■ ALBANIA

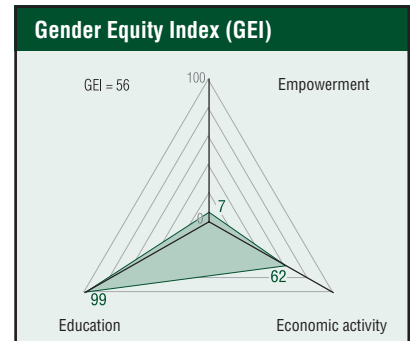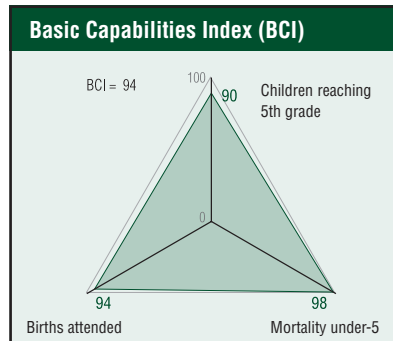# Rationalizing social spending to accelerate social development

The recently signed Stabilization and Association Agreement with the European Union confirmed the good progress of transition reforms in Albania. Substantially increasing social spending, linking social spending to the desired social impacts, and rationalizing the related internal and external financial resources in order to achieve tangible social justice results represent some of the new challenges in the Albanian integration process.

Human Development Promotion Centre (HDPC)
Ylli Çabiri
Lindita Xhillari

Insufficient social spending

Total public expenditure for education in Albania in 2005 was roughly 2.6 times more than in 1996. However, during the same period, the country's Gross Domestic Product (GDP) increased almost four-fold, which means public spending on education as a percentage of GDP has actually declined, from 3.7% to 3.1%. This is significantly lower than the average of 5.4% seen in the countries of the Organization for Economic Cooperation and Development (OECD). The share of the education sector in overall public expenditure also decreased during the same period, from 13% to 10.4%, which is also below the OECD countries' average of 14% (HDPC, 2005a, p. 29). This level of public spending on education does not correspond to the actual needs. Albania's education sector lacks sufficient inputs of reasonable standards, and this largely hampers both access to and the quality of education. One significant example is the number of pupils enrolled in schools with double shifts, which is currently the case for 37% of primary school students and 15% of secondary school students. The Tirana region remains the most problematic area, largely due to the massive, spontaneous demographic movement of the population since the 1990s. At present, one-third of all schools at the pre-university level in Tirana operate with double shifts. The school buildings are generally poorly constructed and their maintenance has been neglected due to cuts in financial resources. Currently, the number of classrooms in need of maintenance represents more than 70% of the total number of classrooms in five of the country's 12 regions. The situation is even worse in urban areas, where over 75% of classrooms are in need of repairs in nine regions. The failure at the input level is also reflected by deeper problems of curriculum, textbooks, and teacher qualification, as well as of governance and management.

Albania spends around 6% of GDP on health care, which is in line with the average for lower middle income countries. The share that the public sector contributes to this spending represents about 2.5% of GDP. This reflects an increase of 41% in real terms over the past five years and an increase in per capita spending of 37%. The share of the health sec-

tor in overall public expenditure has also increased during the same period, from 7.2% to 9.3% (World Bank, 2006, p. 85). However, Albania's public sector funding of health care is considerably below that of other countries with similar income levels, and this shortfall is made up for by out-of-pocket expenditure at the point of service, which account for almost 60% of funding for the health sector. Clearly, the current level of public spending on health does not correspond to the actual needs of the sector. Moreover, although hospital expenditures dominate public sector spending on health care, the quality of hospital services remains very low. The declining importance given to primary care spending has contributed to the poor performance of the primary health care system, including primary and secondary preventive care and health promotion. At present, 90% of communes have a health centre and 50% of villages have outpatient clinics, which largely limits the population's access to health care services. In addition, the increase in public spending was substantially driven by an increase in capital expenditures, while the improvement in human resource capacities remains very modest.

