Countries are increasingly turning to their social protection systems to protect poor people from the negative effects of shocks. Given the growing size and frequency of covariate shocks – such as natural disasters, forced displacement and pandemics – many countries around the world have turned to their social protection systems to build the resilience of poor and vulnerable households to such events. This so-called Adaptive Social Protection (ASP) is intended to respond directly to protect people from sudden losses of income, disruption to livelihoods and rising costs of essential goods and services arising from shocks. In this way, ASP invests in the capacity of poor and vulnerable households to prepare for, cope with, and adapt to shocks. In the absence of such support, when shocks hit, families and their children risk falling into (deeper) poverty and using negative coping strategies that often negatively affect human capital accumulation – such as withdrawing their children from school.

The growing use of social protection programs in response to shocks is evidenced by the COVID-19 response: by December 2020, a total of 215 countries or territories had planned or implemented social protection measures as part of their response to the pandemic. This policy brief focuses on unemployment benefits – a social insurance instrument that aims to protect workers from job loss – to consider its contribution to ASP. The social protection system in Albania comprises social insurance, which is based on contributions made through a formal employment contract; and social assistance, which provides government-funded support to poor and vulnerable individuals irrespective of their previous employment status. Social insurance programs are largely designed to provide protection to formal workers in response to idiosyncratic shocks, although the flexibility inherent in their design – and

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1 This policy note was written by Stefanie Brodmann, Sarah Coll-Black, and Cornelius von Lentihe, and reviewed by Zoran Anusic, Gonzalo Reyes, and Tatiana Skalon. It draws heavily on a background note for the Albania Country Economic Memorandum 2021, which was prepared by Stefanie Brodmann, Sarah Coll-Black, and Cornelius von Lentihe (World Bank Social Protection and Jobs), with inputs and comments from Zoran Anusic, Gazzale Maselli Teague, Jura Milius, Efran Naz Goen, Ana Maria Ovedo, Gonzalo Reyes, Jamele Rigolini, Hilda Shijaku, and Christoph Ungerer. The preparation of this policy note benefited from support provided by the Government of Switzerland through the Albania Financial Resilience and Recovery technical assistance to the World Bank—SECO Sovereign Disaster Risk Financing and Insurance Program for Middle-Income Countries.


4 Social protection in Albania also includes (i) social services; and (ii) labor market programs. Social protection expenditure in Albania amounted to 9 percent of GDP in 2019. Most of this expenditure goes towards social insurance (mainly pensions), for which spending amounts to 76 percent of GDP.

their extensive use during the COVID-19 pandemic\textsuperscript{6} suggests that such instruments may play a role within an adaptive social protection system response to covariate shocks. While Albania’s social insurance system is far from perfect,\textsuperscript{7} the existence of functional transfers and a system to collect social insurance contributions, coupled with the country’s high exposure to covariate shocks, indicate that it may be worthwhile to identify ways in which unemployment benefits can help households prepare for, cope with, and adapt to shocks. Against this backdrop, this policy brief first briefly outlines Albania’s exposure to covariate shocks, then details the design features of the current unemployment benefits system, and lastly offers some recommendations on how unemployment benefits could more effectively protect against job losses among individuals during “normal times” before considering options to prepare for future shocks.

Exposed to various natural hazards, in particular flooding and earthquakes, Albania has the highest level of disaster risk in Europe according to the World Risk Index 2019.\textsuperscript{8} Between 1995 and 2015, an average of 30,000 people were affected every year by natural disasters, and more than 95 percent of Albanian municipalities were affected by at least one disaster. Most notably, in 2019 Albania was hit by a severe earthquake. In the last decade, damages have exceeded US$1 billion (Figure 1).\textsuperscript{9} Much of this damage is caused by businesses being damaged, resulting in temporary job losses. Disasters and shocks often lead to job losses and lengthier periods of job searching as compared with non-crisis periods. During the 2019 earthquake the Post-Disaster Needs Assessment estimated that it would take an average 3.4 months to access a job in manufacturing, and 4.4 months to access a job in trade depending on the level of damage and disruption of business service. In such cases, rules that relax eligibility conditions for prolonged benefits during periods of crisis could ensure that the incomes and consumption of people are protected when shocks occur. Climate change may further increase the severity and frequency of weather-related disasters, such as floods and storms. This could subsequently affect sectors such as energy and agriculture, for example, and reduce water availability and food security.

