualified, we expected more room for new *ideas* to play a significant role. In addition, due to national actors' lack of resources and experience with democracy and market economy, the role played by external actors in providing new policy solutions to the occurring problems was expected to be strong. Turning to the role of institutions, due to the delegitimization of *previous legacies* their role was expected to be ambivalent. In other words, in a critical juncture it was hard to say whether positive feedback or negative feedback would prevail, because their relevance depended on the strength of the interests attached to the pre-existing structure of the social policy. Given that Albania had no previous experience with democracy and no previous strong organised *interest groups*, these groups were expected to play a limited role. Differently, *political imperatives* related with regime stabilisation and the need to build up consensus were expected to be strong. In other words, given the generosity of welfare entitlements inherited from Communism, the new democratic political elite was expected to continue to provide welfare as a tool to stabilise the new regime.

During the second phase, decisions taken at the critical juncture were expected to influence the subsequent policy development and change. In other words, once established, inertial *institutional* dynamics were expected to prevail. Moreover, implementing reforms adopted in the critical junctures implied ensuring their social and political sustainability. Thus, in case some relevant *interests* were disregarded in the

critical juncture they were expected to *survive* and *return* (Streeck and Thelen, 2005). Therefore, we expected expansionary policies as result of convergent interests.

In the third phase instead, given the long time-frame from the critical juncture to recent years and the many changes that occurred in between, we expected two different scenarios. First, full *institutionalization* of the decisions taken at the critical juncture, i.e. policy legacies were (perceived as) effective, thus, ideas and interests were entrenched. Changes in political dynamics were expected to lead to incremental, path dependent changes. Second, *failed institutionalization*, i.e. past policy legacies were (perceived as) ineffective, or the interests and ideas that previously underpinned the policy paradigm substantially changed. Hence, we expected the activation of either *learning process*, i.e. a larger role for new ideas coming in, or *electoral incentive changes* related to the interplay between a different restructured party system and different configuration of interest groups, which in turn was expected to lead to more substantial changes.

In order to bring evidence of the explanatory power of the "three-Is" in explaining policy change and divergence, this thesis provided a qualitative analysis based on process tracing aimed at reconstructing the policy-making processes in both fields. More specifically, it aimed at identifying the main determinants of pension and healthcare reforms in Albania and at explaining why these two policies diverged over-time.

In more detail, in the field of pensions, during the first wave of reforms, the reconstruction of the political debate on the "social issue" showed that the various actors were oriented towards employment-related policy solution, which was argued to represent the "good way", in order to build a fair, stable and effective social protection system. During implementation, both the Socialist Party and the Democratic Party committed at the ideational level to the existing structure of the pension system. However, on a more interest-based and power-based level they competed towards pension expansion, seeking political support and legitimacy. In addition, politicians tried to avoid blame for unpopular reforms using different strategies such as delays, obfuscation and compensation. On the contrary, in the last wave the political discourse on the issue of fairness and best policy solutions changed. In this regard, the preferences of two main political parties differed in terms of coverage, i.e., who should benefit from the pension system. The right-wing party showed commitment to the existing structure of the social insurance model, supporting workers' rights. It criticized the introduction of the social

pension, considering it as both unfair and illegal, given that the existing law linked pension benefits to employment and contribution records and those who did not meet the minimum contributory period had no right to a pension benefit. Differently, the left-wing party promoted the introduction of a means-tested social pension, arguing that the coverage should be expanded to the poor. Similarly, the trade unions were divided on this issue: while the KSSH favoured the introduction of a social pension for every citizen who had reached the retirement age aimed at poverty relief, the BSPSH argued that the pension system should be occupational-related. The left had the power for unilateral decision-making which led to the introduction of a social assistance pension scheme. However, the political parties' preferences alone do not entirely explain the policy change in 2014. Trade unions played an important role both in raising the political salience of pension reform focusing on the necessity of ensuring an adequate and sustainable social insurance system and in lowering the rise in the retirement age for women (from 65 years old by 2020 to 63 years old by 2032) and decreasing the retirement age for miners from 60 to 55 years old. The *political exchange dynamics* between political parties and trade unions and *institutions' inertial dynamics* were thus crucial in explaining the policy change from a pure Bismarckian social insurance model to a mixed-occupational model.

In the field of healthcare, during the first wave of reforms, there was no disagreement among the main actors regarding the healthcare model. However, even though all parties were in favour of a Bismarckian social insurance system – because it shifted responsibility from the state to the individuals by linking individual contributions with individual benefits – the final policy output was influenced by the *political imperatives* motivated to secure regime stabilisation by continuing to protect the groups most affected by the transition costs, i.e., inactive groups, and past policy legacies which were kept in place – the state budget transfers into the HII would continue to play an important role until a functional insurance system was set up. However, during implementation, due to labour market (high unemployment and informality levels) and socio-demographic (high poverty rates) challenges and the interest of the political elite not only in re-election, but also in securing regime stabilisation and democratic legitimation, both these measures which were initially meant as transitory only, were kept in place and they were made structural. Therefore, by the end of the second phase, if we look at funding (state budget transfers into the health insurance scheme) and coverage (the government continued to

contribute on behalf of economically inactive groups) the institutionalisation of the healthcare insurance model basically failed. In addition, according to experts' evaluation, the existing scheme was considered as both unsustainable and inadequate. Despite its shortcomings, the Albanian public opinion manifested a great preference for universalism in healthcare, with 50% of respondents preferring public healthcare financed from general taxation, while 32% in favour of public healthcare financed partially from the general taxation and partially from fee-for-services.

Building on this observation, starting from 2011 the PS changed its political discourse arguing that healthcare is a human right and therefore, it promoted a social security system, as a solution that would resolve both the fiscal and social instability of the healthcare system and would guarantee equal and affordable access to healthcare for everyone (Political Program of the Socialist Party, 2011). In line with its new political views, when it came to power, the PS unilaterally launched a reform process, with the final aim of reversing the healthcare system into a security model which would provide universal coverage, free of charge at the delivery point for every resident, financed from the state budget (general taxation). Consequently, the reforms in the last period changed healthcare into a mixed-universalistic model (Ferrera, 1993), a universalistic floor and on top of that a contributory social insurance scheme. The PS claimed credit for this partial policy reversal, arguing that it had made the healthcare system more affordable, efficient and easily accessible. In the absence of strong interest groups, the political exchange dynamics took place between the electorate, which favoured a public tax-financed healthcare system, and the left-wing government, which supported a universalistic healthcare system and wanted to deliver good performance results in order to get re-elected. The healthcare *partial policy reversal* was thus shaped by the interplay between actors' normative (what is fair) and cognitive (what is effective) framework, past legacies (coverage and financing system) and political exchange dynamics (electorate expectations).

In order to address the third goal of this thesis, we elaborated the theoretical implications of paradigmatic changes and divergence, challenging both policy diffusion and historical institutionalist approaches.

More specifically, against the backdrop in the existing literature, according to which it is the external actors, not domestic ones, that have driven social policy reforms in Albania,

the empirical analysis showed that policy models proposed by international institutions were filtered and reshaped by domestic institutions and interests. Hence, even though the World Bank played an important role in providing policy advice and technical expertise in both fields, the empirical evidence showed that there is no clear association between the policy proposals of the World Bank and the policies adopted. In particular, in the field of pensions, even though from the beginning reforms have been in line with the World Bank's recommendations, the Bank's proposals were mediated by internal political dynamics. In more detail, in the early 1990s critical juncture there was no disagreement between the Albanian government's proposal and the World Bank's proposal in the field of pensions. In fact, the World Bank supported the government's initiative in developing a sustainable and comprehensive Bismarckian social insurance system. It provided policy advice and technical expertise in drafting the bill proposal in line with the Albanian government's preferences. Nevertheless, the final policy output was shaped by new *ideas* in line with the new logic of the market economy to shift the responsibility from the state to individuals and *political imperatives* related to democratic regime stabilisation and legitimation. Moreover, even though in the second wave the Bank was ready to give up its pension "orthodoxy", by adapting its policy advice to the peculiarities of the Albanian case, the Albanian government was able to postpone and modify the Bank's parametric reform proposals. Finally, even during the third wave of reforms the World Bank continued to provide support through policy proposals and lending. However, political elite not only were given a range of options to choose from, but also, they were able to modify the Bank's proposals. In fact, as argued above, the final policy output was shaped by existing *institutions' inertial dynamics* and the *political exchange dynamics* between the left-wing government and trade unions.

Differently, in the field of healthcare, the Banks's recommendations in the early 1990s were ignored completely. From the beginning the World Bank supported a social security healthcare model. However, a coalition against 'external pressure' emerged in the early 1990s and it was able to block the reform proposal by the World Bank. Even though during the second wave of reforms the Bank proposed path reversal towards social security, governments of different colour implemented path dependent changes in line with the social insurance approach adopted in the early 1990s. Finally, even though starting from 2011 the Socialist Party healthcare program was set in line with the World

Bank's and the WHO's proposals and initiatives, which promoted universal healthcare coverage as a human right, as argued above, the final policy output was influenced by *past legacies* (social insurance scheme was kept in place) and *political exchange dynamics* (popular expectations and government's interest in re-election).

