Viola Shahini

THE POLITICS OF PENSION REFORM IN ALBANIA

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Viola Shahini [viola.shahini@unimi.it] holds a Bachelor's degree in Political Science from the University of Tirana and a Master's degree in Economics and Political Science from the University of Milan. She is currently a PhD candidate at the Network for the Advancement of Social and Political Studies (NASP).

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The underlying idea is that implementing forms of "civilized" politics is desirable as well as feasible. And, as far as the Italian political system is concerned, it is also urgently needed, since the system appears to be poorly prepared to deal with the challenges emerging in many policy areas: from welfare state reform to the governance of immigration, from the selection criteria in education and in public administration to the regulation of ethically sensitive issues.
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LPF • Centro Einaudi
Corso Re Umberto, 1 • 10121 Torino
telefono +39 011 5591611 • fax +39 011 5591691
e-mail: segreteria@centroeinaudi.it
www.centroeinaudi.it

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Keywords

Albania, Pension Trajectory, Reform Policy, Reform Politics

Preface

The fall of the "Communist block" in Europe, in the late 1980s-early 1990s, represented what historical-institutionalist scholars in political science and sociology define as "critical juncture". These are key historical moments - often triggered by different types of "external shocks" such as wars, economic recessions, changes in political regimes, etc… - which usually represent turning points for institutional development. Public, especially welfare, policies do represent broad *institutional* settings, which are often resistant or, better, "resilient" to change in the historical institutionalist jargon. In critical junctures, however, institutions tend to become "softer", if not "fluid", as result of both profound transformations of the context, the changing constellation of relevant actors, and re-orientation of the latter's preferences, strategies, as well as competitive and cooperative dynamics.

The "double transformation" – economic and political – implied by the transition from authoritarian communist regimes to democracy, and from socialist-planned to market economies, combined with the ensuing "transformational recession" posed major challenges to established welfare arrangements in Central and Eastern European countries, as documented by a large corpus of literature in the last two decades.

In the field of pensions, in particular, several reforms were adopted in order to tackle the social consequences of the crisis, first, and then restructure and adapt pension systems to the new market economy. While most countries deeply reformed their pension arrangements often under the impulse of international organizations pushing for the adoption of the well-known "Three Pillars Model" designed by the World Bank in 1994, others were more conservative and they continued to rely on the first public pillar, complemented by voluntary funded schemes.

Against such backdrop, this article focuses on an under-researched case, Albania, initially analysing the pension policy trajectory between 1991 and 2014. Subsequently, in order to give account the peculiar reform trajectory in the selected period, Shahini explores the politics of pensions in Albania, focusing on both domestic (political and social) agents and international institutions and organizations. It thus provides some preliminary insights on what happened in the 1990s critical juncture, and its policy and political legacies in the following two decades.

MATTEO JESSOULA

Abstract

THE POLITICS OF PENSION REFORM IN ALBANIA

Inspired by the early success of a market-based mandatory pension system in Chile, the World Bank published in 1994 an influential study, *Averting the Old-Age Crisis,* in which it suggested that both developing and developed countries should radically cut what is considered as financially unsustainable public pensions and partly replace them with mandatory private retirement savings accounts, so as to create sounder "multi-pillar" pension systems. 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 Central and Eastern Europe (CEE) opted for partial or full pension privatization. However, although economic and demographic challenges were similar, Albania followed a different reform trajectory from other post-communist countries, due to its peculiar domestic environment. Against this backdrop, the aim of the paper is twofold. On the one hand, it illustrates the evolution of the Albanian pension system since its origins as well as the impact of economic and political domestic factors and their interplay with international pressures in shaping the pension system, aiming to explain why Albania constitutes a deviant case compared to other post-communist countries. On the other hand, it analyses the role played by the main actors involved in the policy making process, revealing the peculiarities of the Albanian pension politics: not only there is not a clear division between the policies adopted by the left-wing and right-wing parties, but their implemented policies come in contradiction with their promises and their ideologies. Moreover, the weakness of trade unions and their alignment with parties do not allow political responsibilities and responsiveness.

THE POLITICS OF PENSION REFORM IN ALBANIA

V. SHAHINI

1. INTRODUCTION

Due to severe pressure exerted by adverse demographic and economic trends, pension reforms have reached the top of the political agenda in various countries and in Western, Central and Eastern European countries they usually get more attention than any other subject on the economic reform agenda. Even though European countries face common challenges and concerns in their pension policy effort, Myles and Pierson (2001) argue that the reforms neither reverse the policy path nor bring convergence towards a common level of spending or in the pension system design: this is mainly due to path-dependence mechanisms and cross-national variation in organisation of welfare systems.

The case of the Albanian pension system makes no exception and what makes it interesting to study is the fact that it is a sort of deviant case compared to other Central Eastern European countries. Like other post-communist European Countries, the first pension reform in Albania was directly prompted by both the transition from a centralised to a market economy and international pressures, particularly by the World Bank. Economic restructuring led to growing unemployment, reducing the number of contributors, an expanding informal sector and diminished tax compliance substantially reduced the revenues and the system dependency increased dramatically. These issues have constituted on-going challenges to the pension system and remain hot issues even today. However, although starting points were similar, Albania followed a different reform trajectory from other Eastern European countries, due to its domestic peculiarities. While many post-communist countries followed the World Bank's plan 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 pay-as-you-go (PAYG) scheme.

Against such backdrop, this paper aims at analysing the pension trajectory in Albania from the fall of communism to 2014. Accordingly, it addresses the following questions. Why was the reform in Albanian pension system needed? Why did Albania follow a different reform trajectory when compared to most CEE countries? Which were the main actors involved? What is the role of international actors and pressures in shaping reform outcomes? How was retrenchment possible? Does the reform ensure an effective combination of long-term fiscal, economic and social sustainability? To answer these questions a significant attention is paid to the role of both domestic economic and political variables in explaining policy adoption and international pressures in shaping the pension reform.

The paper is structured as follows. Paragraph two describes the political, economic and demographic development in Albania, which constitute a useful background to address the social policy system in Albania. Paragraph three presents a literature review on the pension politics in Europe. Paragraph four analysis the pension system trajectory in Albania starting from its early years in 1920s until 2014. In accordance with the purpose of the study, a detailed analysis of the pension system is made, with a particular attention on the parametric reforms from 1992 and onwards. Paragraph five discusses the role played by various actors in reforming the pension system in Albania. It analyses respectively the role played by the political parties, social partners and the World Bank.

2. ALBANIA: COUNTRY CONTEXT AND DEVELOPMENT

Economic and socio-demographic structures determine the emergence of social needs and demand for social policy reforms. It is necessary to understand the past economic and demographic trends to better estimate the future size and characteristics of the older population as well as to forecast their demand for services and the extent to which those demands can be met.

