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Albania Growing Out of Poverty

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Currency Unit: Albania - Lek

Average Exchange Rates (Lek per US\$1):

<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
8.0	14.4	75.0	102.1	94.7	93.3	104.5

Fiscal Year: January 1 - December 31

List of Acronyms and Abbreviations:

ADF	Albanian Development Fund
CMEA	Council For Mutual Economic Assistance
GDP	Gross Domestic Product
IMR	Infant Mortality Rate
MOLSP	Ministry of Labor and Social Policy
PIP	Public Investment Program
INSTAT	Albanian Institute for Statistics

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ALBANIA: GROWING OUT OF POVERTY

Table of Contents

FOREWORD	i
INTRODUCTION	iii
EXECUTIVE SUMMARY	iv
CHAPTER 1: POPULATION, LABOR, MACROECONOMIC AND SOCIAL DIMENSIONS	1
Introduction	1
Population Pressure and Movement	3
Labor Market Developments -- The Emergence of Unemployment and Private Employment	5
The Emergence of Private Sector Led Growth	9
The Challenges to Public Finance	11
Maintaining Essential Services and Transfers for the Poor	15
CHAPTER 2: POVERTY IN ALBANIA: THE RURAL AREAS	23
An Overview of Agriculture and Rural Poverty	23
The Importance of Land	24
Profile of Rural Households in 1994	27
Size and Fragmentation of Holdings	27
Levels and Composition of Gross Farm Income	30
The Incidence of Poverty on the Basis of Gross Agricultural Income	31
A Household Typology Based on Land and Livestock Holdings	32
Non-Farm Sources of Income	34
CHAPTER 3: POVERTY IN ALBANIA: THE URBAN AREAS	37
An Overview of Urban Poverty	38
Urban Poverty in 1996	39
Poverty Incidence and Poverty Gap	39
Poverty and Household Characteristics: the Poverty Profile	41
Poverty and Household Conditions	46
Priority Household Problems and Coping Mechanisms	49
CHAPTER 4: PROSPECTS AND POLICIES FOR POVERTY REDUCTION	51
Promoting Economic Opportunities for the Poor	52
Rural Development	53
Urban Development	54
Public Expenditure and Investment	55
Mobility and Migration	57
Reaching Out to the Poor	57
Social Assistance -- Ndhime Ekonomike	58
Helping the Unemployed	59
Pensions	59

ANNEX 1: The Urban Surveys	62
ANNEX 2: Tables for Chapter 2.....	65
ANNEX 3: Tables for Chapter 3.....	72
ANNEX 4: Developments in Health	79

TABLES

1.1	Population, Labor Force and Employment, 1980-1995
1.2	Distribution of Employment by Major Sectors, 1980-1994
1.3	Trends in Average Public Sector Wages and Prices, 1990-96
1.4	Labor Force, Employment and Unemployment, 1989-1995
1.5	Trends in GDP, 1990-95
1.6	Public Expenditure as a Share of GDP
1.7	Education and Health Expenditures as a Share of GDP
1.8	Gross Enrollment Ratios
1.9	Regional Differentials in Morbidity, Mortality, and Facility Utilization
1.10	Trends in Social Assistance
1.11	Regional Dimensions of Social Assistance, 1994
2.1	Profile of Agricultural Holdings, 1994
2.2	Gross Farm Income by Deciles, 1994
2.3	Poverty Incidence and Poverty Gap by Strata Based on Agricultural Income, 1994
2.4	Household Typology
2.5	Main Sources of Household Income in Selected Districts, 1995
3.1	Poverty Incidence and Poverty Gap for Tirana and Three Other Towns, 1996
3.2	Poverty Incidence, Poverty Gap and Household Characteristics, 1996
3.3	Poverty Incidence, Household Expenditure and Education and Household Head, 1996
3.4	Asset Ownership by Poverty Status and Remittances from Abroad
3.5	Household Services for the Poor and Non-poor

BOXES

1.1	A Brief Historical Overview
1.2	Internal Migration
1.3	Labor Market Developments before 1990
1.3	Food Security in Albania
1.4	Prevalence of Low Anthropometric Measurement in Northern Albania
1.5	Health Care and the Urban Poor
2.1	Village Living Conditions
2.2	Data Sources and Methodology
2.3	Land Use Patterns
2.4	Remittances in the Rural Economy
3.1	Data Sources and the Urban Sites
3.2	Recent Migrants to Tirana
3.3	Borrowing to Supplement Income

FIGURES

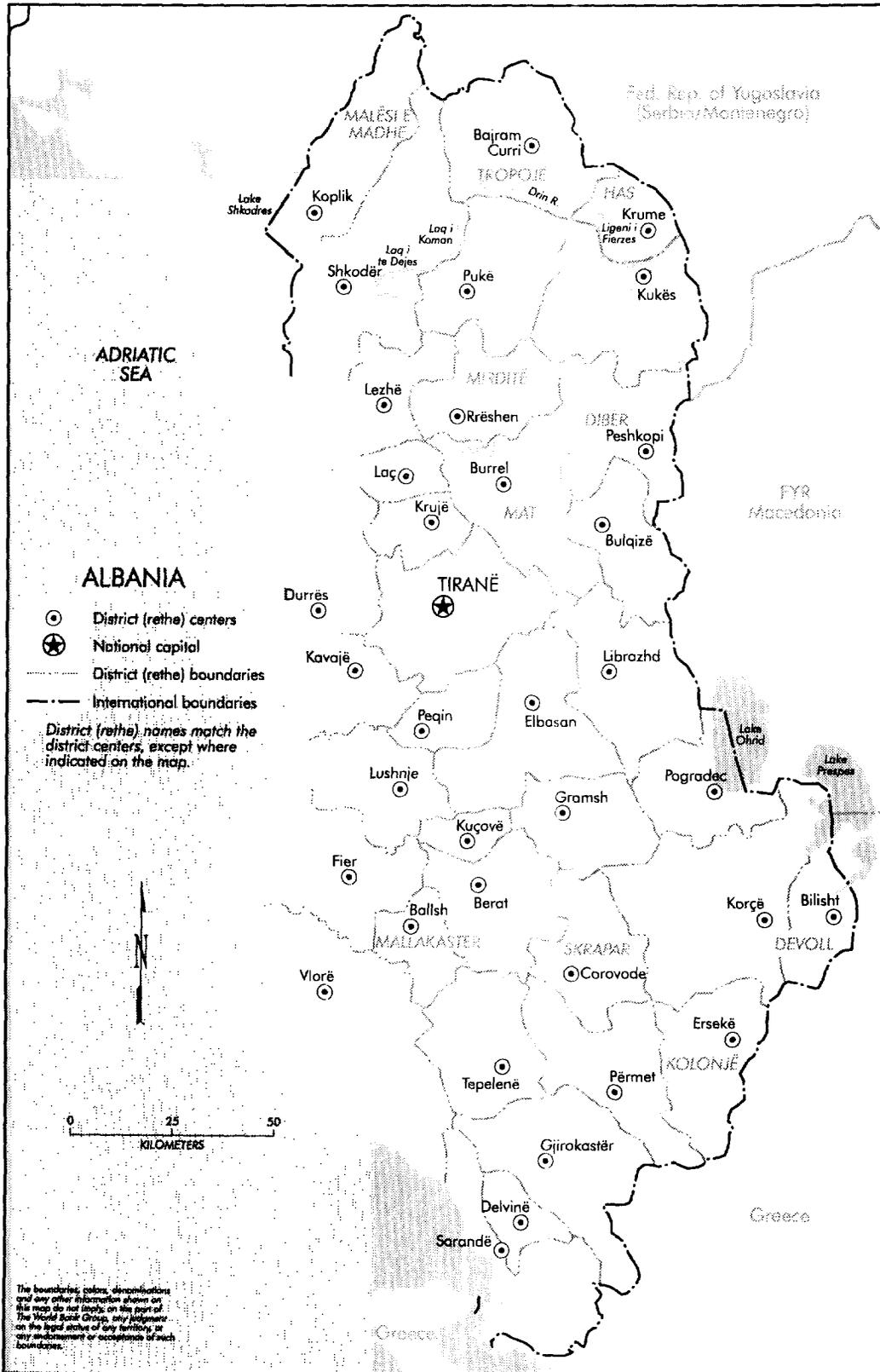
- 3.1 Income Sources of Poor and Non-poor Households
- 3.2 Monthly Household Expenditures Share
- 3.3 Priority Problems in Elbasan, Fier and Lezha