In addition, empirical puzzles that emerge by looking at the policy trajectories and political dynamics in fields of pensions and healthcare in the Albanian case, have important theoretical implications vis à vis historical institutionalism. In more detail, in the early 1990s, the *paradigm shift* in the field of healthcare and the *convergence process* between the two policy fields constitute striking puzzles for historical institutionalism, according to which we should have seen *path dependency*. Second, even though these policy changes and convergence occurred in a critical juncture, historical institutionalism still presents important gaps in explaining why an alternative was chosen over another. Specifically, in healthcare both the social insurance and social security schemes were considered as a way to finance the system and the Albanian government decided to opt for the former. Finally, a focus only on structural settings shows limitations in explaining cases of radical policy change and divergence without the presence of an exogenous shock. Referring to recent developments in Albania, *partial policy reversal* in the field of healthcare and the *divergence process* across policy fields were not a response to an external shock. In fact, the empirical analysis revealed that policy development and change cannot be captured through institutional lenses only. In particular, it showed that in the critical juncture, due to the context of fluid institutions new *ideas* played a significant role in shaping the policy proposals, by offering both solution to the policy crises and legitimacy for policy change. However, after the critical juncture we observed a different institutionalisation and implementation phase in the different sectors. In the field of pensions, even though there was a shared agreement on the existing pension insurance system, the preferences of the political and social actors differed in terms of coverage. Subsequently, the *political exchange dynamics* between the left-wing government and the trade unions led to the hybridization of the pension system, with the introduction of a social assistance scheme. On the contrary, in the field of healthcare we observed *failed institutionalization*, because decisions taken at the critical juncture were perceived as ineffective and ideas that previously underpinned the policy paradigm

changed substantially. Reassessment of what was fair and effective and which policy choice provided the best solutions was crucial in formulating the healthcare policy reform. Overall, this thesis provided important contributions to the understanding of the Albanian welfare reforms in terms of policy development, underpinning political dynamics and theoretical implications, a sector which has received only partial and unsystematic scholarly treatment in the existing literature. It captured the convergence of pension and healthcare policy trajectories in the early 1990s, their gradual institutionalisation (pensions) and/ or failed implementation (healthcare) in the 2000s and their subsequent policy change and divergence process in the recent years. In terms of politics and institutional analysis, contrary to the overall consensus in the existing literature that welfare reforms in Albania were mainly driven by international organization and policy diffusion dynamics, this thesis shed light on the domestic dynamics, bringing evidence on the significant role played by the interplay between political parties, interest groups and electoral expectations, in shaping social policy reforms. It showed how the politics of pension and healthcare systems changed along the democratic consolidation process, revealing different actors' preferences, positions, strength and political dynamics in each phase. In particular, it argued that the need for democratic regime stabilisation had an impact on the decision-making process in the early 1990s, in which political actors saw welfare redistribution as a tool to consolidate the new democratic rule. Differently, nowadays, in the presence of a consolidated democratic system, political exchange dynamics between political and social actors have become more evident and they have in turn shaped the final policy output. Finally, in terms of theoretical contribution, this thesis showed that although institutional dynamics are important, they are not sufficient to explain the specific characteristics of social policy reforms or within-country divergence between different social policy programs and over-time. Thus, this study reconciled the relationship between structure – which opens opportunities and constrains actors' behaviour – and agency – i.e. actors' ideas and interests, to explain policy change and divergence over-time. In more detail, it explored what happened in critical juncture, confirming that new *ideas* played a key role in launching the convergence process towards social insurance-based models in the field of pensions and healthcare. Their interplay with political exchange dynamics and past legacies, instead, shaped the final policy output in both fields. Based on this theoretical framework, it also analysed what happened after the

critical juncture, showing that the subsequent divergence process across was shaped by the interplay between institutions, ideas and interests, which were different in the two fields and over-time.

Nevertheless, this thesis analyses social policy development and change on a single country. Hence, seeing pension and healthcare policy-making as continuous and dynamic processes, in which the Albanian country-specific context played a significant role, this research provides little basis for generalisation. In this regard future research should focus on regional comparison with other Western Balkans countries, or CEE countries in general. This is interesting not only due to their shared communist legacies but also due to the recent trends towards universalistic healthcare models and introduction of social assistance pensions in a number of post-communist countries.

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APPENDIX

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Interview Questions

1. Why did social policy reforms take priority in the early 1990s?
2. Which was the main driver of these reforms?
3. Why were international institutions, such as the World Bank, involved in social reforms in Albania?

3.1 What has been the role of international organizations / institutions in the policy-making process? (the World Bank, the IMF, the EU etc.)

3.2 What has been their position towards reform?

4. Has there been any resistance towards these reforms?

4.1 Which interest groups have been actively involved during the policy-making process?

4.2 What has been their position towards reform?

4.3 What was the role of doctors or healthcare professionals in these reforms?

4.4 What is the role of the Physicians' Order?

4.5 What is the role of trade unions?

5. Contrary to other former communist countries (Hungary, Poland, etc.) why did the Albanian government not introduce private pension schemes in the early 2000s?

5.1 A left-wing government was in power at the time, did its ideology have any impact on the direction of reforms?

5.2 What was the role of the World Bank in this regard?

6. Which are the main ideological differences between the two main parties regarding pension/ healthcare reform?

6.1 Does ideology play an important role in reform proposals?

6.2 Have social policy reforms been implemented or rejected for ideological reasons?

7. Have politicians fulfilled their electoral promises in the field of social welfare?

7.1 What has been the role of civil society, media or voters? Do these groups hold politicians accountable?

7.2 Have governments been "punished" for not fulfilling their promises?

7.3 Has there been any reaction against cuts?

8. Most of the health ministers have been doctors. Do you think this has affected the healthcare reform process in one way or another?

8.1 What has been the position of the MPs who are doctors towards healthcare reforms? Do they represent the interest of the profession they have or do they support the parties they are affiliated to?

9. Why are the health ministers changed so frequently?
10. Why is the Ministry of Health often run by small coalition parties?

Interview 1 – Political parties' expert, Faculty of Political Science, University of Tirana

18 May 2019, Tirana.

In 1990 when pluralism took place, we had no social stratification. Having no social stratification, we could not talk about a state in relation to a certain social category, but we were talking about a government in relation to the whole population. The main task of the government at that time was to provide the emergency package: food, minimum healthcare, social assistance, etc. A very big difference of Albania compared to other Eastern European countries was the fact that during communism private ownership was totally banned.

The second element relates to the fact that in the late 1990s and early 1992s, because the socialist economy went bankrupt, the rule was this: the factory went bankrupt (because it had no raw materials), and the state said "all workers stay at home and they will get paid 80% of their salary". This created a very problematic situation as more than 40% of the employees in the large factories were staying at home and they were kept from the state budget. Western countries that provided aid at the time raised the issue that they could not continue to provide assistance to keep people at home. Assistance would be provided to supplement a minimum subsistence package. This was the main challenge and this kind of challenge to some extent determined the political programs of political parties. The state did not have such large financial capacities as to say "I am right-wing, I protect the rights of owners", when at that time not only the very concept of business did not exist but also the minimum capacity to have a business was missing.

From March 1991, the council of ministers issued a directive on the use of vehicles, because the first emigrants entered the country by car, and there was no law in Albania for this (driving license, registration, etc.). So, there was no concept of capitalism, which limited the programs of political parties. The political programs at the time are "socialist" within a democratic state, that is, the state will provide everything, will take over everything. We cannot say Scandinavians in the sense that the state has the capacity to provide social protection. The Albanian state did not have the capacity to provide adequate social protection. However, political parties could not tell the citizens "we will provide private education, we will provide private healthcare, we will increase economic competition", because no one would vote for them. And the government was obliged to provide citizens with what they needed at the moment. Therefore, the first programs are: the state takes over, the state provides employment and social protection.

This is the first phase, until 1993. In 1993, when the right-wing party was in power and with the support of the West, foreign advisers were brought in. The PD had a British adviser, the PS had the former Polish prime minister sent by the World Bank. They were the ones who helped change the economic system.

The privatization of large economic assets was supported. However, given that the private sector at the time was very weak, the state became the guarantor. This kind of attempt at mass privatization created the first capitalist class in Albania, and this influenced the parties to change their political programs in 1996. The left remained loyal to the poor, ex-military, veterans, social categories that did not benefit from the process of privatization. The PD supported the stratum it had created, young businessmen and it promised foreign investment and market opening. The PS was against foreign investment at the time.

It should be borne in mind that at that time the citizens did not trust foreign investments. We are talking about a period when there did not exist any kind of water service contract with any country in the world. The first agreement was made with Italy, and they were the ones who insisted on it, but it had a very high cost, after the damages of 1997, as they demanded compensation and in Albania there were no mechanisms for investment protection.

If a parallel analysis is made, the PD during this period focused 90% of the time on the politically persecuted persons and considered this issue as the biggest social priority: rehabilitation, integration, compensation. It was a big problem for 20'000 people to come from exile back in Tirana. They did not have a house, they had to find a school, a house and a job. Accommodation in schools and work was easy because it was decided by the Council of Ministers. The democratic government made this strategic move in favour of politically persecuted groups because this category was its main voter category. Most other countries, such as Poland or Hungary, settled it by compromise in the 1990s and these countries did not have the number of political persecuted on this scale, they had 1 person in the family, but not the entire family. This policy continued until 1997. In 1997 the state fell and everything had to start from scratch.

The pyramid crisis in 1996-1997 was the culmination of a misunderstanding of the market economy. Technically, the schemes were legally okay, and the right-wing government said "it is a private activity and we cannot intervene". Practically, there were a number of other laws that stated that all the movement of money out of the system was considered a violation of the law. But on the other hand, the banking system in Albania had started too late. Salaries began to be paid through a bank account around 2004-2005.

What is interesting is the fact that none of the Albanian economists left or right-wing were against the pyramids. The Ponzi scheme was so far removed from the Albanian reality that no one understood it.

This situation forced the PS, when it came in power in 1997, to compensate for the damage caused by the pyramid schemes and to restore state authority, rather than to focus on social policies. And the reforms that have been made at this time, prioritised the documentation records, collection of data: how many are sick, unemployed, retired, in order to create a database for people in need in Albania.

It is worth noting that from 1995-2005, the main financial source for the Albanian citizen was not the state, but the income coming from remittances. And this part of the population, which was supported by children in immigration, did not feel the need to wait in line at the municipality for social assistance. The problems emerged when emigration stopped being a major source of funding after 2005, because immigrants had created their own families abroad, and started to provide their parents in Albania assistance only in case of need, but not a monthly income anymore. At this stage, emigration revenues fell, and a massive privatization of strategic facilities began. The most sensational reform at that time was the creation of a private banking system, and then came all these banks that we have today: Raiffeisen, etc.