Economic performance and labour market trends

The collapse of communism in Albania came later than in other CEE countries and was marked by a mass exodus of refugees to Italy and Greece in early 1990s. Process of economic reforms[1] began in 1992 after the real GDP fell by more than 50% compared to 1989. The government achieved major structural reforms including the privatisation of the agricultures 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 liberalisation of the exchange system. The economy expanded again reaching the 1989 level, the GDP growth averaged around 9%, inflation dropped from 226% at end of 1992 to only 7.7% in 1995 and unemployment was halved to 12% in 1996 (World Bank, 1998). The collapse of financial pyramid schemes in 1997[2] eroded many of these achievements and 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. The GDP declined by around 7%, inflation reached over 30% and the exchange rate depreciated by one-third (World Bank, 1998). Nevertheless, the economy picked up and the inflation fell from 33.18% in 1997 to 2.4% in 2002. The GDP growth averaged almost 8.3% between 1997 and 2002. However, weak governance – lack of accountability and institutional capacity, 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. Pension benefits, not high to begin with, fell further in real terms and as a share of GDP in 1997. Between 1998 and

[1] The transition economic difficulties were dealt with the Stabilisation Program – which began in 1992 and was supported by international actors, such as the IMF and the World Bank (European Commission, 2008).
[2] The pyramid schemes are explained below.

2008 annual growth averaged 7% of the GDP. This rapid growth moved the country towards middle-income status and helped reducing poverty - the absolute poverty[3] dropped from 25.4% in 2002 to 12.4% by 2008 (World Bank data, 2014). Although Albania was able to avoid a recession, the crisis in 2008 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 to 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, 2014). Public debt has surged upward since the crisis reaching its highest level in 2016 around 80.5% of GDP (World Bank data[4], 2019).

Economic restructuring after the fall of communism led to a sharp reduction and to substantial transformation of 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. Poor labour market performance is reflected in particularly low activity and employment rates (with men, age group 15-64 – 64.3% – having higher employment rate compare to women – 50.3% (INSTAT data, 2017)), high levels of unemployment (averaged around 14.3% during the last decade) and an increasing share of part-time and flexible employment that often results in short and insufficient period of contributions. In 2017, the gross average monthly wage per employee was 50'614 ALL, whereas the gender pay gap was 10,5%. Another worrying feature of the labour market in Albania is the fact that the informal economy accounts for 40.9% of GDP (INSTAT data, 2014). Informal market employees are not only paid lower salaries, but they are also not paid their employer contributions to the country's social and health insurance system (European Commission, 2008). This phenomenon is mostly spread among women, even though they are more sensitive toward social and health issues (females mostly care for children and the elderly).

Socio-demographic trends

Albania has a small population of around 3 million, which is ageing rapidly. The fertility rate has declined from 2.97 in 1990 to 1.7 in 2017 (World Bank data) and is projected to decrease even further, whereas life expectancy has increased for both men and women. The trends for people to live longer and for families to have fewer children are changing the shape 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). This ratio has risen steadily, from 9.5% in 1992 to 18.48% in 2016 (World Bank data), and it is expected to increase even further. Moreover, emigration has substantially reduced the working age population, while the elderly population (above 65) has increased.

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

[4] Every World Bank data is retrieved from: http://www.worldbank.org/; whereas, INSTAT data from http://www.instat.gov.al/

Table 1. Population Structure and Ageing in the Balkans and the EU

	Old age dependency ratio	Life expectancy	Fertility rate	Average age*
Albania	***18.48***	***78.34***	***1.7***	***35.6***
EU average	29.89	80.62	1.57	42.8
Kosovo	10.4	71.64	2.0	29.1
North Macedonia	18.29	75.70	1.53	38.0
Montenegro	21.2	77.11	1.66	38.2
Serbia	25.25	75.23	1.46	43.3

Source: World Bank data, 2016; *Eurostat database, 2017

Nevertheless, compared to other European countries, the Albanian population remains young, with an average age of 35.6 years, making Albania the youngest country in Europe after Kosovo, while the average age in the European Union is 42.8 years (Eurostat, 2017). Table 1 gives some comparative data on demographics of EU and Balkan's countries. The old age dependency ratio in EU averages 29.89%, ranging from 18.7% in Cyprus to 35.6% in Italy (World Bank data, 2016). As mentioned above, this percentage is lower in Albania (18.48%), with only Kosovo and Macedonia having lower levels (10.4% and 18.29% respectively). In fact, population ageing affects the entire EU, due to increasing life expectancy and low levels of fertility in recent decades. Thus, life expectancy in EU is 80.62 years old, ranging from 74.3 years old in Lithuania to 82.8 years old in Spain (World Bank data, 2016). Balkan countries have lower levels ranging from 71.64 years old in Kosovo to 78.34 in Albania (World Bank data, 2016), whereas, fertility rates range from 1.3 children born alive per woman in Portugal to 1.96 in France.

Political context

Albania entered the first multi-party political elections (Krasniqi, 2009) lacking democratic and competitive culture, free thought and liberal representation of the society. The main new opposition party, the Democratic Party (PD), positioned as a right-wing party, promised full separation between the state and the party, decentralisation of the economy, full privatisation of agricultural sector and return of lands to the farmers. Former communists dominated the pre-election processes, thus influencing the shaping of the new political, institutional and economic systems. They managed to win the first pluralist political elections in 1991, in this way becoming the first party with democratic legitimacy to govern the country. The international community expressed its concerns that the elections were not free and fair (Omari, 2000). However, having lost the main cities the communists were not able to govern on their own. Under these circumstances the country went to early parliamentary elections in March 1992. Meanwhile the Labour Party had changed its name to the Socialist Party (PS) and its new leader, Fatos Nano, reformed the party in efforts to survive in the new system. The majority of the population was convinced that change was required and both left and right-wing voters voted for the Democratic Party, making it win with 92 seats out of 140 (Krasniqi, 2011). It is worth mentioning that during this period Albania re-entered in international relations by restoring diplomatic relations with the US, the UK and the Vatican. It became a member of the OSCE, the International Monetary Fund (IMF), the World Bank (Lory, 2007), creating a pro-west, international position. Even during the 1996 parliamentary elections, the electoral behaviour remained the same - a civic decision guided by an opportunistic behaviour (Krasniqi, 2011). Extreme poverty during the Communist period and early transition years aroused great thirst for personal enrichment (Krasniqi, 2011), sometimes without considering the legal areas. 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 (Fornero and Ferraresi, 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). To prevent the collapse of the political system, an Italian-led international force was brought in to restore domestic order (Fornero and Ferraresi, 2007). The general elections 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 1998 Constitution, ratified by a popular referendum, changed the semi-presidential system into a parliamentary one. Local elections in 2000 and parliamentary elections in 2001 confirmed the domination of the left (with 88 out of 140 seats), which afterwards was unable to properly manage its "superpower" (Krasniqi, 2015[5]). 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 was finalize with its defeat in the 2005 parliamentary elections. The Democratic Party did not gain the majority of votes, but won the majority of seats (74 out of 140 seats) because the left (PS and LSI) competed against each other. After 2005, local elections in 2007 and 2011 as well as parliamentary elections in 2009, 2013 and 2017 have created the opportunity for a sound relation between political actors and voters (see Krasniqi, 2015).