FOREWORD

This report was prepared by a World Bank team working in collaboration with the Albanian Government during the first half of 1996. At the request of the Government, formal discussions of the findings and recommendation of the report were delayed until after the municipal elections of the fall of 1996. Discussions were scheduled, and partially held, in January 1997, when the report, in addition to the Government, was distributed to a number of NGOs and other members of civil society. Unfortunately, discussions with the Government could not take place satisfactorily, as the onset of the crisis provoked by the collapse of the pyramid schemes pre-empted the attention of the policy-makers.

As well known, the Albanian crisis has degenerated beyond most observers' expectations, and the present is fraught with uncertainty. Many of the conclusions in this report are likely to have been made obsolete by the severity of the civil strife and the collapse of institutions witnessed over the past few months. The effects of the massive loss of wealth resulting from the collapse of the pyramid schemes must be substantial for large parts of the population; the destruction of productive and social assets, as well as the loss of jobs and the deep recession now evident in Albania must have increased in significant ways the number of those at risk for poverty, malnutrition and displacement. As conditions permit, an assessment of poverty trends, determinants and anti-poverty policies will have to be repeated with highest priority. Nevertheless, at a time when Albanian society and the international community are seeking to build a recovery strategy to overcome this tragic moment in Albanian history, some of the data and analysis in this report may be of great value. It is with these developments and prospects in mind that this report is being made available for wider circulation, virtually unedited from the July 1996 working draft.

May 28, 1997



INTRODUCTION

This is the first Poverty Assessment to be prepared since Albania became a member of the World Bank Group in 1992. During the past four years, Albania has been a major recipient of IDA funds. Because of its low per capita income, around \$670 in 1995, and the development problems it continues to face, Albania can expect to continue to draw upon IDA resources in the future. Understanding the impact of recent economic liberalization, stabilization and structural change on the welfare of the population as well as examining the prospects for further income growth over the next five to ten years are of particular importance as the next round of IDA-funded projects are being designed.

This report is necessarily broad in scope as it attempts to document a wide range of macroeconomic, structural and sectoral developments, all central to understanding poverty. Ideally, this breadth should be complemented by a robust analysis of the magnitude and characteristics of the population differentiated by their income status and other essential welfare characteristics. This would enable one to better understand the impact of the development path on different groups of the population. Albania has yet to mount a nationwide household survey that details household income and/or expenditure and other important variables. Such a survey was undertaken in 1993 and 1994, but its coverage was limited to Tirana. In the absence of a nationwide household survey, the compilation of a "poverty profile", typically the core of a Poverty Assessment, had to be addressed in a different way in this report. A wide number of data and information sources, qualitative as well as quantitative, some generated specially for the purpose of this report, are drawn on. *Inter alia*, a Social Assessment and a Gender Assessment were carried out as integral parts of the background work, and they are drawn on throughout the report. In this way, the report is rich in depth in certain areas, but lacks a quantitative rigor that is usually present in World Bank Poverty Assessments: only very broad-brush estimates of poverty and general characterizations of the poor compared to the non-poor can be made. The poverty analysis is also constrained by the absence of a nationally recognized income or welfare threshold, and an exchange rate estimate in purchasing power parity terms. For all these reasons, the quantitative estimates carried in this report should be interpreted as "orders of magnitude."

The report is organized in the following way. The Executive Summary provides the reader with a quick overview of recent developments in Albania, the present day situation with household incomes and welfare, and the policy agenda that is recommended to bring about substantial improvement in the economic well-being of Albanians. This is followed by Chapter One, which covers four broad topics: population growth and migration; labor market developments; macroeconomic trends; and public expenditure, with a particular emphasis on public services (health and education) and social transfers (the social safety net). Chapter Two examines poverty as it appears in the rural areas, and Chapter Three as it appears in the towns and cities. The report's concluding Chapter Four draws together the findings of the previous chapters and sets out a policy agenda for Albania to "grow out of poverty."

EXECUTIVE SUMMARY

i. The first four years of democratic government have taken Albania decisively out of the realms of central planning and placed the economy well on the way to being open and competitive, and largely subject to market forces. Three successive years of high economic growth attest to the major progress made in stabilization and structural adjustment, especially the privatization of much of the country's productive resources. Yet because the output loss was so great at the beginning of the transition, recorded 1995 GDP represented only 80 percent of the 1989 level.

ii. Economic progress since 1992 has eased most of the population out of the extreme depths of poverty and near-starvation that prevailed in the 1990-91 period. Privatization of farm land has given the large rural population -- at a minimum -- a safety net, and in many cases a basis for more significant income growth. In the urban areas, private business opportunities, self-employment and remittances from emigrants have given the population a critical boost, and helped counterbalance public enterprise job losses. Both rural and urban populations alike have benefited from the formal social safety net, comprising pensions, unemployment benefit and social assistance, but both have had to cope with very poor infrastructure and declining public and social services. All told, decades of economic mismanagement, rapid population growth, a low per capita arable land area and mass loss of unviable jobs have all contributed to make Albania a very poor country with a large number of very poor people.

iii. Because of the pervasiveness of low incomes and continuing population growth, sustained economic growth is the key to poverty reduction. Albania's prospects for continued growth are good, and a number of key steps to pave the way for sustained growth over the medium and long-run have already been taken. But there is still a lot to be done, especially in the areas of fiscal consolidation and public expenditure (and investment), financial sector reform, and developing an adequate commercial legislative and regulatory framework to promote further private sector growth. But even a highly successful broad-based growth path will fail to raise directly the standard of living of all the people: the elderly, the sick, and the long-term unemployed are groups that may need special help. Targeted poverty-reducing policies and programs should complement broader pro-growth policies to ensure that all Albanians enjoy an improvement in their economic well-being.

What is known about Poverty in Albania

iv. The absence of nationwide, comprehensive household data render poverty analysis difficult, and estimates that can be made from partial data sets must be interpreted with the greatest of caution. One of the key recommendations of this report is that Albania establish a nationwide survey of household incomes and expenditures to help better quantify the extent of poverty, characterize the poor, understand the importance of new sources of income, and aid public policy and program design. The best estimates that can be derived from available information suggest that around 30 percent of the rural population (approaching 600,000 people out of a total of 1.9 million), and around 15 percent of the urban population (185,000 people out of an urban total of 1.3 million) are in poverty *relative to* the rest of the country's rural and urban populations. Grossing up for the entire country indicates that around one quarter of the population is in *relative* poverty. Although the orders of magnitude cannot be precise, all evidence suggests that poverty is more pervasive among the rural population than the urban population, but, generally speaking, poverty in the rural areas is *less severe* than in the towns. There are, however, some important variations: poverty is severe in the mountainous areas, and much less severe in Tirana. Beyond those *in poverty*, many other people are *vulnerable to*

poverty. Their incomes are not far above the poverty threshold, and they are also facing poor public services and deteriorating social services.