A well-designed unemployment insurance system provides temporary financial support to jobseekers while they find a new job, although the system in Albania appears to be falling short of this objective. All countries in the Western Balkans and the 7STEE\textsuperscript{10} with the exception of Kosovo, have unemployment insurance systems.\textsuperscript{11} Unemployment insurance can support labor market transitions, in that benefits can sustain jobseekers while they search for work, resulting in better quality job matches that make use of their skills. Unemployment insurance can also help to maintain aggregate demand during periods

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{damages-caused-by-disasters-in-albania-1995-2019.png}
\caption{Damages caused by disasters in Albania, 1995-2019}
\end{figure}


\textsuperscript{9} The DesInventar database defines disasters as the set of adverse effects caused by social–natural and natural phenomena on human life, properties and infrastructure within a specific geographic unit during a given period of time.

\textsuperscript{10} 7STEE refers to the seven small transition economies of Europe, namely Bulgaria, Croatia, Estonia, Latvia, Lithuania, the Slovak Republic and Slovenia.

\textsuperscript{11} Severance pay is another instrument to protect the incomes of workers who have lost their jobs and to facilitate transitions between jobs. Severance pay is regulated by Albanian labor law and entails compensation equal to 15 days of wages based on the last salary for each complete working year for those who have been employed for at least three years with the same employer and are dismissed for no fault of their own.
of economic downturn. In Albania, unemployment benefits cover formal employees. To qualify for the benefit, beneficiaries must be involuntarily unemployed, must have at least 12 months of contributions, may not be receiving any other benefit except for disability, must be registered with the National Agency for Employment and Skills (NAES), and must be willing to take up employment or participate in training or any other suitable active labor market program (ALMP). Although the number of unemployed people who received benefits increased significantly in 2020, the coverage of the unemployed continued to be very low. In 2019, only 1.8 percent of unemployed received unemployment benefits (based on data from INSTAT), increasing to 2.6 percent in 2020. In contrast, comparator countries in the 7STEE cover a much larger share of the registered unemployed, ranging from 18 percent in the Slovak Republic to 81 percent in Estonia in 2018. Coverage of unemployment benefits among the unemployed and registered job seekers seems to be higher in other Western Balkans countries than in Albania (Figure 2). Against the backdrop of these low rates of coverage, rates of at-risk-of-poverty among unemployed people in Albania are high (Figure 3).

Albania’s unemployment benefit stands out from typical unemployment insurance by providing a flat benefit. In Albania, a flat-rate benefit of 50 percent of the national minimum wage is paid for 3 to 12 months, plus an additional 5 percent for dependent children. In contrast, net replacement rates for a single individual in comparator 7STEE countries range from around 55 percent of average gross wage in Estonia to 85 percent in Latvia (Figure 4). Other Western Balkan countries, such as North Macedonia or Serbia, also achieve higher replacement rates and provide benefits linked to the level of previous contributions. Both countries initially pay 50 percent of the previous average salary, capped at a maximum of 160 percent of the minimum wage in Serbia and a maximum of 80 percent of the national average wage in North Macedonia. Many of these countries start off with more adequate replacement rates, which are reduced as periods of unemployment continue. Individuals who have contributed for at least one year receive 3 months of benefits, more than 3 years receive 6 months, more than 5 years 9 months, and more than 10 years a maximum of 12 months. The minimum pay-out-period in Albania and the other Western Balkan countries is 3 months. In contrast, it is 6 months in Slovakia, 8 months in