In the early 1990s, ideological division was key in orienting the electorate, while during the last elections political parties did not use the ideological lever against each-others anymore (Krasniqi, 2015). During the 2000s the PD changed its political program by creating a new western model, more technical and increasingly more and more alike the PS' political program. According to Krasniqi (2015), the political platform of the PD in 2005, 2009 and 2013 had no substantial difference from that of the PS in terms of their political vision about the country, the political system, the political elections, the traditions and values, the relationship between the individual and the state, the 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 personal relations with the political power (Krasniqi, 2015; Kajsiu, 2013; Ceka, 2013). The political

[5] Krasniqi, A. (2015), «Programi i Partisë Socialiste (PS) nga 1991», last access 04/12/2016, available at from http://politike.al/sq/2016/03/programet-e-ps-nga-1991/

program of the PS responds to the electoral needs and political agenda of the day. Promises for more responsibility of the state regarding free social services, come in contrast with the implemented policies, such as total privatisation policies, partnership with private business with respect to national resources, support for domestic and national business and negligence towards trade unions (Krasniqi, 2015).

3. Reforming pensions: a literature review

Reforming public pensions in times of scarce resources constitutes one of the biggest challenges for national governments. Yet, policymakers have been able to retrench pensions in the last three decades, also through several "blame avoidance" strategies aimed at reducing the political costs of reforms (Pierson, 1996; Brooks and James, 2001). However, the international literature is divided regarding how retrenchment policies are feasible. The debate on welfare development and change can be summarised under three main headings: functionalism, power resources theory and new-institutionalism, each discussed respectively below.

Many studies in advanced capitalist democracies, have argued that socio-demographic changes and economic problems trigger pension cutbacks (Wilensky, 1975; Gough, 1979; Quadagno, 1987). Similarly, several scholars saw policy-making in post-communist countries as driven by the severe financial costs of the transition and pressures of the world economy (Deacon, Hulse and Stubbs, 1997; Müller, 1999). Consequently, policy-makers, irrespective of their ideological colour, were forced to adopt neo-liberal packages in diverse policy areas. This theory predicts that states with greater economic problems – larger external debts, bigger budget deficits, higher unemployment – will be more likely to cut back social programs (Müller, 1999). Indeed, Armeanu (2005) acknowledges that fiscal constraints provide useful 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 fails to explain the variation in policy outcomes in countries with similar economic conditions and socio-demographic changes. Moreover, Kitschelt (2001) adds that fiscal constraints represent only the demand side of reform, arguing that the need for policy does not automatically provide the supply of that policy, therefore, suggesting to pay attention to political institutions and actors, as well.

Other scholars stress the importance of international organisations as a dominant explanation particularly in CEE Countries' pension reforms (Holzmann, 1999; Müller, 1999; Orenstein, 2005). This strand in literature, also known as policy diffusion approach, argues that the severity of the fiscal crisis, the extent of the external debt and lack of expertise in the field triggered international actors into the policy-making process. Based on the assumptions that policy solutions are not always available to policymakers 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 globalized policy options (Brooks, 2005; Orenstein 2005; Deacon and Stubbs, 2007). This approach emphasizes the interdependence that exists 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. Deacon and Stubbs (2007), explain that this process of policy transfer can be voluntary or coerced by powerful global actors, in which the latter play an important role in shaping policy options and implementation. Therefore, Orenstein (2000; 2005) 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 certain type of reforms. More specifically, acknowledging the World Bank as the most 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. However, similar to the previous theory, this argument as well fails to explain the variation that exists over time and between different social policy domains. Consequently, many studies have emphasised the role of national-level factors, arguing that reform decisions remain subject to domestic political constraints.

On the contrary, rather than focusing on the structure of the whole system and its resulting 'needs', power resource theory (PRT), stressed the role of agency, explaining the emergence and expansion of the welfare state systems in advanced capitalist countries in terms of the balance of power between capital and labour (Stephens, 1979; Korpi, 1983; Esping-Andersen, 1985). According to this theory 'politics-matter' and ideology becomes an important explanatory factor. They see welfare state creation as result of working-class power gained through strong left-wing parties and powerful trade unions (Stephens, 1979; Korpi, 1983). According to these studies political parties represent the interest of their social constituencies and policy output depends on the partisan composition of the government (Hibbs, 1977; Hewitt, 1977; Castles, 1978; 1982; Schmidt, 1982). They theorize that left-wing political parties represent the interest of the working class, and therefore, advocate more generous welfare redistributions 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 a reduced public sector and aim to limit welfare expenditure. However, empirical evidence has shown that both left and right-wing parties are involved in welfare retrenchment policies. In addition, most scholars agree that the dynamics of political competition on social policy reforms in the CEE differ from the West experience, given that the former did not have a long tradition – political parties were either reformed (e.g. Communist Parties) or created in the late 1980s – thus lacking a clear view on welfare policies in their political programs (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 does 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). Moreover, the Central and Eastern European corporatism is substantially different from the corporatist variant of advanced West European democracies and should not be confused with the corporatist practices in Western Europe (Iankova, 1998; Ost, 2000; Bohle & 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, its Eastern European counterpart is defined by a conflictual consensus and emphasizes a higher degree of structural dependencies and self-interest. This distorted activity of the 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 the working people. After the fall of communism, many workers started to link unions with communism and developed an 'anti-union' feeling (Ost, 2000), which coupled with high unemployment levels in the early 1990s, made trade unions generally weak and their membership ever since started to decline (Aidukaite, 2009).

Differently from the PRT that emphasises the role of agency, neo-institutionalists centre their analysis on the importance of institutions – understood as both formal and informal rules – in shaping the behaviour of political actors and the policy-making process (Weaver, 1986; Huber, Ragin and Stephens, 1993; Immergut, 1992; Hicks, 1999; Brooks, 2002). The basic assumption of this approach is that institutions are prerequisites for organized politics and that politics can exist only because there is an institutional context in which it takes place (Immergut, 1992; Steinmo et. al., 1992). Neo-institutionalists identify two main causal mechanisms that explain the institutional impact on policy change. The first mechanism explains how institutions as rules shape policy choices, while the second clarifies how institutions through veto points structure policymaking procedures and shape their outcomes. In this regard, political factors help determine whether a problem is defined as a public problem that requires political action. According to this strand of literature, institutions mediate the impact of socioeconomic challenges, by providing the supply of reform. They focus on two different "institutions" in explaining policy-making process, namely welfare state institutions – in which past policy choices constrain present policy options – and, political institutions. The former version draws from Pierson (1994; 1996), who argues that feedback mechanisms affiliated with earlier policy choices constrain future options because deviation from such paths has high costs. His argument can be summed up around three key elements that contribute welfare state resilience and resistance to change: its popularity, which leads to institutional stickiness and ultimately, path dependence (Pierson, 1996). However, 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 if popular expectation of existing welfare programs is dissatisfactory, social programs in question lose their normative legitimacy, then the institutional legacy itself opens the door to 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; see also Guardiancich 2009). Other studies take into account the role played by the political institutions as well (Orenstein, 2000; Brooks, 2002). Orenstein, for instance, found that countries with more veto actors accomplish less radical reform than countries with fewer veto actors (Orenstein 2000). Similarly, Brooks argued that fragmentation of legislative power in multiparty systems poses an obstacle to pension reform (Brooks, 2002).