Rural Poverty

v. The main determinants of rural poverty are small farm size and livestock holding, and little off-farm income from wage employment and remittances. An estimated one quarter of the rural population lives on a farm that is too small to sustain those families to a very modest level of subsistence from farming alone. The vast majority of these families live in the upland areas and the mountains, and have farms of less than half a hectare. The poorest decile of people live on an agricultural income of less than the equivalent of US\$70 per annum, and are unable to meet even their staple food requirements year round. They are dependent on the provision of subsidized wheat/flour through the winter months, and on cash transfers (pensions and social assistance). Poor families are also found in the foothills and the coastal plains, but their numbers are fewer. Beyond these very poor families are others whose land holding is of an insufficient size (less than one hectare) to produce a significant marketable surplus, thus restricting their cash incomes.

vi. Non-farm income is critical for many farming households, representing around one quarter to one fifth of total rural income. Although impossible to quantify (because of absence of data), it is estimated that somewhere between 70 and 90 percent of rural households are dependent on a source of income other than farming, in the main social cash transfers. The most widespread transfers are pensions and social assistance, but the value of these are small. In terms of magnitude of non-farm income rendered to *recipient families* the most important is remittances, followed by wage employment, and non-farming business income. In all likelihood it is non-farm sources of income, especially remittances, that differentiate the upper rural income households from other households more than farm income. However, under certain assumptions about land consolidation and access to markets, farm incomes could grow significantly in importance in the future.

Urban Poverty

- vii. Regardless of the poverty line used, urban poverty has some distinct characteristics:
- poorest of all, both in terms of incidence and severity are households with an unemployed head. These unemployed heads are typically male, in their early 40s, and with little or no formal education.
 - next come three-generational households headed by a pensioner, often a woman who has survived her husband. While pensioners themselves are not among the poorest, the presence of unemployed grown-up children and dependent grandchildren in their households makes them poor.
 - households headed by a low wage earning man constitute the third largest group in poverty. These household heads are around 50 years of age, have little or no education and are employed or self-employed in a low-paying job.
 - poverty is more prevalent among children and young adults than among prime-aged people. Families with 3 and more children are especially vulnerable to poverty.
 - households that have no regular source of market income and rely on social cash transfers are typically very poor. The social assistance program, Ndhime Ekonomike, is playing a key role as the social safety net, but the program appears to suffer from inclusion and exclusion errors, and payment levels are very low.

- Private transfers, especially remittances from abroad, are a critical source of income and investment for urban households. Households benefiting from remittances are more likely to be non-poor, if not affluent.

viii. While home and land ownership do rise with income, access to urban services do not differ significantly for the poor compared to the non-poor. (Neither do they differ significantly for new urban settlements compared to established settlements.) The bulk of the urban population receive largely inadequate urban services and are exposed to unhealthy environmental conditions. This reflects decades of under-investment, and poor revenue circumstances. In this way, the poor and the non-poor are treated equally badly. The poor differ from the non-poor in one important way: they are less able to pay for urban services and, in the case of health services for example, do not seek medical treatment because of the expense. Yet, despite the deficiency of urban services, these are not cited by either the poor or the non-poor as priority problems. People have been living with these problems for decades and have learned to cope. On the other hand, economic insecurity is a new phenomenon.

Regional Poverty

ix. All indicators suggest a regional dimension to poverty, which to some extent cuts across the rural-urban distinction. (For example, coastal areas have a poverty incidence that is lower than most towns.) Poverty is most pervasive in the north/northeast, which is predominately rural and mountainous. Here, close to half of the population are in poverty, reflecting small average land holdings (less than 0.5 hectare), low farm incomes (especially cash incomes from marketed produce), and very limited opportunities for off-farm employment. The fertility rate and infant mortality rate are also higher than elsewhere, and there is evidence of malnutrition in infants and young children. Even the towns of the north, e.g. Lezha, have a higher poverty incidence than other towns. Outside the north/northeast there are substantial pockets of poverty in both rural and urban locations. Very poor people can be found in the mountains around Pogradec and in the district of Gramsh. With regard to the towns, those with the highest rates of unemployment, e.g. Elbasan, are particularly vulnerable to poverty, as are those whose rural hinterland is producing very little.

Promoting Economic Opportunities for the Poor

x. Sustained economic growth is the key to poverty alleviation in Albania, and the optimal growth path is one that promotes broadly based rural development, and urban employment and self-employment. There are four basic elements to the “growing out of poverty” strategy:

- **rural development:** maximizing the growth potential of the agricultural sector, and promoting up-stream and down-stream linkages with agriculture to develop off-farm rural employment;
- **urban development:** facilitating self-employment and private small- and medium-enterprise development in the urban areas;
- **public expenditure:** ensuring efficient public expenditure/public investment to underpin private sector growth in both rural and urban areas, and creating a healthy and well-educated, flexible labor force; and
- **mobility and migration:** facilitating the mobility of the population to move from areas of low economic potential to areas of higher economic potential.

Rural Development

xi. Agricultural growth will continue to be the driving force behind rural development, but because of the land constraint, progress with poverty reduction will depend increasingly on access to alternative employment and business opportunities either in-country or abroad. In order to promote rural sector growth, a number of developments need to occur, starting with land. Since even the smallest farms are divided into three or more parcels, often some distance apart, at a minimum, consolidation of parcels needs to take place to facilitate more efficient use of land and time, and for farmers to have greater security over crops and livestock. Beyond this, consolidation of very small plots into larger plots is a likely development once the land market begins to operate. To facilitate this, greater administrative effort is needed to finalize the titling of land in order for land sales to occur.

xii. Public policy should also be aimed at providing adequate conditions for high levels of private investment in support services in the areas with the greatest growth potential for the domestic market and for export, i.e. the coastal plain. To this effect, a number of measures could be considered. First, credit, vital for production and investment, is severely constrained by the insufficiently developed financial system. The rehabilitation of the Rural Commercial Bank and the development of other avenues for rural credit beyond those provided under the ADF, should be a first priority. Bureaucratic and regulatory impediments to the growth of employment intensive businesses should be removed. The public investment program should give appropriate weight to the requirements of rural and agricultural infrastructure, especially those elements that are likely to foster private investment in agriculture. These themes will be taken up in the agriculture sector strategy part of the forthcoming CEM (Country Economic Memorandum).

xiii. In the more immediate future, widespread ownership of small plots, critical to short-term political and social stability, household food security and equity goals, can *probably* be consistent with continuing growth in the agricultural sector, continuing the trend of the past two to three years. At some future date, however, because of their very small hectarage, many farms will reach the outer bounds of their growth potential, and subsequent growth in the sector is likely to be concentrated among the larger (> 1.5 hectares) holdings in the coastal area and plains, where advanced technologies and cropping patterns can be introduced. Only a part of the population (i.e., the 35 percent that currently occupies these holdings) will benefit directly from this phase of growth. Yet international experience demonstrates the positive impact of a dynamic agricultural sector on the rest of the rural economy: growth in demand for farm labor, up-stream and down-stream farm-related services, and for products of the rural non-farm sector is all to the benefit of the rural population at large. In particular, poor farmers with very small plots of land will have the opportunity to supplement their farm income with income from other rural activities.