Overall social protection expenditures[1] represent an average of 7.1% of GDP in Albania and are dominated by old age pension spending, which comes to almost 4.5% of GDP, while expenditures on social assistance are about 1.9% of GDP. Pensions are designed to be covered by a direct contribution, which still does not fully cover the expenditures. The shortfall of roughly 31% of these expenditures is funded by a budget subsidy. The pension system faces severe problems, such as the overly high social contri-

bution, which is one of the world's highest and encourages evasion and avoidance; the extremely low pension replacement rate, which on average is equivalent to 22.5% of the average wage and 54% of the minimum wage (INSTAT, 2005, p. 17); and the significant difference between urban and rural pensions. For its part, social assistance provides only limited coverage of the population and the financing is insufficient relative to the actual poverty level. The number of recipients was reduced to 120,000 in 2005, and it is estimated that about 60% of all extremely poor families do not receive social assistance benefits. The value of the benefits granted to each family is so low that it would be almost impossible to live on these payments alone. In the meantime, financing for people with disabilities is insufficient to create equal opportunities for them as defined by United Nations standards (HDPC, 2005b, p. 22). Financing of labour market services (such as employment counselling, training and job placement) is also very limited in view of the fundamental structural changes during the transition and the high unemployment rate.

Doing versus achieving

Public funding in the social sectors is allocated based on inputs and focuses on particular actions, rather than whether these actions are achieving the desired social impact. State budget requests do not sufficiently link proposed expenditures to anticipated results and to realistic and measurable indicators. Consequently, a government system of performance measurement and accountability is lacking, and the Parliament has very little information on which it can base its review process of the annual state budget. Both the Parliament and Government are more interested in checking compliance than in the

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1 This includes pensions, social assistance, disability and short-term benefits and labour market services.

Basic Capabilities Index (BCI)

BCI = 94

Children reaching 5th grade: 90
Births attended: 94
Mortality under-5: 98

Gender Equity Index (GEI)

GEI = 56

Empowerment: 7
Education: 99
Economic activity: 62

opportunity for early warning of potential problems that require remedial action. This is because the thinking in public administration is dominated by "doers" and not by "achievers". Instead of working towards clearly defined goals, they merely focus on discharging tasks, setting up structures, drafting legislation, pushing papers, holding meetings and so on, without any clear picture of the overall outcome they are trying to achieve.

In education, it is crucial to link budget allocations with quantitative and qualitative outcomes, introducing more realistic targets. It is incorrect, for example, to assume that the current indicator called "enrolment rate" is sufficient for deciding the budget ceilings. It is certainly easier to observe whether a child is enrolled in school than to monitor whether that same child actually completes a primary education or is subject to such phenomena as repetition, dropout, hidden dropout, re-entry and ultimate dropout. In addition, indicators such as the enrolment rate, class size, pupil/teacher ratio and cost per pupil in their current aggregated form are not truly representative of the real situation, since they ignore the large disparities in access to education and the quality of education between rural and urban areas and among the country's different regions.

In the health sector, public health care providers continue to be funded based on inputs rather than performance. Input-based resource allocation results in the inequitable allocation of public health care expenditures. The current state of the hospital network reflects major inefficiencies: over 60% of Albania's hospitals are too small, while they continue to consume a large share of scarce resources. The health system continues to be heavily centred around hospital care, with insufficient emphasis on primary care, including primary and secondary preventive care and health promotion. These sectors also suffer from the low utilization of primary health care facilities and extremely low productivity of primary health care staff. In addition, public sector spending on health care is not targeted towards the regions with the highest poverty incidence.

With regard to the social protection sector, in order for programmes to be effective, they must cover a sufficient share of their target group and provide benefits that are adequate to address the need for reducing poverty and promoting integration. At present, the number of beneficiaries in each administrative unit continues to be determined by the availability of funds and not by the actual need, resulting in a high degree of errors of exclusion. The social assistance support for the disabled is also determined by the availability of funds, and is not linked with the real costs of living and of integration for people with disabilities, which are different from those of the fully abled. As a result, current spending on rehabilitation services aimed at providing the disabled with a higher degree of independence is markedly inefficient.