Indeed, new institutionalist theories have proved very effective in explaining stability, continuity or gradual and incremental welfare change, however, Jessoula (2009) argues they are not as useful in explaining 'path departure', 'path shift' or 'path breaking'. He points out that institutional evolution of public policies in the political sphere always depends on decisions taken by political actors (Jessoula, 2009). As such the institutions and path dependence mechanisms, enter the framework because around them are structured a network of interest groups. In other words, by itself the institutions operate simply as "signals" of the possible alternatives against the background of the existing structures; their binding force depends on the interests connected to them and on the relative strength of the groups carrying these interests (Jessoula, 2009). 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. Thus, recent research on welfare state change has 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.

4. The Albanian pension system trajectory

The origin of the social insurance system in Albania dates back to 1923, under the leadership of Ahmet Zogu. 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. In 1927 a second act came into force which decreed that the State would issue pensions to civil servants, based on the Bismarckian model[6]. According to this act, every person who had worked for a period of 35 years in public administration became eligible for old age pension. This system provided old age protection to civil servants who had reached the retirement age, set at 60 years old, as well as disability and survival pensions[7]. Pension benefits were calculated according to the following formula:

> $P = (W * S)/ F;$ where, P=Pension; W=Average wage of the last five years; S=years of service; F= fixed number set at 2'100[8].

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.

[6] Law no.129 of 28.10.1927 "On Civil Servants' Pensions".
[7] Ibid, art. 19.
[8] Ibid, art. 10.

In 20.06.1934, another law "On the Civil Servants and Military Personnel" 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 (e.g. illness or disability) did not allow them to continue their service)[9]. 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[10].

In 1947, a more comprehensive pension scheme was approved, which covered only people who had worked in the state sector in urban areas for 20 years[11]. This scheme was consolidated further in 1966 in accordance with the nationalisation of the private sector. Retirement age was 60 years old for men and 55 for women. As in all former Communist countries, there was only one pension pillar, which in 1972 was made up of two plans: The State Plan and the Cooperative Farmers Plan. Although originally conceived to be self-financing, social insurance was fully financed through contributions only up to 1957 (World Bank, 1993: 5). The pension scheme functioned under state control, as an integral part of the state budget, in line with the political economy based on the paternalistic ideology, 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, by allocating the work force to state-owned firms and the latter paid the contributions for their employees to a pension fund within the state budget[12]. 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 income was flat-rate, based only on the first pay-as-you-go component[13]. It was assumed that this highly egalitarian pension scheme provided universal coverage[14] due to claims of full-employment[15]. However, the scheme was not universal as it depended on the existing employment relationship[16], given that the communist approach to social policy was based on the necessity and centrality of work.

According to the World Bank (1993) the social protection during the Communist period had many weaknesses, such as: the link between contributions and benefits was loose;

[9] Art. 16 of law "On the Civil Servants and Army Pensions", dated 20.06.1934.
[10] Ibid, art. 18.
[11] Law no. 528 of 26.08.1947 "On Social Protection of Civil Servants and Officials".
[12] Pensions were financed through transfers from state-owned companies' budgets to social protection budget, which was in turn part of the state budget. Pension system was part of the state budget and not an independent institution.
[13] According to the law, the replacement rate was 70% of the average monthly salary, calculated according to three best-years in the last ten years of the employee's career and pension benefits could not be lower than 350 ALL or higher than 900 ALL/ month.
[14] It was assumed that during communism there was a state of full-employment, whereas poverty was not recognised as a phenomenon.
[15] The security of job was connected to a real social obligation, as stated in the socialist principle according to which each individual was expected to contribute according to their ability and rewards would be distributed in proportion to that contribution. Those who refused to work, study or serve risked being accused as social parasites, a charge that could directly lead to jail.
[16] Law no. 4171 of 13.09.1966 "On State Social Provisions of the People's Socialist Republic of Albania".

there was little transparency in the collection and localisation of resources; poor management and lack of administrative capacity; separate pension plans for urban and rural workers; early retirement and preferential treatment. In addition, 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 economic collapse and the massive downgrading and closing-down of state-owned enterprises as well as the dissolution of the agricultural cooperatives brought a drastic decline in the number of the employed population. Moreover, an increasing informal sector and diminished tax compliance substantially reduced revenues (Armeanu, 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[17]. This had an immediate effect on the number of pensioners, which in 1992 increased to 443'000 pensioners, accounting for 13.6% of the population, which meant 3.1% more beneficiaries than in 1990 (World Bank, 1993).

Following the above-mentioned fiscal pressures and inherited issues from the communist scheme the Albanian government embarked on pension reforms in the early 1990s and has continuously reformed the pension schemes ever since. Hence, we can distinguish three different phases of reforms in the pension system in Albania after the fall of communism. The first phase of the pension reform happened between 1991 and 1994. During this period, the necessity of reforms was directly related with the developments of the transition from a centralised to a market economy. The second phase of pension reforms corresponds to the period from 1995 to 2013. In this period the 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 phase of pension reform refers to the period after 2013, which includes both retrenchment and expansion (introduction of a social pension).

The first phase of pension reforms: 1991-1994

Political transformation created a situation of insecurity and the lack of trust in the state. In such political environment, the state delegated the role of administering the pension schemes to the Social Insurance Institution[18]. The Social Insurance Institute (SII) was created as an autonomous body to administer all aspects of the public system. The SII was responsible for collecting contributions, keeping records, and calculating pensions. Its purpose was to take care of the interests of all involved stakeholders (representatives of the government, employers, and unions). In May 1993, the parliament adopted the law no. 7703 of 11.05.1993 "On Social Insurance in the Republic of Albania", which

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

[18] Approved by the Council of Ministers' executive order no. 249 of 05.06.1992.

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-tier pension system. The first tier was mandatory 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 Order, according 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 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. 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. Differently, the second tier was a voluntary insurance scheme, within the public scheme[19]. 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. In addition, the new law would pursue an immediate substantial reduction of social 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[20].

According to the World Bank (1993) assessment the new pension formula was considered to be a good feature 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. Under the new rules, the replacement rate could not exceed 75% (actually it has never been equal to 75% of the wage and it has decreased over years), a provision meant to strike a short-run balance between adequacy and sustainability. As reported by the World Bank (2007), this would hardly constitute a binding constraint in the long run, given that the total public pension level could not be higher than twice the minimum pension. Furthermore, 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.