Urban Development

xiv. Albania is currently the least urbanized country in Europe with only 40 percent of the population living in cities and towns. Rural-urban migration has already swelled the ranks of the urban population and this trend can only gather momentum as the rural sector sheds people. A major concern for those who have migrated to the cities is the absence of secure land tenure. To address these problems, the government should consider the following: (a) adopt a relatively low-cost and rapid means for clarifying land ownership and registering properties; and (b) provide temporary registration that ensures that migrant households have access to schools and health facilities, and can obtain business licenses.

xv. Because of huge job losses over the past five years and emerging high unemployment rates, employment growth, including self-employment and small business opportunities is the essential precondition to a reduction in urban poverty. Promoting self-employment and private small- and medium-enterprise development in the urban areas would be well-served by ensuring that the necessary legal, regulatory and institutional framework is conducive to small business growth (to be further discussed in the forthcoming CEM), by expanding the scope of small business advice (especially quality assurance and marketing), and providing small-scale urban credit and other financial sector services. The latter would complement remittance income which for the past several years has had a significant impact on the rise of small business activity in the urban areas. The recently approved IDA credit in support of ADF micro-enterprise activities in urban areas represents an important start in this respect, but like the rural program, a credit scheme catering for the somewhat larger enterprises is also needed.

xvi. Urban environmental problems are threatening Albania's cities, and as the urban population grows, the negative health and environmental effects normally associated with poor sanitation and waste management will undoubtedly get worse unless the necessary urban services are upgraded. While major investments in water supply and sanitation are under consideration in Elbasan, Fier, and Lezha, attention also should focus on additional urban services such as solid waste management and drainage. In designing these improvements in infrastructure and services, efforts should focus on standards of service and cost recovery that are appropriate to Albania's income level, together with funded provisions to provide life-line access to electricity, water and sanitation for the poorer urban households. Although the infrastructure and urban service requirements of the emerging peri-urban areas are easily apparent, the needs of the more established inner-cities should not be disregarded.

Public Expenditure and Investment

xvii. The demands on the public budget for infrastructure, public utilities, social services, transfer payments and the civil service will continue to be vast, yet the revenue base of the country is unlikely to provide the resources for all these competing demands. Some growth in revenues as a share of GDP is foreseen over the next 2-3 years, primarily resulting from the recently introduced VAT system, and donor support is likely to continue, but these will only satisfy some of the country's needs. The Albanian Government, therefore, will need to keep public expenditures broadly in line with revenues (running a modest fiscal deficit), it will have to be necessarily selective in the areas it finances, including the use of donor financing, and stress expenditure efficiency to maximize the benefit of public investment. Policies that encourage private investment, both domestically financed and foreign financed, can play an important complementary role.

xviii. There will remain, of course, a number of functions and areas of responsibility that are legitimately and appropriately the role of the state. From the perspective of poverty alleviation, there are a number of areas that call out for public expenditure (investment). The most important ones are the following: education and training, urban infrastructure and services (water, sanitation, and solid waste, along the lines discussed above), roads and agricultural support services in *the high potential agricultural areas*, health, and small business services and credit programs. The 1996-98 public investment program (PIP) may have to be revisited to ensure that these priorities, especially education, are accorded an appropriate weight.

xix. In the post-1990 period there has been some deterioration in the education and health status of the Albanian population, which hitherto was unusually good for the country's income

level. School enrollment rates have fallen, and infant mortality and adult morbidity due to infectious diseases have increased. Data on the incidence of these deteriorations is not available, but in all likelihood low income families in both rural and urban areas are suffering disproportionately. Although in large part a reflection of the general economic environment, some of the deterioration can be traced to declining coverage and quality of social services. This, in turn, can be related to falling public expenditure on health and education. These negative trends need urgent attention, with measures taken to ensure their reversal, especially as they impact on low income families. Inter alia, protection of public expenditure on health and education is central to this reversal.

xx. Pensions, unemployment benefit and social assistance all remain central to poverty prevention and alleviation, but caution needs to be exercised to ensure that the appropriate incentive systems remain in tact, that a dependency on the state does not develop, and that employment is not over-taxed to fund these transfers. (Private transfers, extended family support systems, and self-help are very much in evidence in present-day Albania and should be encouraged and not undermined by state-funded support systems.)

Mobility and Migration

xxi. Large numbers of Albanians are already leaving the land and migrating to town, responding to both the constraints of the rural areas and the attraction of the towns. Notwithstanding the pressure that migration is putting on urban infrastructure and services, population movement from areas of low economic potential to areas of higher economic potential leads to an increase in economic well-being, for the individuals concerned and the nation as a whole. Policies that support demographic mobility should be encouraged. Removing administrative and legal barriers to farm land sales (discussed above), thereby giving would-be migrants some capital, and easing the mechanism for securing land in urban locations for home construction, would be well complemented by investments in education and training to provide the migrants, and their children, with the skills necessary to be effective in a rapidly modernizing urban environment.

xxii. Emigration to Italy and Greece in search of work opportunities has been a critical part of the betterment strategy for many Albanian families in the post-communist era. Remittances from Albanian migrants have been the main source of savings for financing domestic investment, with much of the investment going into housing and small business development. The prospects for emigration and remittances have important implications for the future, especially for poverty reduction. In this regard too, policies that increase the chance of successful emigration for work and encourage investment of remittances are to be supported, especially education and training. However, emigration is a sensitive issue for recipient countries and for the EU as a whole, and the continued support for Albanian emigrants cannot be guaranteed. The forthcoming CEM will analyze the present situation in some details, and examine prospects for further emigration from the perspective of receiving countries.

Reaching Out to the Poor

xxiii. The growth policies discussed in the preceding paragraphs should benefit the bulk of the Albanian population, who, over time, will enjoy rising disposable incomes and improved welfare. However, there will be segments of the population -- the elderly, the sick and less able-bodied, those with little or no education, the long-term unemployed, and those in disadvantaged parts of the country -- who may not participate in the growth-generating activities, and find themselves peripheral to the income and welfare gains. For these people, additional policies that target them and their particular circumstances are needed. The household data suggest that rural

poverty is more pervasive yet less severe (but with some notable regional variations) compared to urban poverty which is less widespread but more severe. These observations have important implications for policy design.

xxiv. Focused poverty-reducing policies and programs should be targeted at four population groups, two rural and two urban:

- **transitional rural poor:** those whose land holding is of an insufficient size to generate a sufficient income to sustain a family, who need some *transitional* income support (e.g., social assistance) until they are able to supplement their income from other activities. These people might need additional programs to launch them into other income-generating activities, such as credit provided by the ADF, education and training;
- **permanent rural poor:** those rural people who will never be able to sustain themselves from farming and other income-earning opportunities -- the elderly, the sick and those living in the poorest rural areas. These people will need *long-term* income support (social assistance, pensions and, possibly, feeding schemes);
- **transitional urban poor:** the urban unemployed, who need income maintenance (unemployment benefit followed by social assistance) until they are re-employed, or become self-employed. In order to regain employment/self-employment, certain *active-labor market programs* might play a role. In the event of income insufficiency from low-wage employment, an income supplement (partial social assistance) may still be necessary, and the objective should be for the family to be better-off in employment than entirely dependent on social assistance; and
- **permanent urban poor:** the urban elderly and sick who are unable to participate in the labor market, and who will need long-term income support (pensions and social assistance).

xxv. For all these four groups, income supplements (cash social transfers) and programs that encourage re-employment need to be complemented by health, nutrition and education services that reach out to the poor, and their children, to enable them to participate in an active life.

Social Assistance -- Ndhime Ekonomike

xxvi. Since its inception in 1993, this program has played a critical role in both the rural and the urban areas. For small-scale farmers, especially in the north and north-east, and the long-term unemployed, it has been the difference between survival and starvation. At its peak, close to 20 percent of families were receiving assistance, at a cost to the budget in excess of 2 percent of GDP. In parts of rural Albania, benefit incidence is as high as 50 percent. There has been some decline in the number of beneficiaries during the past two years, but the real value of the ndhime budget has fallen more sharply. The effect of this is declining individual payments -- between 1993 and 1995, the value of a full ndhime payment fell by 20 percent in real terms. For families dependent on social assistance this has presented major hardship.

xxvii. This report also reveals that some households above the poverty line are receiving social assistance, while some households under the poverty line are not receiving support. This is a particular problem in the urban areas where income can be "hidden" and eligibility is more difficult to assess. Perfect targeting is rarely achieved with such programs, but improvements

can generally be made. Measures adopted over the past year or so (abolition of the minimum payment, part-retention of program savings by local authorities, an assessment of living conditions, and the installation of an inspectorate) should reduce inclusion and exclusion errors, but by how much remains to be seen. A critical development will be the trend in payment levels to the most needy families for whom an increase in the real value of assistance is desirable. However, given the overall fiscal situation, any increase in payments to the poorest should be counterbalanced by a decrease in payments elsewhere. In the longer run, household surveys should permit closer monitoring of the recipients of ndhime as well as the closer identification of household characteristics associated with poverty, thus facilitating further fine-tuning of the program.