14 The extent to which unemployment benefits contribute to unemployment remains under debate.
15 Only a small portion of the unemployed is eligible for unemployment insurance benefits because that the current system provides benefits only for those who have paid social contributions during their last year of employment. Available at: https://www.euraxess.al/albania/information-assistance/social-security (accessed March 23, 2021).
16 Until the age of 18 (and until the age of 25 for those in tertiary education and for dependents who are incapacitated). The total additional payments of 5 percent per child may not exceed 30 percent of the fixed rate. All women over 55 and men over 60 receive 12 months of benefits, as long as they have contributed at least one year and meet all other criteria. Benefits can be extended by up to one year in the case of temporary employment while receiving the benefit.
17 Unemployment insurance expenditures and contribution rates may not be strictly comparable due to different practices for paying for the health contributions of the unemployed.
18 Based on average earnings and receipt of unemployment benefits for two months for a single individual in 2019 (pre-COVID). Source: https://europa.eu/economy_finance/db_indicators/tab/.
19 For cases of repeated claims for benefits, the calculation of the contribution period begins from the last payment of unemployment benefits.
Latvia and 9 months in Lithuania. Analysis of NAES administrative data suggests that the duration of payment of unemployment benefits in Albania may be too short. In 2020, the most common reason for beneficiaries ceasing to receive unemployment benefits was the expiry of their benefits, rather than because they entered active labor market programs, which was the main reason for exit in earlier years.

Current expenditure on unemployment benefits is significantly lower than social security contributions for unemployment insurance collected from employers. Social security contributions include a 0.9 percent contribution from the employer for unemployment insurance. Total contributions amount to 24.5 percent of the gross wage, of which 14 percent is paid by the employer. The 2019 state budget shows social security revenues to a sum of Albanian lek 84,342 million; calculations show that the revenue stemming from the 0.9 percent contribution for unemployment benefit amounts to roughly lek 3,092 million. State expenditures on regular unemployment benefits that same year were lek 504 million, whereas almost lek 2,164 million was paid out as special measures to workers of the oil, mining and metallurgy industries or former members of the military. Simulations show that the 0.9 percent employer-financed social security contribution could finance a more adequate unemployment benefit, if it was not used to finance the previously mentioned extraordinary measures. Replacing the flat benefit with a 70 percent replacement rate would still only make up half of the contributions that are collected, holding the number of beneficiaries constant. Currently, the contributions collected significantly exceed expenditure on regular unemployment benefits.

Providing more substantial unemployment benefits could help Albanians to sustain the search for jobs that best use their skills, while also enabling consumption smoothing of unemployed people. Given the low adequacy of unemployment benefits, people have little choice but to rush to find new employment when they are laid off. The government may consider a range of reforms to improve the adequacy and functioning of the unemployment insurance system in Albania, which would include revising the parameters. Reforming the parameters would include, at a minimum, linking unemployment benefits to previous contribution levels. In order to make the benefit more meaningful, the government should consider gradually raising the adequacy of benefits as well as extending the duration of payment. However, determining the exact parameters requires detailed analysis, given the implications of social security contributions by employers and employee for employment in Albania.

Figure 4: Albania’s unemployment benefits have very low replacement rates, especially for average earners

Sources: Albania: INSTAT; Serbia: Statistical Office of the Republic of Serbia; Bosnia and Herzegovina: Federal Bureau of Statistics Bosnia and Herzegovina; North Macedonia: MAKSTAT; and OECD for the remaining countries; For contribution rates: Social Security Programs Throughout the World, Europe, 2018. Note: Replacement rates are given in terms of gross wage for single individuals without additional housing or social assistance benefits. The contributions for Latvia are collected combined with other social insurances, hence those for unemployment insurance cannot be isolated.
Applications for unemployment benefits still have to be made in person at the local employment office. In order to apply, and within 60 days of the end of the employment relationship, an individual must provide in person to the employment office an application form, a workbook, detailing work experience, photo ID and certificates of enrollment in education for all dependent children. Additionally, employment offices must obtain the applicant’s certificate of marital status, and a certificate from the individuals’ tax branch confirming that the claimant is not currently registered and has paid the contributions for a given number of years. Once the application is approved, the beneficiary is expected to see an employment counsellor once a month. In Organisation for Economic Co-operation and Development (OECD) countries, online applications for unemployment benefits are common, reported in 2015 to reach up to 58 percent of applications in the United States, 88 percent in the United Kingdom, 95 percent in the Netherlands, and 100 percent in Iceland and Italy. In Albania’s neighboring countries, the COVID-19 pandemic accelerated the introduction of remote applications to enable social distancing, such as applications submitted by email or post in Serbia and Croatia. This suggests that there is significant scope to streamline the process of applying for unemployment benefits in Albania, including through the adoption of digital systems.