The privatization process in Albania changed the country's context. The biggest irony is that it was an initiative from the left. De jure the electoral program of the PS does not promote privatization initiatives, because it creates social inequality and they protect the social categories like miners, etc. etc. when in fact it was the PS that closed the mines because they were not functional anymore and they announced public tenders for mass privatization. Why did the left do it? The problem is not what the left did. After 2001 we cannot talk about a left-right wing cleavage in Albania, because both leaders had realized

that through the control of the rich you can control Albania, as we are a poor country. And since 2001, the privatization curve has grown tremendously.
When the PD took over the government in 2005, and extensive investigations were expected to take place, the PD government did the opposite. It is not considered a problem that the previous government was corrupted etc. etc. but PD said "I have to privatize, I need money, where can I find the money? What is left for us without privatization? Oil – give it to Canadians, airport - to Germans". Many things that were considered a major national interest were privatised. "What is left? We have rivers left, what are we going to do with the rivers?" And the madness of the hydroelectric power plants privatisation began.
And it was understood that in the situation that Albania was in, the state had to enter as a guarantor and compensate for the losses. But the state could not enter as a guarantor and the state said to deal with the police, which in turn created a wide range of problems…
One problem of the government was that the privatisation of the power plants put all the capital in play, and put the money laundering in play. They were basically saying "you could find 20-40% of the money wherever you wanted".
Problematic was the fact that this type of investment was held by a certain company for some time and then sold to another (subcontracted) and in the end, it was not clear who was responsible for the salaries, the work remained unfinished, and residents started to protest.
This kind of practice was totally anti-social for the people of that county. All the residents of the places where these kinds of investments were made were dissatisfied, because nothing was improved for the community. They are investments from Tirana, with profit from Tirana, with technology from Tirana and with agreements from Tirana. Even the mayors were dissatisfied because none of them had benefited anything for the local budget. They are considered and are national investments and the profits go in the budget of the ministry of finance.
What is the role of trade unions in social policy reforms?
We had a trade union movement in the beginning, but our trade union movement was more of a political movement due to the circumstances of Albania. On part of the miners got involved with the PD and the other part with the PS. And the government decided to get rid of them, and they got rid of them with a simple decision: a smart political decision, but destructive for the unions. The decision was that the workers' camps in Albania were transferred to the unions for administration and this decision turned the union leaders into owners, they became businessmen and being property owners, they earned millions and millions, and had no interest in mobilising in elections or protests. All trade union leaders elected in March 1991 continue to be chairmen even today. So, they were "bought" by the government.
Even the famous statement of Rama that made a fuss when he said "come and invest in Albania because there are no unions here", was not wrong. There was a reaction from Germany "how is it possible for a left-wing leader to make such a statement". But Rama was right, because in the Albanian case unions are non-existent not only because of the problem of leaders, but because we lack communities of workers (foreign companies come, invest, contracts expire and they leave). There are over 110 employees who work in these companies, which should have their own workers' union, but the employees beg the owners to find them more work: "take my daughter to work, take my son to work", because these companies are the only source of employment in the suburbs in Albania.

So, the largest source of workers in Albania, is one in which workers beg the owner, not the other way around.
Other production units do not have many employees: for example, hotels do not have more than 20 employees, because they hire them with part-time contracts or seasonal services. This is done in order not to have too many workers to gather and organize in union structures. Big TV stations, for example TCH, 500 people, but most of them are in part-time contracts. The quota of +500 people in Albania is not met to claim the right to unionize.
The parties know this, and the political parties did not make their political program to be left or right, but they count "I have 10 voters, I will make the program for these 10 voters, and what do these 10 voters represent. If they are businessmen, I will do the program for business, if they are poor, I will do the program for poverty". They have adapted the program based on the number of voters and the nature of these voters.
It is not possible today to analyse the structure of aid from 1991 until today and how it has progressed. Because you will automatically receive data from INSTAT, the main structure, and INSTAT will reply "we do not have accurate data because we register the population living in Albania, not the population that has moved". But there are many people who stay for a short time abroad, and for another period inside the country. But according to INSTAT, these persons are listed as registered abroad. According to INSTAT, 2.8 million people live in Albania, while according to state structures, 3.6 million live here. And the difference is not for the young, it is for the old, who receive assistance. And we do not have a database: for example, if you go to the municipality of Tirana and they say that in 1992, 100'000 received social assistance from employment programs, today they say "we have increased the number and now 500 thousand benefit from the social assistance programs". In fact, it may have been 100 thousand at that time, but the population of Tirana was 242'000 people, while today it is around 1.2 million. If you go to the small municipality in remote regions, you will find that you have 2'000 people benefiting from the social assistance, while there are 1'000 citizens living there. Therefore, it is very difficult to make this connection between how many workers there are, how many rich families there are and how many families receive social assistance.
Pension reform is not understood by the people (voters) and the parties have no interest in explaining it. If Basha says this is a fraud, the question the voters may ask him is: what did you do when you were in power? And what if we elect you next time? He may say I will raise the standard, but how much, how, he does not explain these. Actually, he cannot explain these.
We had this debate when Rama became prime minister in 2013, all the people who became active in Albania during the elections wanted the political alternation to take place, not because we were with Rama, but because Berisha had become unacceptable. The first step he took when he came in power in 2013, was hiring a British company in order to balance the state budget. 700 million euros were paid to this company and five months after Rama was elected, he said that the debt is much bigger than the real one. He announced: "this is the budget so we need to change the government program". And people started complaining: why did you make big promises during the electoral campaign? And he said that "I did not know the real state of the state budget". And to be honest, it is very difficult to make calculations when the state database is missing. We have this problem during elections. We say 40% of the voters participated, but 40% of those who actually live in Tirana, or 40% of those who have remained on the voter list? For example, in the city of Korça there are +100 people over 100 years old who still

appear as voters, because according to our law, if there is no evidence that something has happened (a relative has to go to the municipality and register the dead persons), they still appear in the voters' list.
One of the biggest pressures from the World Bank has been for Berisha and Rama to formalize the economy. Why? Because by formalizing the economy, people start opening bank accounts. e-Albania, for example, is a good initiative because it creates a database.
How has the standard changed who is poor? For example, one of the criteria was, if you have 1 TV you are not poor. But almost everyone has a TV. Or if there are 5 of us at home and we have 1 TV, are all five considered rich? After these new criteria were set, a reform was made that reduced the number of people receiving social assistance. The government came to the conclusion that around 100'000 cases turned out to be fictitious. In fact, 100'000 were not fictitious. They were the same people but counted differently (based on other criteria).
There is no minimum limit, because in the moment it is set, the state is obliged to give something.
Rama had this problem when he came to power: he decided to stop anyone who sells on the street and introduce them in the tax system. But the taxes were so high and consequently these small businesses all went bankrupt. And when the little ones went bankrupt, the mechanism of supermarket supply began, which is controlled by a group of individuals that finance the police so that there would be no competition from street vendors.
The opposition suffers to receive information, because for example the Ministry of Labour does not provide information if the information affects them. And most of their statements are ridiculous when you hear them as an expert. For example, Berisha had this trend of mentioning so many figures that no one opposed him because no one understood him. There is no assessment, no reporting that "we have this kind of situation and what we should do about it".
Elimination of the contribution. How will it be switched to general taxation?
They do not do it because there is a conflict of interests. Beqja was the director of the healthcare insurance institute and he remained the director even when the PD came in power (2005-2013). And knowing the system, he tried to use it because he had a private business. In 2013, he became a deputy with the PS. He was the only deputy who was fired from the parliament because he continued his business with the HII. Rama intervened and took the decision of mass concessions, which can be successful, for example the check-up system is very good for rural areas. But it is an uncontrolled system and there is a clause there if it is not possible to make a specific number of visits, the state subsidises the missing benefit. On the other hand, the government forces the directors of the hospitals to ensure a certain number of check-ups: "if you do not provide a certain number of visits, you will be fired". And they are forced to go to the school principals and ask them to let the whole school be checked.
And those who use these machines (privately) become millionaires. The irony is that the person who took them is a cigarette businessman, and after selling cigarettes for 20 years, won the tender on the health consequences of cigarettes. This was a great paradox.
Despite promises made about improving the healthcare system, when a party comes in power, the ministry of health is given to a small party. This is a political move in order to remove responsibilities.
I worked for some time when Nard Ndoka was the Minister of Health. For example, Berisha was a doctor, why did he give the ministry to Nard Ndoka? Being a doctor

himself, Berisha removed all the pressure that people put on him to invest more on healthcare, thus he gave the ministry to another party. When Berisha was criticized about not doing a good job, he blamed the minister of health and fired 3 ministers one after the other. In front of the people, he said “I was not able to find the right person but I agree with you”. So, it is done to avoid the responsibility.

Interview 2 – USAID Albania representative, healthcare expert

09 May, 2019, Tirana.

In the first phase of assistance, the USAID dealt with vertical programs, so it did not have much influence on the policy-making process. Vertical programs included: maternal and child health protection, immunization programs, HIV / AIDS, family planning. Initially it was oriented at the primary healthcare system.
The USAID's assistance has been requested from the Albanian governments for the assessment of the overall situation in the healthcare system. An assessment of the situation has been conducted, from the level of administration to the final level of service provision, mainly in the provision of public healthcare services, as most of the programs have been oriented towards public health, but also in health promotion. The first part of the assistance was this.
The second part was about improving primary healthcare. This initially had a first phase at the regional level, then it moved to a second phase that included the national level, and the level of decision-making.

1. Bridging program: specialization of general practitioners, the USAID provided technical assistance.
2. The second part had to do with the information system. An entire electronic system was created.
3. The third component had to do with finance: system financing.

There have been changes in approaches within the same government.
From the very beginning, the healthcare system has been perceived with a final purpose: that the system would be funded entirely from social insurance contributions. We currently have a mixed system, part of which is financed by contributions and the rest by the state budget.
Important changes in the early 1990s include:
- Creation of HII;
- Privatization of pharmaceuticals and dentistry. Privatisation process was intended to be extended at the primary clinical care, but it was not achieved. There was no capacity, there was no basis, the situation was not favourable and healthcare at that time was not considered a priority.

The objective has been that in the long run the system would be totally based on funding through contributions. But that has not been achieved. What changes is whether it will continue with contributions or just taxation. Many reports, including the one of 2018 from the World Bank, in many points do not express very clearly which of the systems is best for the Albanian case. It highlights the pros and cons of both financing methods. If the government program seeks to implement a certain policy, for example if they require decentralization, USAID provides assistance in that specific direction.

4. The fourth had to do with health promotion.

Decentralization of primary healthcare: i.e., all health centres across the country to be run by one board, the board to have an internal decision-making, i.e., to avoid interference from higher levels, for political reasons. The membership of the board was mixed, including representation from the centre, from the local government and from the regional healthcare services. This was also the first step of decentralization.