Helping the Unemployed

xxviii. Unemployment developed very rapidly in Albania as the economy collapsed, large numbers of state-enterprise jobs were lost, and the introduction of unemployment benefits provided an important component of the social safety net. Nonetheless, unemployment -- especially among household heads -- is the main determinant of urban poverty. At one year entitlement duration and with average benefits being slightly higher than the minimum wage, the scheme could be considered quite generous. (Other transition economies have reduced entitlement periods to 6-9 months, and lowered the replacement rate.) In addition, it is thought that a number of unemployment payment beneficiaries are working in the informal economy. At the same time, the phenomenon of long-term unemployment is developing (that is, people being out of work for more than a year). This is a worrisome development as people begin to lose touch with the world-of-work and find it increasingly difficult to hold down a job as and when one emerges. Experience from other countries shows the association of long-term unemployment, poverty and inter-generational deprivation. In the light of these observations, three recommendations are appropriate: (a) set payment levels such that they are *below* the minimum wage, thereby giving the right incentive to return to work, albeit a low-wage job; (b) concentrate more resources on active labor market programs (retraining, small business start-up, public works programs, etc.); and (c) target the long-term unemployed, using a combination of active labor market programs and income support schemes to promote re-employment with an *income gain*. Since many of the long-term unemployed lack schooling, some basic education programs may be necessary before other labor market programs could become effective.

Pensions

xxix. Pension incomes are critical for many urban and rural residents. For urban pensioners, the pension is of a sufficient amount to meet minimum subsistence needs, and they are not found to be among the poorest. However, many households comprise three generations and pensions are often one of the most important sources of income for a family of five or six. When spread around so many people, the pension is barely adequate, and these families are indeed among the poorest. But it is not the place of the pension to alleviate their poverty -- other interventions should be preferred.

xxx. For rural families, pensions are also an important source of income. Among households with less than half a hectare of land, almost 40 percent rely on pensions as their main source of income. Given the low value of the agricultural pension, 900 lek/month, these households can be thought of as extremely poor. The overall fiscal situation of the pension (social security) fund is such that it is not feasible to recommend any significant general increase in agriculture pensions. However, given the inequities in land holdings, which bear little relationship with any previous contribution to the economy, a case could be made for some

incremental payments to elderly rural residents who have very little land. Whether the pension is the appropriate mechanism, or whether social assistance or another instrument would be better, should be explored further.

CHAPTER ONE

POPULATION, LABOR, MACROECONOMIC AND SOCIAL DIMENSIONS

Introduction

1.1 Albania has made tremendous progress in the past three years, recording annual economic growth rates close to 10 percent, and lifting per capita income above US\$650. This reflects major progress in stabilization and structural adjustment, especially the privatization of much of the country's productive resources (land and enterprises), and liberalization of prices, trade and foreign exchange. Yet because the output decline was so great at the beginning of the transition, 1995 GDP (real) represented only around 80 percent of the 1989 level. Growth -- albeit starting from a low base -- has emanated primarily from the private sector, especially agriculture, construction and services. Underpinning growth in construction and services, are investments financed through private transfers from abroad, primarily remittances from out-of-country workers (more than 10 percent of GDP). Production in the state industrial sector, which dominated GDP in the past, has declined to a mere shadow of its past, and led to high unemployment especially in towns hitherto dominated by a state enterprise. In part this is being counteracted by rapid growth in self-employment and small-scale manufacturing, but this is still of an insufficient magnitude to fully compensate for the demise of state enterprises.

1.2 As a direct result of the near virtual output collapse and the subsequent restructuring of production, Albania's tax base has been seriously eroded. 1995 revenues were around 25 percent of GDP compared to 47 percent in 1990. Domestically financed public expenditure has been similarly lowered in order to close the fiscal deficit. Major restructuring of expenditures (such as the elimination of subsidies to enterprises) and substantial inflow of donor funds have protected the provision of important public services and transfer payments (such unemployment benefit and social assistance), but this effort needs to be multiplied in order to make an impact on decades of accumulated under-investment, poor infrastructure and inadequate public and social services. Recent improvement in public savings augurs well for future public investment, which has already doubled as a share of GDP since 1992.

1.3 But Albania will need many years of high economic growth to raise the standard of living of the people to approximate that of neighboring countries. With around 3.2 million people, a doubling in 30 years (since 1960), and a population growth rate still approaching 2 percent p.a., the resource base of the country is seriously challenged. At present, around 60 percent of the population is located in the rural areas, with 65 percent of the labor force working in agriculture (on own small plots), albeit in some cases on a part-time basis. Such a high share of the population in the rural areas and largely dependent on agriculture is an artificial situation, reflecting the forced settlement patterns developed under the communist regime. Already rapid rural-urban migration is occurring. Since formal employment opportunities are few in the towns, due to the loss of around half of all non-agricultural jobs in the years 1990-95, most migrants as well as long-term urban residents are working as self-employed and/or starting small businesses. The official estimate of urban unemployment is high, but many of those registered as unemployed are likely working in the informal economy. However, long-term unemployment is emerging as a serious economic and social phenomenon, and labor force participation of women is falling as few working opportunities present themselves for women. In contrast, men, especially young men, have left the country in search of work. An estimated 15 percent of the labor force, or 25 percent of the male labor force, has been working abroad during the past 3-4 years. This has been a critical safety valve for the country.

1.4 These broad-brushed themes are explored in this chapter, with more in-depth analysis to be found in chapters 2 and 3. The sequence of topics in this chapter is: population growth, emigration and migration; labor market developments; recent macroeconomic developments; and public expenditure.

Box 1.1: A Brief Historical Overview
Developments before 1990

Albania has been extremely poor for most of its history. The political and economic collapse of the early 1990s has only aggravated fundamental structural problems that existed for decades. Albania was among the poorest countries in Europe before the communists took power, but the structural problems inherited at the end of World War II were compounded by a repressive political regime and a mismanaged economy. By 1990, the roots of modern-day poverty were already well planted, and impose a major challenge to post-communist governments. Malnutrition and food shortages, a lack of basic consumer goods, and limited and poor housing had existed for decades. Decaying infrastructure (roads, water and sewerage system), inadequate energy sources, and out-dated social services had been a feature of life for years. Throughout history, racial, religious, linguistic and political differences among the people conspired against unity, stability and economic development, thus contributing to poverty. Also, often changing allegiance from one foreign power to another had serious social and economic consequences.

Shortly following its declaration of independence in 1912, Albania was drawn into World War I. Widespread destruction and famine followed. The country lacked the resources to modernize, and at that time turned first to Belgrade for help, then to Italy. Prior to World War II, with assistance from Italy, Albania began to develop. Administrative buildings in Tirana, roads, ports, and factories were built and coastal land was drained. This brought prosperity to at least a part of the population. However, in 1939, Mussolini annexed Albania, and Albania was drawn into WWII. At the end of the war, Albania -- war damaged and lacking food for the population -- turned once again to Belgrade for support. At this time, the large agricultural estates were divided and given to former tenant farmers, which resulted in a further decline in production and a worsening food crisis, culminating in the famine of 1948. In exchange for more assistance, Albania eliminated all forms of capitalist production.