Reforming pensions, the second phase: 1995-2013

An important reform in this period was the adoption of law no. 7943 of 01.06.1995 "On Supplementary Pensions and Voluntary Pensions' Institutions", which set the basis for the introduction of private pension institutions. However, as I will argue also below, private insurance funds were established only a decade later due to the lack of regulatory

[19] Art. 3, 11 and 12 of law no. 7703 of 11.05.1993 "On Social Insurance in the Republic of Albania".
[20] 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. Contribution rate for pension (old age, survival and disability pension) was 31.7%. Later on, I will refer only to the contribution rate that goes to finance pensions.

legislation for these institutions, low solvency rate from beneficiaries and high risk of investment in this area, (Ibrahimi and Salko, 2001). It is worth mentioning that, contrary to other CEE countries, the introduction of a compulsory private fully-funded scheme was not implemented in the Albanian case.

Nevertheless, the public pension scheme was facing additional obstacle due to the high contribution rate of 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 (shift the burden of pension costs from state budget to surviving labour force). Many studies (Fornero and Ferraresi, 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 the private sector firms were either avoiding the payment of the contribution, thus, developing an informal economy, or paying only the minimum amount of them (by declaring lower wages). Differently, the self-employed in agriculture were 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. After this year, there was an increase in the number of contributors but still 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, when one pensioner was supported by only one contributor. It was an unintended result of the pension reform in 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 a fiscal deficit to 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, compared to the self-employed in urban areas (SII data). In addition, the country's economic and political developments in the mid-1990s urged the need of further changes in the pension system.

Therefore, in 2002 the Albanian parliament adopted further parametric reforms, with the main purpose to strengthen the fiscal sustainability of the scheme. The new pension law[21] 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 order to make this transition as smooth as possible, eligibility for early retirement was maintained, but the pension level was subject to actuarial correction (the benefit would be reduced by a coefficient of 0.6% each month). 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. Whereas, 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.

The reduction in contribution rate encouraged the declaration of full working years. According to the World Bank data (2006), starting from 2004 the number of

[21] Law no. 8889 of 25.04.2002 "On Social Insurance in the Republic of Albania".

contributors participating in the pension scheme increased by 4.6% and 11.4% in 2006. Despite the positive performance, the results were not satisfactory yet (World Bank, 2006). In 2005 the ratio of contributors to employees was 61%, which meant that 39% of employees were not paying contributions. Moreover, eligibility for early retirement resulted in the artificial increase of the number of pensioners and in the crisis of the pension system. In 2005, the pension system was covering about 140% of the elderly population (World Bank, 2006).

Obstacles that emerged during the implementation phase triggered the necessity for further reforms in the pension scheme. In 2006, the contribution rate was reduced to 23.9% of the salary - and in 2009 it was reduced further reaching 21.6% of the salary. 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, according to the Bank's assessment (2006) the increase in formalisation of the labour force was neither sufficient, nor it was associated with the decrease in the contribution rate.

Additionally, in 2006 the first companies were authorized to manage the private pension funds, under the supervision of both the IMF and the World Bank (FSA, 2007). Their rise was driven also by the creation of the institution which would monitor and regulate the functioning of private companies. 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. The private pension pillar completely voluntary and provides defined contribution pensions. The third pillar, although de jure was introduced in 1995, started to work ten years after, by the creation of its legal basis. This gap can be explained by the fact that when the third pillar was initially introduced in 1995, both the IMF and the World Bank (IMF, 2005) suggested the creation of a legal framework for it to operate, related to licensing criteria, supervision, governance and profit-sharing arrangements, investment regulations and eligibility for benefits. After the pyramid scheme crisis in 1997, people did not believe in private markets anymore and officials considered as an early step the adoption of the legal framework for private pension market during the early 2000s (Fornero and Ferraresi, 2007; Xhumari, 2010; Hysa, 2013). In December 2009, a new regulatory framework for the third pillar of the pension system was adopted in order to consolidate the legal basis of the private pension market. It also adjusted the principles of operation of this pillar to those of the International Organisation of Pension Supervisors (IOPS) and the OECD. The new law provided the basis for creation of both *voluntary occupational pension schemes* – where employers pay contributions on behalf of their employees (second pillar) – and *voluntary personal pension schemes* – for any individual willing to contribute for supplementary old age pension, disability and death benefits (third pillar).

The third phase: 2013 onwards

A World Bank study on pensions, "The Inverting Pyramid" (World Bank, 2014), shows three main conclusions on Albanian pension system: Albania nowadays is young with only 12% of its population over 65 years old, but the number of elderly is expected to grow to 25% of population in 2050; the working age population will decrease by 14% by 2050, while there was an increase of 91% of working age population from 1970 to 2010; the third finding highlights the growth of informal economy – having a large percentage of the population who does not pay contributions, fewer employees are left in the system to support current pensioners.

Spurred by these new political, economic and socio-demographic challenges, as well as the international pressure (World Bank, 2014; European Commission, 2015), the Albanian government adopted a new reform in the pension system. The new pension reform includes a gradual increase of the retirement age until it is equalized to 67 years old for both genders in 2056. Moreover, contribution years will increase as well, from 35 years to 40 years of mandatory contributions by 2025, in order to benefit a full old-age pension income. Another change includes the increase in the contribution rate for rural areas, with the purpose of equalising farmers' contribution levels with those in urban areas until 2018. The new law introduces as well, the establishment of a means-tested social pension, which will be financed 100% from the state budget and will be equal to the actual partial pension of a person who has worked for 15 years and has paid contributions based on a minimum wage. Every person who does not meet the necessary conditions to benefit from an old age pension, will benefit a social pension, which can be acquired only by individuals over 70 years old, who have been resident in Albania during the past 5 years. Moreover, the new law changes the calculation formula. According to the old scheme, the old age pension was calculated taking as a base the basic pension, which used to be 12'024 ALL, plus 1% for every insured year multiplied by the average of the last three wages. The amount of the pension could not be higher than 75% of 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, while the rest remains the same, based on individual contributions and is calculated 1% of average wage of entire working career[22].

An assessment of the 2014 pension reform

The success of a pension system can be judged against 5 outcomes: 1) efficiency; 2) sustainability and affordability; 3) coverage; 4) adequacy; and 5) security. However, important trade-offs exist – for instance, fiscal sustainability and pension system adequacy are in conflict with each other (Guardiancich, 2009). You cannot increase the adequacy of the pension system by increasing its generosity without affecting its fiscal sustainability.

[22] Other measures include: decrease in the retirement age for the miners from 60 years old to 55 years old; increase in the retirement age for politicians from 55 years old to 60 years old; decrease in the retirement age for artists (amount of decrease depends on their professions) etc. (see Law no. 104/2014, dated 31.07.2014, «On Social Insurance of Republic of Albania»).