The second step was that health centres began to officially use what is called payment at the service point, performance and quality indicators, which means it was a motivational stimulus and so on.
Part of the health centres was purchased from the insurance institute, the rest continued to be financed from the state budget. The question asked at the time was “Is it worth it to fragment the budget or should it be completely centralized?”. Many of the reports from the USAID and from the World Bank have been to centralize at the regional level.
The PHC project had these four main objectives.
There are no good or bad systems, a good system is one that works.
Hospital system: even here the aim was decentralisation, both financially and structurally. That is, the main objective was the management of hospitals, not in a centralized form. Make the MoH a policy-maker body, not an executive. The purpose of this project was to turn MoH into a policy-maker body.
Hospitals had little relation with the HII. Tertiary care was even less related. Reimbursement is made to the hospitals. The funding part was mainly related to the cost of the service.
The whole project was for four years. And within this period these mechanisms were created.
The same project assisted in the accreditation of services.
There was no political influence at all, but there was an impact on implementation: willingness to implement these packages, to have accredited institutions.
In setting the standards for accreditation, the problem was to identify what the “gap” was and how close it?
The implementation of this project has not been what it should have been.
Ministries have approved and supported it, but implementing it is completely a decision-making process that depends on the governments. There is no difference here. Both the left and the right do not have different political attitudes, especially towards the major problems, but they do not have the will to change the situation.
The problem with the USAID assistance projects is about what will happen when the project ends? There is no legacy. How sustainable is the project you left behind? And how to make it an institution? Are there any plans for the future? How to formalize it? There is a risk every time there is a government alternation. The new government changes many things: they might have a different vision, a different approach. Actually, there are differences even within the same government or party, e.g., government reshuffle, ministers or directors are often changed.
On this matter, there is no difference between the left or right-wing parties.
The turn-over problem: people change. This phenomenon occurs at every level. When new people arrive, they need assistance, training, until the project deadline is over. The moment a new minister arrives, he should be informed what are the benefits coming from the project, whether he supports this program or not.
There is no correlation between the number of patients and the services provided in hospitals.
Large regional hospitals (Vlora, Elbasan, Korça) offer wholesale services, they have an unnecessary staff. The budget is small, while the staff is large. For example, in Vlora there were 10 gardeners working with the flowers of hospitals, there was a very large number of nurses. But there are few professionals, specialists.

Specialists leave after specialization. Many hospitals had almost zero activity. There are no patients, as patients prefer hospitals in Tirana, hospitals abroad, or private hospitals. But hospitals that have no activity cannot be closed for political reasons.
This is a problem inherited from the communist past. At that time, its advantages was that the service was approaching at a low regional level, municipality, so it covered remote areas. But, today many demographic changes have occurred, the population has moved towards the capital or emigrated. So, services continue to be provided even where there are no patients requesting them.
The hospital budget is managed inefficiently.
One recommendation is to close the hospitals or return them to specialized primary care centres. But the closure of hospitals has political consequences, because it is used by the opposition parties to blame the government: "they closed hospitals".
Another major project is about corruption, which constitutes a significant problem in the healthcare system: watchdog institutions have been assisted, those who see the system from the outside: high state control (assists programs called red flagship), ombudsman, declaration inspectorate, and civil society and media groups. Attempts are being made to set up mechanisms to assess the level of corruption from outside.
Civil society and media groups: do not investigate why the reform was not carried out.
Differences between different political parties:
The PS favours a healthcare system financed through general taxation. The PD through social contributions.
What is happening now is that everyone has accepted that the mix system works better, because the costs cannot be covered by a single source of revenues.
Another point that separates the left from the right is their position on the HIF. With the healthcare financing reform, the HIF took on a very special role, it will work more closely with the operator, it will be more dependent on the ministry. When the right-wing party was in power, the HIF has been a typical buyer of services (it did not intervene in decision-making), the ministry has been a policy-maker and service provider. Currently, the ministry is getting closer and closer to the Fund, so it has an impact on decision-making.
The issue of decentralization: the PD is in favour of decentralization, both at the operational and decision-making levels. The left has attempted re-centralization, not only at the operational levels, but also at decision-making (central levels).
Centralization-decentralization and the way of financing are ideological differences that have not been practically implemented, due to the major political sensitivity that these reforms bring.
In their political program: the left has the concept of service delivery from the centre, while the right favours "hospital as an enterprise".
The left has supported the tax financing model, and the model that is taken as a basis is the British model. But Albania does not have a high level of taxes (a large part of the population is unemployed, informality is high, pensioners, etc.), and these taxes should be used for other projects (roads, airport, etc.).
Canada has a national health service (presumably ours).
Germany has a contribution-based model.
The USAID is not part of the decision-making process. What we do is that we provide assistance, make an assessment of the current situation, provide recommendations and how to implement them. It is the government's decision which option will be implemented and the USAID assistance is provided in that specific direction. If the

government wants to shift towards general taxation, the USAID evaluates this option and suggests whether it is worth it or not.
On the contrary the World Bank loans are based on conditions, because after all it is a bank, it lends money and finally seeks to ensure that this loan will be repaid within the deadline.
In the early 1990s, the World Bank recommended keeping the social security system, because even though the government revenues were low, a taxing system existed. On the contrary, in the field of healthcare a contribution system was lacking and according to the World Bank healthcare contributions would be very difficult to collect. On the other hand, the "good" thing was that all the social contributions that would be collected would go to finance healthcare, whereas collected taxes would not all go to healthcare. The government's proposal was to gradually move towards a contributory system in the long run.

Interview 3 – Social policy expert, former Director of Social Assistance Programme and former Minister of Labour and Social Affairs

09 May, 2019, Tirana.

Which was the main driver of the reforms in the early 1990s?
I do not think that in Albania the main impetus has been the political programs of the left or of the right. At least not during the first phase of the reforms which belongs to the period 1991-1997. Nor would I say that the main force was the external force.
The main force was the state (the context) of the country. Of course, foreign organizations had more capacities and expertise to assess the situation in which the country found itself, compared to national experts. We are talking about a period in which no one was qualified in Albania regarding the economic transition reforms. So, foreigners were much more qualified and they were able to know better what a specific reform meant and what kind of consequences this reform would have (the reform of the transition to a market economy) if the government did not ensure social protection programs any longer. Albania was not the first country to enter the path of transformation, before us there were other former communist countries such as: Poland, Czechoslovakia, Hungary. These were the main models. At the same time these were countries that had a tradition of social policy since the end of the First World War.
I think the internal situation was the most determining factor. International organizations had the expertise, experience and of course the financial resources needed to intervene and facilitate the transition. On the other hand, we can say with full certainty that the Albanian transition was one of the most critical in Eastern Europe: first, Albania was a very poor country, second the country was mainly agricultural, third the industry that existed was almost rotten because after the break with China the country's productive powers had started to fall dramatically. So, the industrial equipment was depreciated.
Therefore, the form of shock therapy was chosen. The closure of all (public) enterprises meant that all those individuals who lost their jobs would be a burden on the state budget. They were given an income until 1993, but later remained completely without income. A reform had to be made in agriculture as well, which was at the same time an extremely critical point.
The land until then was organized in cooperatives, farms. Cooperatives had absolutely no productive power, farmers and ranchers were all disillusioned, as they worked from morning to evening. The income they received was ridiculous. And the land reform that took place was critical because the division of land was not done according to the old owners, but according to the people who at that time lived and worked in the village.
The disillusioned farmers with their livelihood on one hand and the lack of development and subsidiary policies for the rural areas on the other, did not help the situation of the village. On the contrary, it worsened it. Economic reforms were necessary, but social problems were highly critical and therefore the government had to intervene through social protection programs.
Social programs dating back to the early 1990s include pension reform, the employment service, which began with the payment of unemployment, and economic social assistance. May 1993 adoption of the pension law.
All these reforms were undertaken through two major World Bank's programs: Labour Market Development and Social Safety Net. Then there was an ILO intervention that completed the legal form of the Labour Code and the employment relationship.

Why did the government opt for a Bismarckian PAYG pension system?
The reason why it was decided to keep the Bismarckian system in pensions was to link the contribution to benefits. The logic had changed. In the previous scheme the contributions were not legally related to the benefit, as in the previous system there was no legal concept of net salary and gross salary, both salaries were equal for the employee. So, the reform in 1993 consisted of linking individual contribution to individual benefit. It was based on the Bismarckian PAYG system, but was not fully implemented as applied in the German case. The system had its own specifics, which came due to the conditions in which Albania was. The main problem were the agricultural workers, as they received ridiculous salaries / incomes, and if that salary was to be kept as a basis for calculating pensions, the pension income they would receive would also be ridiculous.
This created a very big differentiation between the rural and urban areas, which would definitely have a political cost. Farmers were totally "innocent" of the fact that their pensions were ridiculous, the communist system itself underestimated their work. So, some restrictions were imposed: a lower and upper limit was set, which, together with the high level of informality in the labour market, demotivated people to pay contributions. In this context of very low wages, informality, poverty and lack of information and lack of awareness, very few were contributing to the scheme.
What is the role of trade unions on pension reform?
Pensioners' associations did not exist at that time.
Unions have been promoters of political change. They started their activity extremely well. At the moment of the creation of the three-party agreement, TUs played a positive role, especially in the drafting of the collective and individual contract. However, very quickly they fell prey to politics and thus “forgot” the interests of employees and began to pursue political interests. Practically we have trade unions affiliated with both left and right-wing parties, which is nonsense. This all fell at the expense of the employees, because it meant that the individual/ collective contract lost its value. Work discrimination deepened.
During the period 1992-1997, the Democratic Party was in power. They drafted the pension reform in 1993. The PS accused the government of “stealing” their pension reform proposal, arguing that “you are a right-wing party and you should have a right-wing program” and making analogies with the word “social policy” with “socialism/ communism”. However, social reforms have their origin in capitalist countries, a defence mechanism against capitalism, so we are not dealing with a left or right-wing program, but with a social need that needs to be addressed. Social welfare in capitalist countries was seen as something positive from a social point of view, but also from the point of view of labour productivity (economic development). During the economic cycle, in times of crisis, without social assistance, people will not have the necessary resources to consume and consequently production is demotivated. On the other hand, it is an investment in human resources: if a person has everything in order: social support, healthcare, etc. he or she is more focused on work, more productive, which brings a higher gross domestic product, thus more income, more taxes and so on.
Which are the main ideological differences between the two main parties regarding pension reforms?
There has been a continuity of social protection programs in Albania. Each political party has added a new element to the program, an element that has coincided more with the need of the time than with their left-right political programs. There is no ideological or

programmatic difference between the two main parties. I can even say that the reforms in the social field have all been delayed, they should have been undertaken much earlier. For example: the pension system was not achieving its objectives, because the scheme remained in deficit for years and years, and finally the reform was undertaken in 2014. But that has not been led by ideological programs.