In 1948, Albania switched allegiance from Belgrade to Moscow. A highly centralized form of planning and control was imposed. The first five year plan (1951-55) stressed industrialization, and great sacrifices were asked of the population toward this goal. Some 70 percent of the population continued to be engaged in farming, living close to bare subsistence. At the end of the 1950s, agriculture was collectivized into cooperatives and state farms, with all land being turned over to the state. This was resisted by the peasants, who slaughtered animals and destroyed crops and farms rather than submit to the state. Despite purges to eliminate the offenders, peasant unrest continued till the 1990s.

The break with Moscow occurred in 1961, and the switch to China as the key foreign partner brought large quantities of food aid in the period 1961-65. This prevented mass starvation. However, throughout the remainder of the Chinese period (until 1972) the agricultural sector was "milked" to provide support for the industrialization strategy. However, few of the projects that were launched during this period -- including the large Elbasan metallurgical complex -- were completed on time. After 1972, a shift in favor of agricultural development took place, and the government began to decentralize industry in the hope of evening out development and differences between towns and rural areas. Cultural, education, health and welfare services were improved in rural areas. Restrictions on internal migration were further tightened.

Relations with China were finally severed in 1978, and thereafter the economic situation deteriorated further. Agricultural and industrial production fell, the importation of equipment and spare parts reduced, further collectivization of farms failed to prevent declining production, and provision of basic services deteriorated due to failing supplies. Wage differentials were further compressed, and wages and incomes in general reduced, though partly compensated by additional subsidies. Considerable attention was given to "self-reliance" especially in food production, which amounted to doing "more with less." But not only was the capacity to produce waning, so was the will to work for so little. By the end of the period, rapid population growth combined with lagging farm and industrial output led the Albanian people to immense hardship, food shortages, unsanitary conditions and overcrowded housing. In many respects Albania's poverty worsened during the 1945-1990 period, thereby making the task of the post-communist government all the more difficult.

Population Pressure and Movement

1.5 During the period 1960-1990, Albania's population doubled from 1.6 million to around 3.2 million, an annual growth rate of 2.4 percent. This growth rate was 3-4 times higher than for neighboring European countries during this time. Rapid population growth was an objective of the communist regime, expanding the workforce for military and economic development, and swelling the ranks of the youth who would be fully indoctrinated in communist ideology.¹ As a result of this rapid growth, by 1990 Albania had become the most densely populated Balkan country (with 114 inhabitants per square kilometer). In the 1970s and 1980s, after the break with China, the Albanian Government tried to influence population growth in favor of rural areas, hoping thereby to increase farm and mining production and relieve pressure on the cities. A combination of incentives (education, health and welfare facilities, and other development programs) and tight controls on migration were used to this end. The impact of this policy was to maintain a high share of the total population in the rural areas (64 percent in 1990), a share considerably higher than any other Southern, Central or East European country.

1.6 As a predominately agrarian economy, the relationship between cultivable land and population is important. Albania has limited arable land, and the population grew fast under the communist regime. Consequently, Albania has one of the lowest per capita arable land areas of any European country. In the post-1990 period, the pace of population growth has lessened (to around 1.8 percent p.a.) as families begin to have both motivation and means to control fertility. Out-migration has also diminished the size of the population. Nonetheless, the size of the existing population and the momentum of past high fertility rates pose an enormous burden on the country's resource base, and on the economy to generate an income sufficient to sustain the population. Moreover, because of its youthful structure, it will be some time before the population growth rate coincides with that of neighboring countries, and growing number of school-aged children and new entrants to the labor force will challenge the Albanian economy for years to come. (On the positive side, unlike other Central and West European countries, Albania will not face an old-age dependency problem for many decades.) Population pressure, especially in the rural areas, is resulting in two wide-scale phenomena: emigration in search of work and a better life; and rural-urban migration.

1.7 *Emigration.* Albania has been losing population since 1990 due to mass emigrating to neighboring countries (primarily Greece and Italy). In many cases the emigration is of a short duration, in search of work. In some cases it is permanent. Because of the nature of the emigration it is difficult to get beyond imprecise estimates of the numbers involved. Estimates derived from census data and voter registration (van der Pol, 1992) put the 1992 figure at around 200,000 people. Data gathered by Mancellari et al. (1995) from the Greek Ministry of Foreign Affairs put the numbers of total emigrants much higher at around 350-400,000 in 1992 and 1993. Figures for 1994 from the Ministry of Labor and Social Assistance show also a figure of around 350,000 people. (No estimates exist for 1995.) All administrative districts have lost people due to emigration, but the largest losses have been in the south (in the areas close to the Greek border) and the north-east.

1.8 Emigration is heavily concentrated among males in the age group 15 to 35, who constitute 75 percent of the total. (In so far as emigration for work occurs among women, it is concentrated in the 20-35 age range.) Most conservative estimates of emigrants suggest that around 30 percent of males 15 to 35 years of age are working abroad, and more than 35 percent of active employment for this age group occurs through foreign employment. Overall, around 15 percent of the labor force was working abroad in the period 1992-1994.

¹ By 1985, three-quarters of all Albanian citizens had been born and educated under the communist system.

1.9 **Migration.** Internal migration has been another important feature of the post-1990 period. Since restrictions on internal migration were lifted, there has been substantial movement of people from rural to urban areas. In five years, at least 200,000 people -- 6 percent of the population -- have migrated from the countryside to the towns. As discussed above, the communist regime created an artificially high rural population, well-beyond the carrying capacity of the land. In addition to farm workers and miners, teachers, doctors and other categories of professions were assigned jobs wherever they were needed, often in remote villages, with minimal facilities.² Only people with particular personal connections could choose an alternative posting. As a consequence, people are leaving the villages at will and heading for the towns in search of a better life, and easier communication with the outside world. Like emigration, it is the districts of the south and the north-east that are losing population. People are moving primarily to Tirana (which has doubled in size in five years), followed by Durrës, Kruja, Elbasan, Pogradec and Shkodra.

Box 1.2: Internal Migration

Who are the migrants? In the main, whole families are migrating, but often in stages. First a male adult (not necessarily head of household), then the rest of the immediate family. In subsequent stages, other blood relatives may also move. In some circumstances, married young adults, hitherto living with their parents in a small village house, will leave the village for the town. It is likely that migrants are not the poorest families in the villages since migrating involves considerable costs: transport to town, and funds to “buy” land and construct a shelter. Migrants typically fund their move by selling livestock, selling (and bringing) materials from their village house, remittances, and cashing-in compensation vouchers given to former political prisoners (worth around \$2,400).

Why are people migrating? There are a number of “push” and “pull” factors causing people to migrate: to avoid the hardship of life in the villages (especially onerous for women), and the isolation (which includes difficult access to a health facility and schools), loss of jobs and houses (because of the return of land on which houses were built to former owners), denial of, or dispute over agricultural land (blood feuds), or a very small plot of land insufficient to support a family, overcrowding and the desire of young adults to exit from the control of their parents, and the widely held belief that life in the towns is more prosperous.

Settling in the City. The most difficult problem is finding land to settle. Many migrants “buy” land illegally, and then proceed to construct a house, and (illegally) connect themselves to electricity and drinking water. However, since the land on which they settle lacks legal title, and they cannot register with the city council, they cannot get access to other facilities and services (e.g. health facilities and schools).

“Before 1991, Din and his family lived in a village in Tropoja district. Din worked as a veterinary assistance and his wife as an accountant for the cooperative farm, but she lost her job with the dismantling of the cooperative. They were given 400 sq. meters of land, much less than the 2000 sq. meters entitled to them under the law (for a family of five), because of claims from former land owners. Worse still, their house was on the land of a former owner who reclaimed that land. The owner refused to sell the land but told Din to take whatever he could salvage and leave. Din and his family left and now live in a one-room house in Shkodra on land they bought for \$900.”