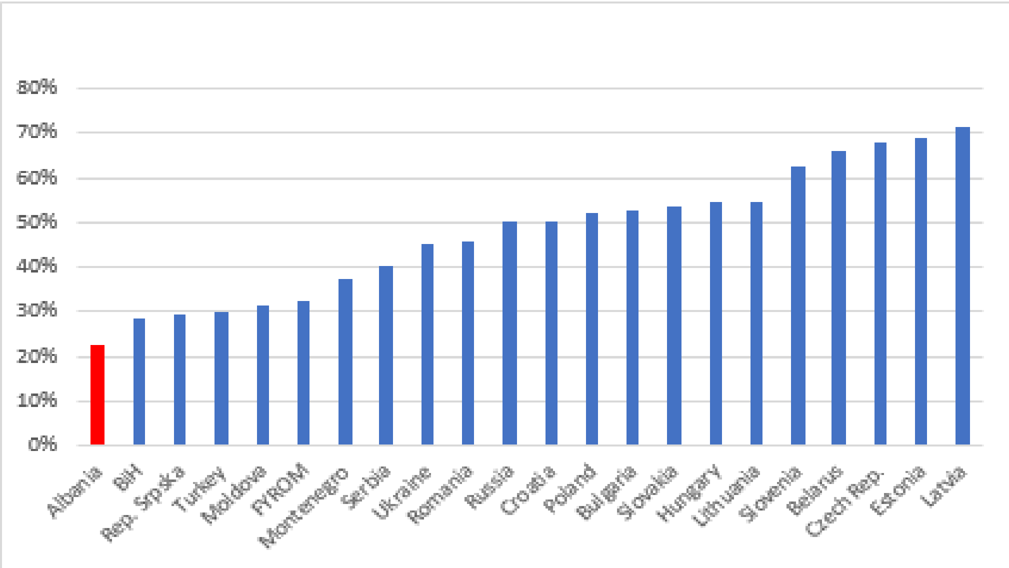
Efficiency is defined as the capacity to produce desired results with minimum costs. In the Albanian pension system, the main problems in terms of efficiency remain its high costs. The labour market informality and the history of very poor contribution collection in the first pillar. Due to high informality in the labour market, taking contributions as a share of wages can be difficult. However, finding other sources of finance is clearly a challenge and changes to the benefit structure of the first pillar will certainly be needed. As the figure 1 shows, the percentage of workers contributing to the first pillar in Albania is very low compared to other countries.

The second outcome deals with the sustainability of the pension system. According to Barr (2005), a pension design should help to increase employment, to prolong working lives, and to consolidate public finances. A common measure for assessing economic sustainability is the public expenditures on old age pension as a percentage of GDP. Expenditures on pensions account for 7.18% of GDP in Albania. As for fiscal sustainability, according to experts of the SII, the new scheme strengthens the link between contributions and benefits and will bring a quick reduction in pension scheme deficit. Prior to the reform, it was projected that the deficit would decrease from 1.6% of the GDP in 2015 to 1% in 2018, and it would reach a level of 0.4% in 2030 and 0% in 2043. After this year, the scheme swings from deficit to surplus until 2057. From this year, onwards the deficit will increase again remaining in low levels from 2059 to 2080 (SII, 2014[23]). Additional studies came up with the same conclusions as the Social Insurance Institute. The Albanian authorities implemented the pension reform with technical support from the World Bank, which later on evaluated this reform as: *"one of the best reforms in the world, precisely what was needed for a country that aspires EU integration"* (Roome, 2014). The European Commission assessed the adopted reform as an ambitious one, which had largely accomplished its main aim of improving long-term sustainability, by providing state financial support for the elderly over 70 years and reducing to a certain degree the high redistribution (European Commission, 2015). The IMF report on economic developments and policies in Albania in 2016 came to the same conclusions stating that the implemented pension reform was progressing in a good way toward long-term fiscal sustainability. However, according to SII data, the pension scheme deficit at the end of the 2017 was 1.77% of the GDP.

Another indicator that evaluated the sustainability of the scheme is labour market performance. Higher retirement ages mean that people will have to work longer, which has two direct implications: on the one hand, proper skills and abilities will be needed for the older workers to continue to work; on the other, job creation will be needed for the younger ages in order to start working. Early retirement and high unemployment levels mean that more people will depend on the system. Both reduce the number of contributors relative to beneficiaries, causing a fiscal deficit to the pension scheme. Current unemployment level of 16.1%, among which 28.6% accounts for youth (15-24 years old) unemployment (World Bank data, 2016), are not very promising. The government must accompany the pension reform with policies that restrict early retirement, give incentives to work and most importantly create new jobs.

[23] Every SII data is taken from their annual report, available at: http://www.issh.gov.al/

Figure 1. Percentage of Working Age Population, Ages 15-64, Contributing to the Pension System



Source: World Bank, 2014

The third outcome evaluated is the coverage of the pension system. Ensuring coverage of workers through one or more pension plans is fundamental to fight income poverty in old age. Recent policy measures sought to increase participation rates in public pension plans, by linking benefits to contributions – as mentioned above two existing ceiling benefits are removed, therefore, the new scheme depends entirely on the contribution years and average wages. In addition, the introduction of a social pension that provides means-tested benefits to those who receive no, or very little, pension extends the coverage of the old-age population. However, it is worth mentioning that coverage in the public pillar remains occupational related (and depends whether a person pays contributions or not, given high levels of employment informality), whereas the newly introduced social pension is eligible only to people above the age of 70 years old.

Fourth, it is important to evaluate how the pension system perform relative to social adequacy. Social adequacy is related to the benefits that are currently provided by the system and it is measured by the ability to prevent poverty and the degree to which pension benefits replace income during the old-age (European Commission, 2016). A common indicator for measuring the adequacy of retirement savings is the income replacement rate, the ratio of post-retirement income to pre-retirement income (Burnett et al 2014). Pension scheme norm in Albania considers an adequate replacement ratio if is about 75%. According to SII data, in 2015 the replacement rate in Albania in urban areas was 47.7%. Regarding income maintenance, the level of pension benefits for higher earners has also been affected by the recent reforms, since the ceiling benefits are removed and now, they can benefit higher pension income. However, the modified formula for calculating old-age benefits, choosing the social pension to replace the basic pension, clearly decreases the benefits for low earners. Notwithstanding that the system is fiscally sustainable, is it acceptable to have aged population at risk of poverty? The social pension is not adequate enough to prevent old-age poverty.

The last outcome measured is the security of the pension system. Ensuring that contributions to pension funds are safe is one of the most important features of a pension system. According to this principle, legal and economic guarantees are required in order to regulate the relations in the social insurance system. To avoid negative financial situations of the mandatory social insurance scheme, Albanian government has defined by law the creation of a reserve fund, which can cover pension income payments for a period up to 3 months. Another element that contributes to ensuring security in the pension system, is the risk diversity offered by the third pillar. According to the World Bank assessment (2015), there has been general progress on a range of the pre-conditions for a private system. The third pillar shows that both the legislation and the institutions can be created. But it is currently very small and an important part of the development of options would be to ensure it is well supervised and resources and capacity can be significantly scaled up (World Bank, 2015).

5. The politics of Albanian pensions

This paragraph illustrates the impact political domestic factors and their interplay with international pressures in shaping the pension system, making it a peculiar case compared to other post-communist countries. It focuses on the role played by political parties, social partners and the World Bank.