Integrated planning system

The existing budgeting instruments for social sector financing are not sufficiently based on a systematic relationship between priority measures and pro-

grammes in each sector and the corresponding budget allocations. Annual budget requests and allocations are determined by financial considerations based on the previous year's expenditures, rather than being based on a strategic approach.

It is crucial to harmonize social spending with certain strategic priority actions for social development. However, this leads to a fundamental question: which ones? In Albania there are currently 23 Sector Strategies, 10 Cross-Sector Strategies, a National Strategy for Social and Economic Development, a National Plan for European Union Integration, 12 Regional Development Strategies aimed at reaching the Millennium Development Goals, and more than 28 Municipal Development Strategies. These strategies are designed and updated at different periods of time and without adequately considering the previous strategic programming efforts. As a result, there is little harmonization and continuity among the different strategic actions undertaken. In addition, the priority interventions programmed in each of the strategic documents are not clearly defined, and they rarely include measurable quantitative indicators or cost estimations.

In view of these shortcomings of the existing strategic documents, there is clearly a need for a unified strategic approach for the country's development, including the social sectors. The unified strategic objectives should be translated into unified priority actions and realistic and measurable indicators based on substantive cost analyses. This should be followed by linking the strategic priorities with the macroeconomic framework and the state budget planning process, establishing clear and unified legal and regulatory rules for all central and local government institutions.

Although Albania has had good experience with medium-term budgeting, the Albanian government is considering the establishment of an integrated planning system that aims to improve strategic policy formulation and ensure that public spending supports more effectively the Government's strategic priorities (RoA, Council of Ministers, 2005). By approaching policy and financial planning as related components of a single planning system, it will provide decision makers with high quality strategic and fiscal options for more efficient allocation of the limited resources.

"Reinventing" the symmetric aid relationship

The aid relationship is in itself an important factor in creating the conditions for more efficient financing. A solid aid relationship is characterized by high degrees of correspondence between the objectives of donors and recipients. In addition, accountability by both the recipient government and donors is essential not only with respect to financial accountability, but also with regard to the contribution made to the achievement of national objectives.

Indeed, foreign assistance played a crucial role in overcoming obstacles in the Albanian transition, given the budget restrictions caused by extremely limited domestic resources. Some 36 bilateral donors and 11 multilateral donors were operating in

Albania during the period 1991-2004 with a total commitment of roughly USD 4.86 billion and a disbursement rate of 59.5% (Ministry of Finances, 2005). In 2004, the total amount of external aid disbursed represented 3.5% of the country's GDP and 10.7% of total government spending under the state budget. The social sectors are among the least supported sectors: health, education, and labour and social safety represent about 4.1%, 3.3% and 0.7% of the total commitments, as compared to 14.5% and 14.3% for the transport and energy sectors respectively. With such a large number of donors and projects, it is difficult for both donors and the Government to keep track of past and planned activities at the aggregate level. Discussion and debate focus on money matters and micro-management, at the expense of the larger objective of social development and poverty alleviation. As a result, despite an ongoing and intensive consultation process, donors act rather independently, without a strong correlation with the government's priorities or coordination among themselves. Due to incomplete information, a lack of prioritization, and a lack of clarity about the core objectives to be achieved, donors often have similar preferences, especially for technical assistance support in areas like strengthening governance, anti-corruption initiatives, public administration reform and approximation of legislation.

The Albanian government has frequently been criticized for its poor commitment to donor coordination. As a potential solution, some donors have begun to invite government representatives to donor coordination meetings. This is a very simplistic approach, considering that the poor coordination of aid is not only related to the lack of coordination structures and mechanisms, but above all to the poor planning process. Over the last few years, the quality and coherence of public priorities planning has declined. A more symmetric aid relationship should be developed in the framework of the new integrated planning system and based on a medium-term foreign aid orientation document. A mutual reporting and information system through a joint database on planned projects and budget allocations should also be established. Government institutions should insist on the primacy of one single development framework and on donor flexibility to adjust to the country's specific priorities. The very weak existing programming and aid coordination system needs to be reformed and strengthened, not bypassed. ∎

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