² The villages were extremely undeveloped. Only 5 percent of rural dwellings had piped water, many houses were 30-40 minutes from the nearest drinking water source, electricity was weak and sporadic, few villages had telephones, and access to town was difficult, especially during the winter months.

Labor Market Developments -- The Emergence of Unemployment and Private Employment

1.10 Labor market developments are of immense importance to household and individual welfare since wages are typically the most important source of household income. Work on other transition countries (e.g. Poland, Hungary, Romania and Bulgaria) has shown the relationship between long-term unemployment and poverty, as countries no longer guarantee full employment and wage dispersion begins to develop. This section traces the developments in the labor market since 1990. Labor market trends reflect the initial contraction of output and the restructuring of the economy, as discussed elsewhere in this chapter. ***Major developments are:***

- the net loss of around 275,000 jobs (20 percent of the total) between 1990 and 1995. However, the land reform program, which created a large number of family farms, has absorbed an additional 65,000 persons. The non-agricultural economy in fact lost close to 350,000 jobs -- almost half the pre-1990 number of non-agricultural jobs;
- the share of total employment in the agriculture sector is now 65 percent (compared to 22 percent in 1990), that is 750,000 people; industry accounts for a mere 8 percent (compared to 34 percent in 1990);
- many people classified as employed in agriculture are under-employed, either on a seasonal basis or on a permanent basis. The labor surplus in the agricultural sector presents a major challenge to job creation. Already, significant rural-urban migration can be witnessed. Worker emigration has acted as a critical safety valve for the rural sector as well as the facilitator of resources to migrate from village to town;
- the non-agricultural private sector, in part spontaneous and in part created through privatization, has grown rapidly and now provides employment for about 140,000 people -- 10 percent of the labor force. Many of these people are self-employed. Little is known about wages and earnings in this sector;
- employment in the public sector has declined. Major job losses in public enterprises have been accompanied by down-sizing in public administration, social services and defense. Until 1995, real wages in the public sector had fallen below their 1990 level. By the end of 1995 they had more than recovered their 1990 real value, and the average public sector wage was 6568 lek/month (\$70);
- (net) job losses have been much more acute for women than men, and large numbers of women have left the labor force, typically following a period of unemployment. There are almost as many women of working age outside the labor force as there are employed;
- registered unemployment has fallen to 13 percent at the end of 1995. Less than a third of the registered unemployed are entitled to unemployment benefit since their entitlement of one year has expired. Increasing numbers of unemployed are long-term unemployed, and are dependent on social assistance and casual employment;
- there is a considerable number of people working in the informal economy, including those registered as unemployed;
- emigration in search of work, mainly to Greece and Italy, has played a critical role in the domestic economy, and moderated unemployment.

Box 1.3: Labor Market Developments before 1990

Fed by earlier increases in the birth rate, the population of working age increased until 1990, reaching 1.9 million in 1990. During this period, a high proportion of the working age population was active in the labor force (more than 80 percent of both men and women), and classified as “employed”. (Until the late 1980s, the labor force was synonymous with those in employment. That is to say, the notion of unemployment did not exist.) State enterprises, especially coal mines and steel plants, and agricultural cooperatives were heavily subsidized to promote full employment. Employment was heavily concentrated in two sectors of the economy: industry (34 percent) and agriculture (22 percent). Construction accounted for another 10 percent of employment. The service sector was very small. The mobility of labor was very low, unless it was forced by the state when a particular requirement arose. Wages were stable and barely differentiated between sectors and professions. Workers were rewarded for high productivity and good performance in other ways.

1.11 Labor force. The number of Albanians of working age who are active in the labor force (the participation rate) has declined quite substantially during the transition years. From a peak of 84 percent in 1989, the participation rate stood at around 73 percent in 1995. The bulk of the people who have left the labor force are women -- some 200,000, or one quarter of the 1990 labor force, are no longer working, or actively seeking work.

1.12 Employment. Between 1990 and 1993, employment fell by almost 400,000. The employment decline was similar between men and women. Since 1993, employment has recovered somewhat, and 1995 employment levels were close to 80 percent of 1990 levels. But employment recovery has been much stronger for men than for women (1995 employment as a proportion of 1990 was 88 percent for men versus 72 percent for women). In 1995, only one in two women of working age held a job; five years earlier, three-quarters of working age women were employed.

Table 1.1: Population, Labor Force, and Employment, 1980-1995
(in thousands, yearly average)

Years	Total Population	Working age Population	Labor Force	Total Employment	Public Sector	Cooperative Sector	Private Agriculture	Non-Agriculture Private Sector
1980	2671	1469	n.a.	1122	655	467	0	0
1985	2957	1686	n.a.	1298	769	529	0	0
1990	3282	1897	1579	1429	905	525	0	0
1991	3260	1925	1544	1404	850	524	0	30
1992	3190	1849	1489	1095	615	420	0	60
1993	3168	1763	1347	1046	375	0	590	80
1994	3202	1786	1423	1162	308	0	750	103
1995	3249	1819	1324	1153	265	0	750	138

SOURCE: Statistical Yearbook of Albania, 1991; Institute of Statistics

1.13 The distribution of employment has shifted dramatically in the post-1990 period. (Table 1.2) Employment in agriculture (self-employed farmers, their wives and working age children on family farms) dominates the present-day picture, accounting for 65 percent of total jobs. By contrast, industry has collapsed from its former dominance of the employment scene and now employs around 8 percent of workers. Employment in social services and public administration has also declined. In 1990 all employment was classified as either “public sector” or “cooperative sector”. In 1994, almost three-

quarters of employment was in the private sector. In agriculture, private sector employment leaped from zero to 590,000 in 1993 with the privatization of cooperatives. Another 160,000 employees on former state farms were re-classified as private sector farmers in 1994 when they were given land. Today, some 750,000 working-age adults occupy and work 466,000 farms -- an average of 1.6 working persons per farm.

1.14 Non-agricultural private sector employment has also grown rapidly, from zero in 1990 to around 140,000 in 1995. This is the combined effect of privatization of state enterprises (including retail businesses) and the development of new businesses. At the end of 1995 there were 56,000 registered businesses, mostly concentrated in services, trade, transport, manufacturing (especially agroprocessing), construction and production of construction materials. The bulk of private businesses are small in size, and the majority (between 80 and 90 percent) are self-employment enterprises. The balance of in-country employment (265,000 workers, 23 percent of the total) is in the public sector. Of this, about one half is employed in public administration, the social services and other services, and the other half in state-owned enterprises (some non-operational), public utilities, and transport and communications.

Table 1.2: Distribution of Employment by Major Sectors, 1980-1994 (%)

Branches	1980	1985	1990	1994
Total	100	100	100	100
Public Sector				
Industry	34	34	34	8.2
Construction	11	10	9	1.5
Trans-Comm.	4	5	5	1.7
Trade-cater.	7	7	7	0.9
Education	8	7	7	4.7
Health	5	5	5	2.8
Other public sector	10	10	11	6.7
Private Sector				
Agriculture	21	22	22	64.6
Non-agric. private*	0	0	0	8.9

SOURCE: Statistical Yearbook of Albania, 1991; Institute of Statistics

NOTE: *The main activities are thought to be services, construction, and small scale manufacturing.

1.15 Wages. Average wages in the public sector declined in real terms until 1995, with the biggest decline occurring in 1993 (when they lost one third of their 1990 value). Two wage increases in 1995 brought wage increases above price increases for the first time in five years, and at year end the average monthly wage was 6,568 lek (US\$69). A further increase in public sector wages on April 1, 1996 (20 percent) has put real wages in 1996 about 25 percent higher than their 1990 level (at the equivalent of US\$83 per month). Little is known about private sector wages. It is generally thought that non-agricultural private sector wages exceed those of the public sector by a factor of 2-2.5. Private sector wages are much more differentiated than public sector wages, reflecting scarcity of skills demanded by the market economy, returns of education, and hours worked.