While Albania harnessed its unemployment insurance system to respond to the COVID-19 pandemic, it took more modest steps than other countries. Over 90 percent of countries in Europe and Central Asia used their unemployment insurance systems to respond to the COVID-19 pandemic. In Albania, the unemployment benefit was doubled for the months of April, May, and June 2020. Other countries went further. Serbia and Croatia, for example, facilitated procedures to apply for unemployment benefits, as discussed in the paragraph above. Countries such as Bulgaria and Slovakia temporarily extended the duration for receiving benefits (from 4 to 7 months in Bulgaria and from 6 to 10 months in Slovakia). The governments of Latvia and Lithuania expanded unemployment benefits for the self-employed and introduced an unemployment assistance benefit for those unemployed who would not otherwise qualify for regular unemployment benefit. In Slovenia, workers who lost their jobs during the pandemic were automatically entitled to unemployment benefits.

Albania may consider adding elements to its unemployment benefits to expand access during times of shock. During both idiosyncratic and covariate shocks, unemployment insurance expands naturally to individuals eligible due to their history of social security contributions. In the face of shocks, this reliance on social security contributions may, however, exclude workers who lost employment and: (i) were active social security contributors but who do not yet meet minimum eligibility criteria; or (ii) were active in the informal sector. Households in these two categories may often be vulnerable to poverty but fail to meet the strict eligibility criteria for last-resort income support programs such as the Ndihma Ekonomike. Given the limited coverage and low adequacy of unemployment benefits in Albania, the government could consider reforms to facilitate quick expanded access to unemployment benefits during shocks for formal workers, such as by easing the minimum contribution requirements to less than 12 months in the case of a crisis, as exemplified by the COVID-19 pandemic, and extending benefit duration for those who are eligible for support.

Harnessing existing unemployment insurance delivery systems can facilitate a rapid expansion of benefits to new populations during shocks. Numerous countries successfully used the existing structures of their unemployment insurance systems to deliver supplemental benefits to support formal workers through short-time wage subsidies or partial unemployment benefits in case of losing earnings while remaining in formal employment. Malaysia’s unemployment insurance provided wage subsidies to selected employers with the condition of maintaining employment for six months. In South Africa, the unemployment insurance fund’s delivery system and budget were successfully built upon to establish a Temporary Employer Relief Scheme (TERS) for quick disbursement of payments to registered employees who were temporarily furloughed or were only partially paid. However, limiting a response to expanding support to formal workers who lose employment risks excluding some of the most vulnerable. In fact, in South Africa women were disproportionately at risk of not qualifying for income support through the formal–worker targeted TERS due to more pro-

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32 Including informal workers would involve parameter changes for the population that were formally insured prior to the shock to ensure adequate financing, and predetermined unemployment insurance replacement rates and eligibility conditions for formal workers that had not contributed.
An expansion of unemployment benefits may nevertheless require financing from the government to expand beyond the insured population. The most common means of financing an extension or expansion of unemployment benefits or benefits delivered through unemployment insurance systems during the pandemic has been through emergency financing packages adopted by governments. This has blurred the distinction between contribution-based social insurance and non-contributory social assistance delivered through non-traditional delivery systems, that is, those of unemployment insurance. It has become clear, however, that large covariate shocks can overburden even well-funded unemployment insurance funds. In Germany, the country’s unemployment insurance fund had amassed a surplus of the equivalent of 0.8 percent of GDP following a lengthy period of economic expansion. Nevertheless, the federal government had to subsidize the fund with the equivalent of 0.6 percent of GDP over the course of the pandemic. In other countries, such as Chile and the United States, governments additionally provided substantial loans to unemployment insurance trust funds to cover natural and extraordinary expansions of unemployment insurance: these will likely require increased contribution rates in the coming years.