The role of political parties

Political identities of each party reflect also their positions towards pension reform. Thus, in the early 1990s the left and the right camps were clearly divided in their communist versus anti-communist political cleavage. Pension reform was on the agenda of the right-wing government and it was passed on 11.05.1993, without being opposed by the Socialist Party which was very weak at that time. The government used the IMF and the World Bank loans during the first years of the transition, creating an opportunity for these institutions to exert pressures for a substantial restructuring of the pension system (Müller, 1999). Two years later a voluntary private fully-funded pillar was introduced. In 1997 there was a government alternation and the Socialist Party remained in power for 8 years. During this period the PS deeply reformed its political program and was against the return of the properties, privatisation or unlimited import of foreign capital in the economy. They did not support introduction of a second pillar neither did they constitute the legal basis which was missing for the establishment of the third pillar. They responded to demographic changes by adopting parametric reforms in the existing PAYG pension scheme. The reform projected a gradual increase (6 months per year) of the retirement age until reaching the age of 60 for women and 65 for men. The opposition led by the Democratic Party strongly criticized this reform and abandoned the parliamentary discussion before the reform came to vote (parliamentary debate 25 April 2002, c.837). The bill was passed anyway, as the government, led by the Socialist Party had formed a solid majority. Even though the Democratic Party was against this reform, they did not reverse it when they came into power in 2005. Instead, they choose a credit claiming approach by increasing the benefits and reducing the contribution rate. 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 not associated with the decrease in the contribution rate, which led to further fiscal deficit in the pension scheme. Moreover, backed up by the World Bank and the IMF (IMF, 2006), the Democratic Government implemented the legal basis for the establishment of the third pillar. Consequently, the first companies started to operate as private pension funds in 2006.

Between 2012 and 2014, Albania was facing the difficulty of reforming its public pension system. The main question was what reform should be undertaken, a parametric or systemic reform? The role of political parties in this regard is very important. Left-wing governments seek to provide a wide range of public services, whereas right-wing governments think that many activities should be carried out by the private sector in order to reduce government spending as much as possible and increase the quality of services (Syka, 2015). Right-wing governments are more oriented towards free-market policies while left-wing governments favour more protectionist policies. Müller (1999) states that the key domestic protagonists of the introduction of mandatory individual retirement accounts in the CEE countries were politicians with a neo-liberal orientation as well as officials in ministries of finance.

In the Albanian case, this does not seem to apply. In 2013 the Socialist Party included in its political program the introduction of a second pillar in the pension system, a policy reform which they had opposed some months before, when it was proposed by the Democratic party – the governing party at the time[24]. Moreover, in February 2013, the World Bank suggested a pension reform which would increase the retirement age, as a solution to restore the fiscal sustainability of the scheme. The Democratic Party agreed in principle, but did not adopt such reform because it would be a political suicide, given the fact that the parliamentary elections would be held four months later. When the Socialists came into power in 2013, pension reform was unpreventable. They adopted the reform proposed by the Bank with some minor changes[25]. They chose the same "blame avoidance" strategy as before, passing the bill in the beginning of their electoral term. Furthermore, this time they had the support of the trade unions and coupled retrenchment with the introduction of a social pension for all those elderlies who were not eligible to benefit an old age pension income. The opposition again criticized the reform, also promising reversal once in power and abandoned the plenary session

[24] A multi-pillar pension system was proposed by the PD by the end of 2012, which the PS did not support. Parliamentary elections were held in June 2013, where PS created a government coalition with the LSI.
[25] See: Ministria e Mirëqenies Sociale dhe Rinisë (2014), *Dokumenti i Politikave të Pensioneve.*

(parliamentary debate 31 July 2014, c.435). The latter constitutes an addition source of worry: the political conflict and the missing understanding between the government, the opposition and the public, which can undermine the political sustainability of the pension reform. According to Guardiancich (2009), successful legislation is not an indicator that smooth implementation will follow. Quoting Barr (2002), he states that continued support is required at all political levels, by policymakers, the administration and the society as a whole, in order to avoid any future deviations from the adopted reform.

Regarding the Albanian case, empirical studies have shown that there is no tradition of political cooperation across political parties in Albania, and the same holds true also in the case of pension policy. As mentioned above, the opposition – currently led by the Democratic Party – has decisively objected the pension reform, calling it a "social catastrophe"[26] and warning the government that they will reverse the proposed reform once they are back in power. Furthermore, the government blames the opposition for not being present during the voting process. They argue that by this action the opposition has abandoned the citizens and the voices that they represent. This divisive policy-making process in Albania can be explained in accordance with neo-institutionalist arguments on blame avoidance, the opposition did not want to be blamed for unpopular policies such as increase in the retirement age and they will use this strategy in their favour for the next elections.

Expressed in terms of political sustainability, this political climate dominated by a high degree of conflict and polarisation will undermine the reform's stability and makes it highly possible for policy reversal once there will be government alternation. According to Schoyen and Stamati (2013), increasing cross-party cooperation remains essential for a sustainable reform process. To have a lasting effect on policies, there must be a cooperative decision making between all parties involved.
However, given the information reported in table 2 parties in opposition have always criticized the adoption of the pension reform and have promised to reverse it once they would be in power, but none of them (both right-wing or left-wing) kept their promises, even though the cost of change were presumed to be low. Following this legacy, it is hard to believe that the current pension reform will be reversed by the Democratic Party in the future: they would in fact have no incentives to alter the adopted reform, given the burden of fiscal deficit to the state budget.

Table 2. Political Sustainability of Pension Reforms in Albania

Year of reform	Type of govt.	Internal cohesion	Opposition position	Cost of change	Strength of govt. (% of seats)	Degree of consensus	Political Sustainability
1993	Right	High	n.a.	High	68% (high)	n.a.	Sustained
2002	Left	High	Against	Low	52% (high)	No consensus	Sustained

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

2005-2006	Right	High	Against	Low	51% (high)	No consensus	Sustained
2014	Centre-Left	High	Against	Low	60% (high)	No consensus	n.a.[27]

Source: Author's elaboration based on Parliamentary Debate

The role of social partners

The communist legacy in Albania, left behind a non-existent practice of social dialogue, along with a negative public opinion about trade unions (Dragoshi and Pappa, 2015). In the early 1990s, when the informal economy and unemployment grew quickly, the trade unions proved themselves ineffective to improve the situation. Soon it became clear that the unions did not have the capacity to unite workers to defend their interest, as a result workers began to distance themselves from the trade unions (Dragoshi and Pappa, 2015).

As mentioned above, trade unions and employers' associations, together with state institutions are part of tripartite social dialogue. However, given that the opinions in the tripartite social dialogue are non-binding, the role of the trade unions remains only marginal. Therefore, the trade unions strongly opposed the increase in the retirement age in 2002. They organized protests all over the country and tried to bring the reform to a halt through a referendum, but it was ruled illegal by the Constitutional Court (Fornero and Ferraresi, 2007). In 2005, trade unions strongly criticized the implementation of the private voluntary pension scheme – the so-called the third pillar – claiming that it favoured foreign ownership, and opposed trade liberalisation, which was considers premature (Fornero and Ferraresi, 2007). However, the third pillar was implemented all the same.