Why did the government not introduce a multi-pillar pension system in the early 2000s?

In the 2000s it was opened as a discussion, and it was deemed premature. The idea of the insurance company, still lukewarm, was rather an idea in the minds of state employees who had dealt with pension policies and had a foreign experience. But even today the way in which these voluntary private schemes are introduced, there are many remarks, because the two schemes are mixed and their effectiveness decreases. As a matter of fact, it makes sense for the mandatory scheme to be maintained to a certain level and the private scheme to be superimposed on it. But not how they operate in Albania: what happens here is that the same people who are dissatisfied by the pension income contribute both in the state and in the private scheme.

A left-wing government was in power at the time, did its ideology have any impact on the direction of pension reform?

I do not think that the multi-pillar scheme was not introduced due to the fact that the PS was in power at that time, but because there were no resources, no knowledge. There were only 2-3 people who had prepared the package for private pension institutions, but that that is it. On the other hand, private pension schemes could not be implemented, as insurance companies did not cover them. In addition, the memory of the 1997 pyramid schemes was still fresh in people's minds. Moreover, the legislation had not yet given the green light.

Today the private pension schemes belong to the powerful groups: SIGAL, Intesa, Raiffeisen, who have a strong financial activity as a bank or insurance company, and they started the private pension package later on. So initially, they had laid some foundations, created a market, captured several segments.

People do not contribute in the voluntary (state) scheme, let alone in the private one. So, even today it is still premature to think that people will contribute on a voluntary basis. An individual must be highly educated and informed and have enough income to contribute on a voluntary basis. Even today, private pension schemes operate within the same institution/ organization. For instance, Intesa makes a proposal to its own clients or contributes on behalf of its own employees, who receive a substantial salary.

In 2000, people did not have bank accounts, they no longer thought that such a scheme would work. The disbelief prevailed, especially after the experience with pyramid schemes, which was still fresh in their memories.

The situation in other countries, such as Hungary or Poland, was totally different.

The reform in 2014 that introduced the social pension is economic aid. And personally, I think they have made a mistake by making it a part of the public pension system. It creates a problem in terms of the principle of the pension scheme, which connects the contributions with the benefits. The introduction of a social pension scheme contradicts this principle. The social pension should be a part of the economic assistance programs, and treated as a special category. The old-age pension should be based only on the contribution records. It is not fair.

Have politicians fulfilled their electoral promises in the field of social welfare?

Promises made during the election campaign were never kept, as they are promises not based on facts. Party specialists do not sit down and analyse the current situation. I have

no doubt that the specialists are well aware of the situation and know how far they can go with social or health reform. But it is not the experts who make promises, but politicians, because they want to win votes. Electoral promises are made without any technical information, unsupported by data, therefore they end up in unrealised promises. But unfortunately the Albanian voters are still unaware of their role, so no one comes out to hold them accountable and say that four years ago you promised this and that, where is it ?!

A typical case is the healthcare reform that was promised in 2013, which was a policy that was completely impossible to be implemented. Albania has no economic capacities, large budget deficit, no administrative capacity or does not fight abuse, corruption and informality. Consequently, due to these factors, universal coverage cannot be achieved. Universal coverage assumes a 100% efficient administration and low administrative costs. Unfortunately, our country has a high budget deficit and low production capacity.

Most of the health ministers have been doctors. Do you think this has affected the healthcare reform process in one way or another?

Ministers who have been doctors, have sided with the party they represent and not with the interests of the profession they have.

On the other hand, the international factor and the presence of international actors cannot be denied.

What remains positive in these 20 years is that the programs are guided by a strategy. Before, there was no strategy at all, but they achieved what the moment and the situation demanded. Then the strategies started, but they were rather sectoral strategies. Now we talk about unified strategies at the national level. But we are still far from implementing these strategies effectively.

Which interest groups have been actively involved during the policy-making process? What has been their position towards reform?

Stakeholders play a role in leading the reform in accordance to their interest.

There are two main categories:

a totally indifferent group: citizens, civil society, specialists and the media. For example: the media is completely uninterested in shedding light on what is happening. I could very well call those specialists who 4 years ago said that it is possible to implement this reform and hold them accountable why it was not implemented in the technical aspect (not on political one). That is, to find out what did not work in the previous policy in order to know where we are going. We make reforms after reforms without relying on the evaluation of the previous one. It has never been analysed what it was, what was not working etc. And this applies to both the left and the right-wing parties. What was wrong with this reform, how much money was spent?

The other group is related to political parties for personal gains.

Have governments been “punished” for not fulfilling their promises?

There have been no electoral penalties in case of non-fulfilment of promises, or in cases when social policies were cut. Albanian citizens remain uninformed and uninterested.

Why is the Ministry of Health often run by small coalition parties?

MoH is governed more often by small parties, the same holds true for the Ministry of Labour and Social Welfare, because they wanted to please these small parties, as these ministries have the largest administration, which allows more employment opportunities. It is given to the small party and then the main party in the government coalition blames the small party when a certain promise is not fulfilled: “the small party was in charge, not us”.

Interview 4 – General Director of Social Insurance Inspection

23 May 2019, Tirana.

The law in force today was introduced in 1993: a PAYG scheme based on solidarity within and between generations, from workers to retirees, from men to women and between professions.
The role of the World Bank: After the fall of Communism, the WB was engaged throughout Eastern Europe. In a way, the pension law is a product of the WB. The parameters of the pension system changed in accordance with the country's capacity. In the early 1990s the pension system was experiencing a huge budget deficit. There were over 300 thousand retirees entitled to a pension income, but there was no budget because the social insurance institute was just established, newly created. This "forced" the scheme to become pay as you go, moeny would be taken from those who were working and given to those who were retired. This is why this particular system was created, because the existing pensioners had to be paid, and there was no revenue.
During communism the pension benefit was generous, 70% of the salary. But this did not constitute a problem because at that time there were only a few retirees and full employment was assumed (level of employment).
The social insurance system itself has five branches of insurance: illness; maternity; occupational accidents and illnesses; pensions (disability, old age and survivors); unemployment benefit. Pensions have the main weight.
Initially the system had 2 plans: rural and urban. This division existed under communism and continued even after 1993 until 2015, when they were united.
The World Bank has had a lot of influence from the beginning. Especially in the first reform in 1993. The 2014 reform was drafted by us, but we received confirmation from the World Bank. When the prime minister approved the reform proposal, the WB was present and supported the reform.
The IMF has had the same initiative as the WB. In essence, they have come to the conclusion that this is the right scheme for Albania. In the end the decision was made in the parliament, but we always had the support of the WB.
Does ideology play an important role in reform proposals?
The drafting and implementation of this pension system was not influenced by the ideological differences of the two main parties. Since the beginning it has worked in this way: a group of experts in the field has been choosen to draft the reforms. It has been a very open and comprehensive policy-making process. We have held the relevant conferences and debates in the media.
The opposition has been against the 2014 reform.

Interview 5 – World Bank Albania representative

28 May 2019, Tirana.

What has been the role of the World Bank in the policy-making process?
When designing a project, the World Bank always takes into consideration not only the current situation in Albania but also all the other actors who play a role in the healthcare system and what everyone does, in order to create an integrated action. Very often in Albania what happens is that many organizations are engaged in similar projects, there is a lack of communication and as a result an overlapping of resources for the same cause. More or less these organizations and institutions do the same things, deal with the same issues. From the start, the WB project was conceived with the idea to collaborate with other key actors working on the same field, e.g. world health organization…
The current World Bank project is divided into three key components. We generally work in the hospital service, but we have few activities that include primary care as well.
The first component aims at improving hospital services. After the project has been proposed by the Bank and the government approves it, in order to loan the money, the agreement must be ratified in the parliament. The Albanian government has to act according to the World Bank procurement rules and it has to carry out a list of activities. The Bank is very strict in the methods and rules of the game set in advance, before they are ratified. After ratification the project is regulated by law.
The project for the improvement of the hospital system includes elements from technical to financial assistance. Technical assistance includes foreign teams coming to Albania and working on various fields, e.g. on hospital autonomy, on master plans, on hospital rationalization plans, etc. This is done in order to provide all the necessary data to the Ministry of Health: the location of the hospitals, what services they offer, what is the cost of these services, whether you need this hospital or not given the size of the population they cover. Demographic displacements and improved transportation system have diminished the importance of hospitals in remote areas, and patients increasingly prefer healthcare services provided in Tirana. Such analysis assesses whether it is necessary to close, for example, one hospital in Lezha and use those funds to invest in public hospitals in Tirana.
The second component is mainly IT. The main goal of the Health Management Information System project is to create a single center for all health information. Statistical data are very important for the progress of a project. Specific decisions can be made only after you have collected all the necessary data. What we wanted to do in the framework of this project was the computerization of the regional hospitals, the installation of a system for the management of all secondary care data: where do patients come from, do they follow the referral system etc. An integrated information system from primary healthcare to upper levels.
Financing system reform is the third component. The main idea was that hospitals in the long run would not receive a historic budget as they currently do. Despite the fact that the source of revenues of the hospital comes from the HIF, for some decisions the approval of the ministry of health must be taken. So, in terms of funding, we have 3 institutions that interact: the hospital, the ministry of health and the HIF.
All patients who do not follow the referral system have to pay for service. The hospital categorizes these types of payments as secondary income, and the hospital can also use this secondary income for its own needs, for example equipment maintenance…