Mechanisms to expand unemployment insurance therefore require clearly defined financing sources, beyond the traditional reliance on social insurance mechanisms. Such financing sources could be articulated in a disaster risk financing strategy, such as that recommended in the World Bank’s Disaster Risk Financing Diagnostic.

Albania may also consider harnessing investments in its social assistance programs to extend protection to poor and vulnerable workers. While improving the effectiveness of unemployment insurance may contribute to incentivizing workers to formalize, it is likely – at least in the short term – that many workers will remain in informal, temporary or seasonal employment that excludes them from such formal protection during crises. In this context, Albania may consider international experience, which is increasingly offering innovative means of reaching informal workers with support when they need it to prevent their slide into (deeper) poverty. The introduction of individual savings accounts being used in some countries to extend the coverage of social insurance to low-income workers, who tend to be informal. This is being done, for example, through the establishment of dedicated financial products accompanied, at times, by matching grants from the government and behavioral nudges, such as through automatic reminders. These innovations, which are often dedicated to expanding pension access, may offer ideas for how Albania could extend coverage of unemployment insurance to a greater proportion of the population. In addition, a global review finds that, in most cases, the best way to quickly support informal wage workers and the informal self-employed during crises is through social assistance systems, the scope and benefit amounts of which can be quickly expanded when there are mechanisms in place to identify and register potential beneficiaries, such as social, civil, or property registries, for example. In expanding these registries, governments can work closely with organizations that work with the informal sector, such as informal business associations or microcredit organizations. In addition, governments can take advantage of administrative data from existing government programs – beyond social assistance – including not only current but also past beneficiaries.

Albania has a well-established social protection system that offers a foundation for responding to shocks, including through unemployment benefits. While Albania has an established social insurance system, the unemployment benefits appear to fall short of the aim of supporting workers to transition between jobs, as the flat-rate benefit is not sufficient to guarantee an appropriate level of income during periods of unemployment; and the ability to access the benefit is limited, as illustrated by the low coverage of the unemployed. There are several issues for the government to take into account to improve the coverage of unemployment benefits, which range from reforming the parameters of the system to modernizing the application process. At
the same time, global experience suggests that the unemployment benefit system can play a role in responding to future crises by using its delivery systems to reach additional people who have lost their jobs because of a shock or by modifying the eligibility for or duration of unemployment benefits when accompanied by dedicated financing. To this end, Albania may consider:

- **Reforming unemployment benefits by paying higher benefits based on a replacement rate with some degree of redistribution.** As a first step, a detailed analysis should inform the potential revision of unemployment insurance design parameters, such as: (i) benefit amount, (ii) duration of benefits, (iii) minimum period of contributions, and (iv) contribution rate, with the aim of making the benefit more meaningful for the unemployed and thereby incentivizing some workers to formalize, while also ensuring that unemployment benefits remain fully financed through contributions during non-crisis periods.

- **Modernize the application process for unemployment benefits.** This could be done using online applications, with verification carried out through interoperability with other government data bases, such as the tax authority.

- **Consider setting out rules that would govern the response to shocks through the unemployment benefit system,** including a careful consideration of options to relax some of the stringent eligibility criteria and extend benefit duration in time of crisis, linked to an established source of financing, which would be set out in a Disaster Risk Financing Strategy.

- **Consider innovative elements that other countries have introduced to expand social protection coverage,** such as reform severance pay, and introduce individual severance accounts on the basis of detailed analysis to identify potential effects on the labor market.