Importantly, today, trade unions are divided along political cleavages and pursue partisan agenda with regard to reforms. Thus, in 2013, the Confederation of Trade Unions (KSSH) signed an alliance with the Socialist Party, and they are 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, KSSH was the one protesting, while BSPSH participated in social dialogues. The position of trade unions, as social partners, would have a more significant role if they were independent from political parties.

Similar to unions, the employers have not been very effective in influencing the decision-making process either. They are fragmented because of a lack of clear

[27] The information is not available yet, given that in the last election there was no government alternation.

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 sectorial and bipartite dialogue – between the trade unions and employers' associations – still remains weak, mainly due to lack of dialogue culture, and employers' scepticism towards the trade unions (Doci, 2015).

The World Bank and the Albanian pension system

From the initial stages of the Albania's transition, the World Bank emphasised the need of a well-designed, sustainable, and adequate social safety net. The Bank was a natural ally of the government in developing a coherent strategy and the Bank's support formed the cornerstone of the process that led to the 1993 reform as well as the main reference point for building local capacity in the pension area (Fornero and Ferraresi, 2007). The World Bank recognized the fact that initial conditions in Albania were difficult due to lack of resources and any conceptual basis for reform. It was involved in the redesign of the pay-as-you-go system and recognized that times were not yet ripe to introduce a multi-pillar pension system. Particularly after the 1997 crisis, the typical optimism shown by the Bank on this front was largely restrained, considering that the crisis had eroded many of the achievements of the previous years and revealed profound weaknesses in governance and regulation (World Bank, 1998). As a consequence, the World Bank did not support the introduction of a fully funded pension system, as they did elsewhere in Eastern Europe, arguing that such systems could be inappropriate for countries with low levels of governance and regulatory capacity, and underdeveloped financial market (Orenstein, 2000). The Bank took a leading role in the 2014 reform as well, addressing the Albanian pension system challenges and emphasising the need of a well-designed, sustainable, and adequate social safety net (see World Bank, 2013). As a matter of fact, if we compare the reform option offered by the incumbent party and the one by the World Bank, we can see that the adopted reform was significantly influenced by the latter.

As a conclusion, we can say the World Bank influence through ideas and direct interventions is found to be powerful. However, it is also plausible that these ideas were listened to more carefully because the World Bank had money to back them up (Orenstein, 2000). As mentioned also above, the World Bank undertook a different approach in Albania, compared to other CEE countries, taking into consideration Albania's specific domestic situation – 1997 crisis was still fresh in people's memories, so a structural reform, towards fully funded pension scheme was considered an early step and Albanian financial market lacked sufficient depth to support a well-regulated private pension fund industry (World Bank, 2006).

6. CONCLUSIONS

This paper focuses on the pension policy development in Albania and the politics of pension reform, with a particular focus on the latest reform adopted in 2014. It illustrates the evolution of the Albanian pension system since its origins as well as the impact of economic and political domestic factors and their interplay with international pressures in shaping the pension system, making it a peculiar case compared to other post-communist countries. Moreover, this study focuses on the supply side of the reform as well, emphasising the influence of political parties, the historical competition between the left and the right and the role played by the trade unions. Based on these analytical dimensions, it provides an answer to the main research questions. Why was the reform in Albanian pension system needed? Why did Albania follow a different reform trajectory when compared to most CEE countries? What triggered reforms? Which were the main actors involved? What is the role of international actors and pressures in shaping reform outcomes? How was retrenchment possible? Does the reform ensure an effective combination of long-term fiscal, economic and social sustainability?

Like other post-communist European Countries, the first pension reform in Albania was directly prompted by both the transition from a centralised to a market economy and international pressures, particularly by the World Bank. However, although starting points were similar, Albania followed a different reform trajectory from other Eastern European countries, due to its peculiar domestic environment. While many post-communist countries followed the World Bank's proposal and opted for transition towards fully-funded pension schemes, the Albanian governments instead decided to restore the sustainability of the pension scheme by reforming the existing public PAYG scheme. Two different arguments can explain this reform trajectory (Fornero and Ferraresi, 2007; Xhumari, 2010). First, the 1997 pyramid scheme crisis – which were a sort of Ponzi schemes – was still fresh in people's memories. A structural reform towards a fully funded pension system was considered an early step even by the World Bank itself, given the lack of trust in the state, private sector and underdevelopment of the financial market (Fornero and Ferraresi, 2007; Xhumari, 2010). Second, in this period the governing Socialist Party (1998-2005), had deeply reformed its political program and was against the return of the properties, privatisation or unlimited import of foreign capital in the economy and it did not support the introduction of a second pillar. Therefore, a number of parametric reforms were taken in order to restore the fiscal sustainability of the system and increase the number of contributors.

In addition, this study shows that the Albanian pension politics is a sort of deviant case compared to other European countries. There is not a clear division between the policies adopted by the left-wing and right-wing parties. While in opposition, political parties complain and do not support the reform in the pension system, however, once in power, not only they do not reverse that reform, but continue to reform the pension system even further. Moreover, the weakness of trade unions and alignment with parties does not allow political responsibilities and responsiveness. On the contrary, from the beginning, the World Bank has played a major role as an agenda setter. As a matter of fact, if we compare the 2014 reform option offered by the incumbent party and the one by the World Bank, we can see that the adopted reform was significantly influenced by the latter. Moreover, the government used World Bank's conditionality as blame avoidance strategy. Further strategies included diffusion of public dissatisfaction by resorting to non-transparent cuts – change of indexation – postponing unpopular measures – very gradual increase of the retirement age up to 2056 – and bundling them with more popular ones – introduction of a social pension. In addition, the incumbent party passed the bill at the beginning of its electoral term and lacking the support of the opposition, the government created a pro-reform coalition by bringing one of the two main trade union confederations in reform negotiation.

In the end, this paper gives an interpretation of the 2014 Albanian pension reform capacity to ensure long-term fiscal stability, its ability to alleviate poverty, maintain living standards and guarantee political sustainability. It shows that the new pension reform primarily aimed to strengthen long-term financial stability of the pension system, and reduce the pension deficit – by changing some key parameters – nevertheless, policymakers failed to accompany this reform with labour market policies – such as job creation, strong work incentives and restricting early retirement – which are necessary to both ensure sustainability of the pension system and avoid negative consequence on individuals. Furthermore, the reform itself typically focuses on the issue of sustainability rather than social adequacy, but the reality has shown that the long-term fiscal sustainability cannot be achieved without social adequacy. An additional condition for this to hold is to ensure political sustainability as well: political cooperation at all levels. So far there is no political consensus or process to create a pension system that will need to operate for many years to come. There is little or no public understanding or appreciation of the need for change.

Pension systems have proven to be a valuable contract in our societies. However, there will be no reason they will remain so in the following year, if the implemented policies will give citizens no incentives to continue to contribute in the pension schemes. Thus, the priority of the government should be to identify measures that would improve the levels of social adequacy without violating the fiscal sustainability of the scheme.

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