Does the project have continuity after there is a government alternation?
This is the problem. The current project started in September 2015 and the leadership of the Ministry of Health has changed several times (within the same coalition government), or with the elections that took place in 2017. A CMD stopped all procurement processes and the entire process slowed down a lot. The way the project works is that our staff is a technical staff, with three key persons (project manager, financier and prosecutor) which must be selected according to the criteria set by the Bank. For each component I showed above a technical staff is selected. But the choice is made by the ministry, they are people who work for the ministry of health. This staff might change with each government reshuffling or alternation. The implementation process becomes difficult because the new selected staff needs training or the new government has a new agenda.
Is there a model or a country from which the Bank is inspired and is suggesting the same model in Albania?
The Bank always brings the best practices, because the Bank intervenes in the entire region, all over the world. But the Bank takes also in consideration the country context, in order to bring the best practices that can be applied. So, the project is conceived keeping in mind the Albanian context. Initially, the Bank makes an assessment of the general situation: what situation are we dealing with, what interventions should we undertake to improve the situation, etc. Of course, all these are formulated in negotiations with the Albanian government. At the end of the day this is a loan, despite being a long term loan. This is a negotiation between the investor and the person requesting the loan. The Bank has more experience because it is engaged in similar projects in other countries and it can better assess the situation. It knows the Albanian context and assesses in advance if one option would work better than another.
The progress of a project itself is an indicator of how things work in that country, how fast things go.
The Bank's recommendations changed from 1992 compared to today, because the Bank recommends proposals that it considers to be important always in the context of developments that take place in the country or based on the current situation.
How does the project work? Generally, teams of expert consultants from the World Bank come to Albania. In general they have a very wide expertise on the field because they work in different countries. They come, have meetings with the stakeholder and finally issue a report where they give recommendations on how the work for the project can be improved…
In July, last year we did a mid term review and the project was simplified because despite the fact that the Bank has recommended all these activities that were very ambitious, the Bank itself in the mid term review admitted that it was more ambitious than it should be because with a 5 year project you cannot solve all healthcare problems.
We simply facilitate the process but the decision-making does not belong to the Bank but to the parliament, the prime minister, the minister of health, the director of the Fund. It is a decision that requires agreements and negotiations between different political and social actors. This type of decision-making has social costs.
Do you think that the role of the Bank is important in the decision making process?
The Bank plays an important role because we draft policy proposals based on our assessment of the country's context: what is the issue, how it can be improved and so on. Even in cases when the governments have made their own proposal, each of these proposals needs the approval of the Bank, because the Bank lends the money.

The Bank continues to play an important role in healthcare policies in Albania since its first involvement in the early 1990s. The current project is one of the most important interventions in healthcare. The current government has been very interested in this area so the Bank has high expectations that the current government will commit and implement this type of reform.

Interview 6 – Social Policy Expert, Former Advisor to the Minister of Social Welfare and Youth and Former Member of the Administrative Council at the Health Insurance Fund

12 November 2018 (phone call).

Interview 7 – Chief Sector of Primary Health Care, Ministry of Health

15 May 2019, Tirana

The current government has made several changes in the healthcare system. Today both services provided by the family doctors and the emergency aid are provided free of charge for all. In addition, they have started a digitalisation process, e-health, where all health data is gathered. By checking into the information system, you can immediately check the status of a patient, whether they are insured, inactive in the labour market or uninsured.

According to the new reform, if patients use the referral system, they do not have to pay for specialized care at higher levels. If diagnosed with a chronic illness (changes in February 2016), the uninsured patient benefits from the same services as the insured persons.

Today patients do not need a health insurance card. An identity card is sufficient because everything is registered in the system.

Moreover, the structure of the healthcare financing system has changed. The Fund is dependent on the MoH and the MoF. There is also a re-centralization process. At the centre of the healthcare system is the MoH. Today we have only four regional directorates, which manage the regional and municipal hospitals.

In the past the primary healthcare services were financed by the state budget. Starting from the mid-2000s, the government transfers money to the Fund in order to cover the expenses of primary health care. The state budget covered all costs (staff, salaries, etc.).

There is a basic package which is offered to the entire population free of charge. The right to basic health care is based on the principle of equal and universal service for all.

Which are the main ideological differences between the two main parties regarding healthcare reform?

The main difference between the left-wing and right-wing parties is that the latter favours privatization policies, at least in principle. In practice, there have been privatization initiatives from both left and right-wing parties.

Interview 8 – Former Minister of Health

25 May 2019, Tirana.

What is the role of political parties in pension and healthcare reform?
In healthcare system, the concept of health insurance was first introduced in 1994 and it was a project totally supported by the World Bank. The Bank supported the reform in the social insurance system as well, the pension reform took place in 1993.
The recommended models were taken from the West. However, even within the West, the existing economic and welfare models were being reformed at that time.
In the early 1990s we did not make an assessment of the overall situation to evaluate how capable were we at implementing certain proposals.
In the field of healthcare, a compulsory insurance system was introduced for the first time, but given the country's situation in the early 1990s, certain groups such as pensioners and children under 18 would be protected / covered by the state (general taxation).
We are talking about a period in which these kind of systems in the West had reached maturity and when first introduced the unemployment level was low. On the contrary, in Albania the situation was different, because the system was just introduced, contributions would be collected from the active part of the population, but the level of unemployment and informality in the labour market was very high. Moreover, most of the population was rural and their incomes were very low. All of these factors made it difficult to collect social contributions. This was the first problem.
The second problem, related somehow to the first one, was that we did not have a culture supportive of taxpaying (or social contributions for that matter). In many cases paid work was not declared for tax or social insurance contribution purposes. This remains a problem even today. This depends also on the law enforcement force, which has been difficult.
The working age population inactive in the labour market and unregistered in the employment offices/ agencies, i.e., who are not registered as unemployed, do not benefit from the social insurance scheme. This unprotected group makes up for around 1/5 of the population, and since they do not pay healthcare insurance at the time of service, they have to pay for the service. But for this category it is not important whether they pay the service fee formally or informally (under the table payments). Over the years the phenomenon of informal payments has created a huge problem in the healthcare system.
Therefore, our program was based on the principle of preventing poverty due to illness. Ill health can be a major cause of poverty, in particular due to high out-of-pocket spending and any kind of informal payments to providers. Our policy since we came in power in 2013 was to provide both the family doctors and emergency services free of charge (even if you are uninsured). At the same time, we reduced the fees for examinations and specialist services.
However, out-of-pocket payment continues to be a big share of the overall healthcare expenditure.
Which was the main driver of these reforms in the early 1990s?
The political and economic change that took place in Albania brought new needs and risks that required social protection. The government had to intervene and provide social protection in order to mitigate the consequences of the economic transition, mainly for the most vulnerable groups. Also of particular importance was the guarantee of social

justice, providing what was fair. And finally, there was the approach of building a modern state based on Western models.

Why did the government opt for a Bismarckian model, based on social contributions?

In the field of healthcare, the World Bank proposed to continue financing from the state budget. In the field of pensions, we had as a basic model the German model, while in healthcare we were influenced a little more by the French model. The latter was more a management issue. However, in both cases the idea was the same: the Bismarckian models based on social contributions. So, both reforms were on the same line: a Bismarckian system was chosen in both fields.

What is the role of trade unions in pension/ healthcare reform?

They were involved in the pension reform in the 1993 reform. In 2002 they protested against raising the retirement age. They have no impact on the healthcare reforms.

Has there been any resistance to these reforms?

Of course, some interest groups have been against it.

What about the role of the Order of Physicians?

It has no role in the decision-making process.

Which are the main ideological differences between the two main parties?

In the field of healthcare, the left favours financing from general taxation, while the right favours the insurance system. This is the main difference.

Most of the health ministers have been doctors. Do you think this has affected the healthcare reform process in one way or another?

No, the ministers have followed the program of the party to which they belong. Neither in 1994 nor in 2011 did the profession of health minister matter.

How important are social welfare policies compared to other policies in the party's political program?

The PS was in power from 1997 to 2005 and from 2013 today. We have included quite a few elements of social policy in our political program. In terms of social security, the introduction of social pension, economic assistance, protection of vulnerable groups and of course, universal health coverage.

Unlike some other former communist countries, why was the introduction of mandatory private schemes not part of the government's agenda?

There was no capital market or financial market in Albania. They were very underdeveloped. Even today the weight of these markets is so small that their importance is irrelevant.

Interview 9 – Former Deputy Minister of Health

24 May 2019, Tirana.

Which was the main driver of the healthcare reforms in the early 1990s?
There are some important reforms that have shaped the healthcare system in Albania after the 1990s, starting with the reforms undertaken in 1992-1993, regarding the privatisation of pharmacies and dentistry.
The 1994 reform, introduced the insurance concept in the healthcare system. The establishment of the HII, reshaped the healthcare model, shifting towards a new financing model, according to which the system would be based on social healthcare contributions.
The last phase of reforms started in 2013.
The left-wing government program of 2013 sought to transform the healthcare system into a Beveridgean model. We tried to provide universal coverage for the entire population and although important steps have been taken towards universal coverage, it did not come to a full realisation.
It was a misunderstanding that universal coverage would be achieved with the shift towards general taxation. In fact, a country like Albania with low revenues does not have the luxury of talking about universal coverage. The debate over the form of funding is a debate that does not make sense, because the existing healthcare system does not have the capacity to be maintained by just one form of funding or another, so mixed is a more balanced solution.
In 2018 a health operator was set up, which is supposed to be the national health service, like the NHS in England. This is done with the purpose of saying that "we achieved what we promised, we changed the system and shifted towards general taxation". But still the government has not done anything, since the insurance fund continues to exist. It was supposed that the Fund would merge with the health operator, but this has not happened to date.
What has been the role of the WB in the policy-making process?
The WB assistance has been uninterrupted since the early 1990s. However, their support and recommendations have not changed with the changes/ alternations in government coalitions.
Which are the main ideological differences between the two main parties regarding healthcare reform?
Regarding left and right-wing ideological differences, if you ask T. Shehu, despite the fact that he was also a minister of health, he supports the treatment of hospitals as an enterprise.
What the country lacks, and the health system specifically, is an analysis, an assessment of the overall situation. It is not the case that an assessment has been made in advance when certain models are proposed by the political parties. For example, what will happen if the reform takes this direction, or what will happen if it does not take this direction. An assessment of the general situation is lacking.
Now we are talking about the creation of the NHS, i.e., the financing of the healthcare system is intended to pass to general taxation. But the Fund itself receives a part of the budget from the government (taxes), because the Fund is not self-sufficient.
Therefore, a complete general analysis is missing where you can rely to give accurate proposals. The measures that have been taken, most of the time have been ad hoc. This has been the situation until 2013.

After 2013, some strong analyses and priorities have been set: in relation to pharmaceuticals, e-health, the national emergency service.
Why was it decided to switch to general taxation?
The idea was based on the fact that the insurance scheme was not working. From 1995 to 2013, it was invested in the insurance scheme. That is, the decision-making was based on the fact that the existing scheme was not working and the suggestion was that since the existing scheme does not work let's move to a system funded by the state budget.
The funding system should not be the main point of debate. In my opinion, the more sources of revenues there are, the better it is. The existing mix system is very good. Citizens pay their contributions, to be aware that we are in a market economy, you have to pay for the services that you get, while the state contributes on behalf of vulnerable groups.
What is the WB position towards reform?
In the early 1990s the WB proposed to keep a social security system financed through general taxation. However, the WB proposal was not supported, we had our own experts and we thought we knew the country's situation better than foreign experts.
Has there been resistance to reforms?
Always. Decisions are taken from the centre and at the moment of implementation of the reform, for example at the hospital level, remain unimplemented. There are many hospitals that are open in vain, for political reasons. This has little to do with the left and the right political cleavages, but it is difficult to close hospitals for electoral reasons.
What is the role of trade unions on reforms?
There are no unions in Albania.
What is the role of the Order of Physicians?
They have no impact. They are not organized.
How has the fact that MoH has been given to small parties affected the progress of reforms?
Even if the big parties would run the MoH, the performance of the reforms would be the same, because healthcare is not considered a priority. Often it is run by smaller coalition parties, because this has been the coalition agreement between these parties. But the priority of healthcare has not changed. Over the years, healthcare has not been considered a priority by various governments. There has been no genuine vision.
For example, you can see how much money has been spent for QSUT in the last 20 years, without doing anything concrete, without making improvements.
In theory there are differences between the political programs of the two main parties. The right seeks continuation with insurance, enterprise hospitals. The left requires a shift to general budget, recentralization because resources are scarce.
When it comes to practice, it is not so simple because first you have to manage and solve the daily problems that arise. Investments are missing. Another problem is the fact that the social policy system we have is not codified. There is no continuity, only fragmented policies that change according to the orders of the day, who is in charge today is not in charge tomorrow.

Interview 10 – Social policy expert, Faculty of Social Sciences, University of Tirana

30 November 2016, Tirana.

Why was the World Bank involved in pensions reforms in Albania?
In 1993 the World Bank offered its support and expertise to reform the pension system, because Albania lacked both experience and expertise on this issue. The World Bank's main aim was to ensure the sustainability of the scheme, which was suffering a transition induced crisis.
The pension reform of 2002 was a continuation of the previous reform, only this time the system was facing additional changes: some demographic challenges had emerged. The World Bank proposed and supported a parametric reform rather than a structural one, because the PAYG system was still immature, the financial market was underdeveloped and the crisis in 1997 was still fresh in people's minds. Actually, even today financial markets remain underdeveloped.
Does ideology play an important role in reform proposals?
In 2005, the Democratic Party was in power (right-wing party), which favoured pro-market reforms. They started the implementation of the third pillar introduced in 1995.
However, we cannot say that in Albania there is a division between left-wing and right-wing party ideologies in terms of pension policies, because the same pension policies (pro-market) were implemented also by the left-wing coalition in 2014.
Regarding pension policies, the two main opposing parties (the Socialist Party, left-wing and the Democratic Party, right-wing) have held the same position. Their main objective has been to ensure fiscal sustainability, without considering their political programmes (ideologies). There is no left-right division. Both parties follow the same political line in terms of pensions and every law / reform is in continuation with the previous one.
The World Bank has had the main influence on pension reforms, and the political parties have just "obeyed". What happens is that the WB is the one who formulates, drafts and promotes social policy reforms. The main objective of the WB has been to provide expertise, help with fiscal policies and promote welfare policies.
What is the role of trade unions?
Regarding the role of the trade unions, in principle they are part of the tripartite committee, which is a decision-making authority composed of representatives from state, employers and employees, but in practice they do not play any role. The main reason is the fact that trade unions in Albania are divided, where some support the left-wing parties and others support the right-wing ones. For this reason, trade unions are very weak.
What is the role of the EU?
The European Union has insisted on achieving social adequacy as well as on guaranteeing equality between genders. Compared to the World Bank, the EU's role on pensions is marginal, because the EU is more focused on fighting crime, corruption etc.
Pension reforms are a continuation of one-another, and their main focus has been on: i) reducing the fiscal deficit, due to challenges that come from the labour market (high levels of unemployment and informal economy) and demographic changes (increase in life expectancy and decrease in fertility rate) and ii) alleviating the old-age poverty. The latter was the aim of the recent reform.

Interview 11 – Doctor and Healthcare expert, Public Health

17 May 2019, Tirana.

The mission of the Order of Physicians is to maintain certain standards in the field of healthcare and to protect both doctors and patients from any kind of abuse. Doctor-patient relationship is the fundamental element in healthcare, which is regulated by the "Code of Medical Ethics and Deontology". The nursing staff is also represented by the "Nurses' Order".

The healthcare system in Albania is mainly public, with the private system consisting mainly of dental and pharmaceutical services. The diagnostic health service is divided into three levels: Primary healthcare, secondary healthcare and tertiary at the QSUT.

The promotion and public health service are managed by the Institute of Public Health (IPH).

National centres offer the following services: blood transfusion; well-being of children; National Centre for Biomedical Engineering; and National Centre for Drug Control.

Finally, there is a National Centre for Quality, Safety and Accreditation of Health Institutions. A year ago, ASHR (regional health authorities) were established, based on the district that coordinates the actions of the IPH and hospital ones, in the 12 regions of the country. It does not depend on the ministry, but supports the ministry in implementing healthcare policies.

The National Centre for Continuing Education (NCEC) provides professional and specialised training for the healthcare personnel.

Primary care physicians are the first to encounter the difficulties and shortcomings that the existing system offers.

The role of the family doctor in the health service: Preventive role against chronic diseases through health education and awareness; free of charge examinations, even at home; diagnosis and treatment of acute and chronic patients; referral to a specialist doctor for cases with complications; provides mental health care to the residents under its patronage.

Thanks to the computerization of the health system and the electronic prescription, it has been possible to improve services for the sick patients by improving the bureaucratic links that made this service difficult.

Every reform in the healthcare system has faced many difficulties and some of them lacked full implementation. Among other reasons included: shortcomings in inter-institutional relations, fragile performance of health insurance and small budget.

Prior to 2000, the outflow of health insurance, especially in rural areas, was met with difficult challenges. There have been some state interventions to reimburse agricultural equipment. This led to an increase in agricultural production. As a result, farmers make a modest contribution to health insurance. However, there are only a few rural workers who contribute into the health insurance scheme.

Health centres before 2007 were centralized and they were mismanaged. Even now, the existing funding system is very fragile, because health centres have a minimal budget and any funding action must be approved by the Fund (HIF).

In 2011 the computerization of the health sector started.

The HII (today HIF) continues to be at the centre of reforms. An important reform in 2011 was the transformation of the HII into a Fund. It aimed at covering with health insurance

even “the needy” in the most remote areas. The HIF became a single buyer institution. There is no private insurance company to compete with in terms of healthcare coverage. The sources of healthcare revenues include: state budget, health insurance contributions, DONORS and out-of-pocket payments (secondary income).

The financing of the healthcare sector plays an important role in all health services policies. Any increase in healthcare budgets is distributed mainly in the direction of salaries, with less budget invested in reconstruction of facilities or equipment.

What is the role of the Order of Physicians on healthcare reform?

The role of the Order of Physicians on healthcare reforms: It collaborates with the Ministry of Health and subordinate institutions. It negotiates with the Ministry of Health on drafting important laws and documents in the field of health. The Order publishes the monthly medical bulletin. It informs the ministry every 6 months about disciplinary trials, memberships and other issues of mutual interest. The Order has its own structures throughout Albania, divided into 12 regions. It reports citizens and doctors’ complaints (legal sector). It adheres to the relevant European and world structures as well.

Interview 12 – Former advisor to the Minister of Health

07 May 2019, Tirana.

The Socialist Party renewed its political program on the healthcare program in 2011. Initially we identified the main problems in the healthcare system and afterwards, we consulted experts of the field for possible solutions.
The Prime Minister himself was the main driver of this project. He promoted a switch towards a universal healthcare system, in order to prevent poverty due to illness and provide healthcare services in accordance with patients' needs, and not by their ability to pay for such services. He was "inspired" by the American and British expertise and experience in order to draft the establishment of an information system, because according to experts there was a lack of data, lack of registers, information, etc.
The projects that were set up were in line with the World Bank's and WHO requirements / proposals. Universal coverage was at the centre of attention of a WHO initiative, which provided a list of objectives and how to achieve them.
For instance, there was a lack of variety of drugs. What prevented them? The lobbying interests of monopolistic companies that did not allow other drugs to enter the market and did not allow for lower prices. We made legislative interventions in both the expansion of medicines and the reduction of their prices.
There is a World Bank report by Luka Vončina in 2013 that summarizes the problems in this area and based on this report we made an action plan.
In addition, the project aimed at creating a unified information system (unification of data): electronic prescriptions; track and trace system (origin e.g., imported from Italy).
The Minister of Health was the secretary for the program and he wanted to achieve good performance results in order to get re-elected.
There has been a lot of controversy and disagreements especially against the PPP system (Public-Private Partnership) with accusations that such services were being monopolized.
a. Dialysis was given with PPP (but not to anyone, it was given to Toshiba and Germany)
b. Basic check-up: delivery was managed by P&G, as it was a logistical exercise.
c. Total resupply of the surgical system in Albania (hospital system): closed sterilization system (Italian enterprise): new medical equipment etc.
d. Centralization of laboratories in order to be controlled (monitored) by the government. Even at this point there was criticism from the same people who controlled the pharmaceuticals.
4. Even specialization (education / training) needed intervention: specializations were reintroduced and a model contract was built that trained staff and students after specialization had the obligation to return back to their cities/villages, because the districts were left without specialists. The majority of the medical staff after finishing their specialisation program wanted to stay in Tirana. This project ensured that after the training program was completed, specialists would go back and provide healthcare services in their hometowns.
5. National Emergency Centre, an integrated emergency system (inspired by the Italian experience).
Funding proposals:
a. Single payer;
b. liberalization.

The government has remained loyal to the single-payer model. In 2013 came into force the law that transformed the health insurance institute into a Fund (HIF).
Does ideology play an important role in reform proposals?
Regarding the influence of ideology: the design of the program has been consulted with various stakeholders, associations and left-wing experts from countries such as Sweden, Portugal, England, Germany and France. A model inspired by A. Giddens and centre-left think-tanks in Europe.
What was the position of the PD regarding the program proposed by the PS? Did they support the idea of universal coverage? Did they make alternative proposals?
The PD did not have a clear or specific program regarding the healthcare sector. They talked about the liberalization of the insurance market but without concrete proposals on how it can be introduced and implemented. The opposition had monopolized the healthcare market. The Ministry of Health itself has been used as loot to please political parties part of political coalitions, in general small parties.
There are (and have been problems) with reform implementation, mainly administrative problems, but also political problems, in which the governing party blocks the implementation process, for political and personal reasons.
What has been the role of international organizations / institutions in the policy-making process?
Regarding the role of internationals, we have to identify two main problems: First, the quality of local representatives of world organizations in Albania; and second, administration and management of the assistance programs.
Currently, there are assistance projects from the WB; the USAID; the Swiss government with a focus on improving the primary healthcare system (but there are many administrative problems); the WHO has also provided assistance; there are bilateral programs with Italy and the Vatican regarding the supply of medicines; Italy and Turkey have also offered exchange and training programs.

Interview 13 – Former Minister of Health

24 May 2019, Tirana.

Our vision regarding the financing is not only to bring the healthcare system out of ruin, caused as a result of lack of resources (the healthcare system remains underfunded), but also to achieve a stable, autonomous and social healthcare system. For this reason, a mixed financing system, with sufficient components from the state budget or direct contributions seems like a more solid solution. How do we propose to achieve this? By converting direct payments with direct contributions and adequate injections from general taxation. In other words, we propose to create a real insurance system, by increasing competition and moving away from the monopoly scheme of a "single buyer".
The second aspect addresses the concept of placing the patient at the centre of the healthcare system. In addition, we favour decentralisation of the healthcare system, with autonomous 'hospital-enterprises'. To achieve this, it is mandatory to discard the old centralist clichés, the classifications of "regional, municipal, tertiary hospital", etc. and the transition to the concept of the hospital as an autonomous unit, as an "enterprise". On the other hand, we favour primary care based on "free professionalism", in which healthcare providers are paid on their actual, service-based performance, rather than predetermined budgets.
The ideology of the Democratic Party. In 1992, the communist model was completely centralized and we tried to decentralize the system, to create a system compatible with the market economy.
Why did the government propose and introduce a Bismarckian system?
I have always believed in the Bismarck system, because this system guarantees the autonomy of the healthcare system. If the healthcare system depends on the state budget, in case of economic crises, the first thing the government does is cutting revenues in the social sector. The Bismarckian system is an autonomous system, a system which depends on contributions. Thus, it provides a source of funding separately from the state budget, by diversifying the financial resources. If it depended only on the state budget, in cases when the healthcare budget does not cover its costs tickets (direct payments) are introduced. That's what happened in the Italian case. I think that direct payments are the most anti-social part of a healthcare system, whereas social contributions are social, because every person contributes according to their salaries/ incomes. Social contributions create an autonomous and diversified system, opening up the insurance system market.
I think that open competition reduces costs and improves quality. Monopolies, both public and private, are dangerous both economically and socially. In the early 1990s, we had a big debate with the World Bank, because the Bank did not agree with our proposal. According to the Bank, Albania did not have the capacity to introduce a Bismarckian healthcare system. Our inspiration in 1993 was the German and French model, in other words the Bismarckian one. At first it was difficult to convince the WB, but I was able to persuade them and we worked together to design the system. My proposal was to set the contribution rate at 7% of the payroll, but the World Bank was against the establishment of a contributory system. According to them a healthcare insurance model would further increase the burden on wages, on the labour cost. In addition, they though that a poor and underdeveloped country like Albania did not have the capacity to establish a well-functioning healthcare insurance system. So, for the Bank the contribution rate would be

0%. We were able to reach an agreement at the 3.4%. Even though my goal was to increase it at 7% of the salaries within the next 2 years.
Unfortunately, even today the contribution system has remained the same, it has not developed further, which is the problem. I think there is an excessive and unjustifiable delay in increasing the contribution rate. The contribution rate remains the same: 3.4% of the payroll. Our proposal now is to increase the contribution rate at least to 12% of the payroll.
We have a very fragmented financing system, in which 35€/ per capita per year come from the insurance system, 95€/ per capita per year from the state budget, whereas around 140-150€/ per capita are direct payments (OOP). This means a total of approximately € 300/ per capita, in which the main share is direct payments. It is the most anti-social part of the healthcare system. The whole problem is to convert this large part of direct payments into direct contributions. So, we recommend increasing the direct contribution and reducing direct payments. In this way the system becomes more social.
Compared to the EU countries we have the least funded (300€/ per capita) and the most anti-social healthcare system.
Is health a dividing point between the two main parties?
Definitely. They say "free" healthcare and they are in favour of re-centralisation. Actually, they have centralised the hospital care. We are in favour of the hospital-enterprise. We favour primary care based on the "free profession" system. We favour an increase in the competition in the insurance market. The PS favours financing from the state budget. These are big divisions. They are centralist in concept. We are liberals. Our idea is that the government does not have to be engaged in healthcare management, but the government should set standards, provide assessments etc.
The healthcare system is currently managed by the government, in a very centralized way. Actually, form the political party itself. The hospital is a hospital, it is an enterprise. It has its own autonomy; it should not depend on the state budget.
What is the role of trade unions?
The unions do not play any role in the field of healthcare.
The Order of Physicians was created in 1993. The Order is very important. It has some influence in the decision-making process.
Interest groups in the pharmaceutical and dental sectors at the beginning were against privatisation, because they were afraid of the risk. In the early 1990s, they were moving from state centralization to privatization. Today they represent the richest part of the sector.
What is the role of the WB on healthcare reforms?
The World Bank continues to have an impact on reforms, but it depends on how much the government takes into consideration the Bank's recommendations. In my opinion, the influence of the WB has faded.
The role of the minister continues to be strong. But the party has the biggest influence and the profession of the minister (for example whether they are doctors or not) does not have any importance.
Why did the healthcare system take priority in the early 1990s?
In 1993 the healthcare was given priority because the system was collapsing. A fundamental transformation in line with the economic change was necessary in order to make the healthcare system compatible with the market economy.
Why is the Ministry of Health often run by small coalition parties?

The fact that very often the ministry of health is run by small parties is wrong. The health system is a mega system. Small parties do not have the capacity to manage it. It is wrong, it shows a lack of appreciation for the healthcare system or better said: “what we cannot fix, we pass the responsibility to others”. The main party in the governing coalition should be held responsible for such actions.

Interview 14 – Former Deputy Minister of Social Welfare and Youth, former Director of Social Insurance Institute

06 December 2016, Tirana.

Contrary to other former-communist countries, why did Albania adopt and implement parametric reforms in 2002?
Given the economic and financial situation of the country in the early 2000s the establishment of a second pillar was considered as very difficult to be implemented. Moreover, the lack of an internal financial market is another disadvantage for the introduction of a second pillar. Following a study, which focused on an analysis of the overall situation in the social insurance scheme, and with continuous assistance from the World Bank and the IMF, the Albanian government deemed as premature the introduction of a compulsory private pension scheme. As a matter of fact, there were no concrete proposals on the matter, just some experts' ideas flowing in the air. Introduction of a second pillar was not part of the government's agenda. The government opted for parametric adjustments in order to ensure the fiscal sustainability of the pension system.
What is the role of political parties, considering their political programmes, can we say that that there is a division between the left-wing parties supporting pro-welfare programs vs right-wing parties favouring privatization?
No, there is no difference in the field of pensions. We have the same system in place since 1993. The only novelty introduced in the scheme is the introduction of a social pension in 2014. This scheme did not exist before and now even the most vulnerable groups with no income and no contribution records can benefit from the pension system.
The reform on voluntary private pension schemes in 2006 took place because the PD was in power and favoured pro-market reforms?
The law was introduced in 1995 and from 2006 it started to be implemented in practice, after some new regulations were set. These were necessary, because they established the Financial Supervisory Authority, an institution which would manage private pension schemes.
Which is the role played by the WB? Why did the WB push for parametric reforms in 2002?
The WB has offered its expertise and assistance in every pension reform undertaken in Albania. In 2002 they did not recommend the introduction of compulsory private pensions because the financial market was underdeveloped.
Additional studies were conducted later on. For instance, there was a draft strategy prepared by the World Bank's experts in 2007. This strategy emphasized the need to reform the current system and introduced some alternatives among which: one option recommended to reform the current PAYG system (parametric reforms), another one recommended a reform of the current scheme accompanied by the introduction of a second pillar, a third one, the immediate implementation of a multi-pillar pension system.
A similar assessment was conducted by the SII as well. In 2007, a working group with representatives from the SII, the Ministry of Labour and Social Affairs and the Ministry of Finance conducted a study "On Pension System Reform Options". Projections in the Pension Scheme were conducted using the long-term actuarial model PROST (Pension Reform Options Simulation Tool-kit), designed by the World Bank. The long-term projection included the period 2005 – 2075. The projections showed that in any case, even though the introduction of a second pillar would significantly improve the replacement

rate, the transition period would be very long and costly. But all these findings remained within the framework of a study. No concrete proposals were made and the introduction of a second pillar was not part of the government's agenda during this period either.

What about the role of the EU?

There is no conditionality from the EU regarding pension reform. The political goal achieved in this aspect is the harmonization of contributory periods for Albanians living and working in EU countries. We have already achieved agreements with some countries, for instance, with Belgium. This means that Albanian workers who have contributed for 10 years in Albania and 10 years in Belgium now will receive a pension income. Before the agreement was reached, they could not benefit because they had not reached the minimum contributory period. In Albania you have to contribute for at least 15 years in the insurance scheme in order to benefit a minimum pension income.

Which is the role played by the trade unions?

Trade unions are part of tripartite negotiations, but in my opinion, they do not play an important role. Even in cases when trade unions have been against certain proposals, the pension reform has been implemented anyway.