Table 1.3: Trends in Average Public Sector Wages and Prices, 1990-96

Index	1990	1991	1992	1993	1994	1995	1996
CPI	100	135.5	441.7	817.2	1000.0	1079.1	1165.4
Wages	100	127.5	312.8	541.1	838.2	1152.3	1440.4

1.16 Unemployment. Unemployment developed very rapidly in Albania as the economy collapsed in 1991 and 1992. It peaked in 1992 at 27 percent. Since then it has fallen to around 13 percent at the end of 1995 (Table 1.4).³ While the recent (1995 over 1994) decline appears to be a genuine trend, changes in previous years *registered* unemployment figures are dominated by reclassifications. For example, during 1993 and through till April 1994, unemployment fell by around 160,000 as former state farm workers, hitherto registered as unemployed, were allocated land and considered employed. Between April and July 1994, unemployment rose again (by 60,000) due to job losses associated with the first wave of privatization. Since mid-1994, there has been a steady fall in the number of registered unemployed. This reflects both the expiration of entitlement for unemployment benefit and in some cases withdrawal from the labor force, and some modest job growth. However, the share of long-term unemployed -- that is, people out of work for more than one year -- continues to be very substantial (more than 70 percent of the total), and numbers around 135,000. These people are both men and women of all ages, many (around 35 percent) are household heads, and predominantly city dwellers. From the perspective of poverty, these are likely to be a particularly vulnerable group.

Table 1.4: Labor Force, Employment and Unemployment, 1989-1995
(by gender)

	1989	1990	1991	1992	1993	1994	1995
Labor force (as % of working age pop.)	83.5	83.2	80.2	80.5	76.4	79.7	72.8
female	84.6	81.6	75.6	75.4	67.3	68.7	59.8
male	82.5	84.7	84.6	85.7	85.9	90.4	85.6
Employment (as % of working age pop.)	77.4	75.3	72.9	59.2	59.3	65.1	63.4
female	77.5	72.7	67.7	54.1	51.0	55.1	51.0
male	77.3	77.7	78.0	64.5	67.9	74.8	75.6
Unemployment (thous.)	113	150	140	394	301	261	171
(as % of labor force)	7.4	9.5	9.1	26.5	22.3	18.3	12.9
female	8.4	10.9	10.5	28.3	24.2	19.9	14.7
male	6.3	8.4	7.8	24.8	20.9	17.3	11.7

SOURCE: Institute of Statistics

1.17 There is considerable variation in the unemployment rate in Albania's districts. Unemployment is lowest in the southern half of the country, and highest in the central industrial districts (Elbasan, Kucove, Gramsh, Pogradec and Berat) and some of the northern districts (Lac, Shkoder and Tropoje). In

³ The absolute number of *registered* unemployed persons is similar for men and women. However, since the size of the female labor force is smaller, the unemployment rate for women is higher than for men (14.7 versus 11.7 percent in 1995). Trends in registered unemployment for men and women have followed similar patterns. However, outcomes at the end of registered unemployment appear quite different. Women are leaving the labor force in large numbers: the inactivity rate for women of working age has increased from 18 percent in 1990 to 40 percent in 1995. While this includes some young women opting for further education beyond the age of 15, it also includes large numbers of older women. Men, on the other hand, are finding work -- albeit in the informal sector or abroad -- while some remain long-term unemployed.

absolute numbers, most unemployed are found in the cities (Tirana, Berat, Durrës, Elbasan, Fier and Shkodër). Less than 7,000 people are registered as unemployed in the rural sector.

1.18 By 1995, less than 30 percent of registered unemployed were drawing unemployment benefit. The main reason for this was expiration of the one-year entitlement period. For those drawing benefit, the average amount -- a flat rate -- during 1995 was 3417 lek/month (1920 lek basic benefit plus additional amounts for dependents and energy price adjustment). This is slightly more than the minimum wage (3300 lek/month) and just over fifty percent of the average public sector wage.

The Emergence of Private Sector Led Growth

1.19 In the last three years Albania has been steadily recovering from the drastic output decline associated with the transition. Following a 40 percent real reduction over the period 1990-92, GDP has rebounded strongly since 1993, recording annual growth rates around 9 percent. Per capita GDP has increased from US\$350 in 1993 to US\$667 in 1995.⁴ The growth recovery has been virtually all from private sector activities (especially agriculture, followed by construction, transportation, and services), and attests to the major progress made in structural reforms and stabilization. Much of the growth in construction and other services has been funded by external remittances, although recent data suggest that private domestic savings are increasing, challenging remittances and concessional aid as the major sources of investment financing. The fiscal deficit has been reduced to a more moderate figure, and together with tight monetary policies has led to a reduction in annual inflation to a single digit. But the fiscal deficit has been brought into balance by substantially lowering expenditures to match falling revenues, supplemented by substantial donor financing. While the drastic reduction of most subsidies is a positive development, expenditure reduction on key public services -- e.g. health and education -- poses serious concern for the future.

1.20 *Privatization and liberalization.* Albania can now boast an economy that is predominantly under private ownership and where state controls are minimal. Measures introduced since 1991 include privatization of agricultural land (former cooperatives and state farms) and virtually all small enterprises (with less than 300 workers), progress with privatization and liquidation of large state-owned enterprises⁵ including public utilities (electricity and water) but leaving strategic enterprises (chromium, copper, oil and gas) in the public domain for the time being, the abolition of almost all price controls, the unification and floating of the exchange rate, and sweeping liberalization of the trade and payments regime.

1.21 *The Sources of Growth.* Albania has been steadily recovering from the economic collapse it suffered at the beginning of the transition. However, the magnitude of the output reduction in the early 1990s was so large that even with this sustained recovery in growth, real GDP in 1995 was only around 80 percent of 1989 GDP (as best measured by not entirely consistent data). The important features of this growth recovery are the following:

- almost all the growth has emanated from the private sector, which now accounts for more than two-thirds of GDP.
- the main contributor to the recovery in growth has been the agricultural sector. After the huge decline in agricultural output in 1990-91, output began to recover in 1992 with four

⁴ Using the Atlas methodology. This puts it on par with Egypt and Armenia. Macedonia at (US\$820) and Romania (at UD\$1,140) are the nearest Central and Southern European comparators.

⁵ A Mass Privatization Program was launched in 1995, in parallel with a voucher scheme. To-date, about 90 enterprises have been auctioned.

consecutive years of double digit growth (18.5 percent growth in 1992 followed by 3 consecutive years of growth at around 10 percent).⁶ As a result, agriculture as a share of GDP rose from the pre-transition 37 percent in 1990 to nearly 56 percent in 1995.⁷

Table 1.5 Trends in GDP, 1990-95

	1990	1991	1992	1993	1994	1995 (est.)
Real Growth (%)						
GDP	-10.0	-28.0	-7.2	9.6	9.4	8.6
Industry	-14.2	-41.9	-51.2	-10.0	-2.0	2.0
Agriculture	-5.4	-17.4	18.5	10.4	10.3	10.0
Construction	-12.0	-30.0	7.0	30.0	15.0	11.0
Transportation	-10.0	-30.0	-15.0	13.0	18.0	6.0
Other Services	-8.0	-14.0	9.0	16.0	11.0	8.0
Share of Total GDP (%)						
GDP	100	100	100	100	100	100
Industry	40	32	17	14	12	12
Agriculture	37	42	54	55	55	56
Construction	7	7	8	9	10	10
Transportation	3	3	3	3	3	3
Other Services	13	16	18	19	20	20
Contribution to Growth (%)						
Industry		-16.68	-16.42	-1.68	-0.28	0.25
Agriculture		-6.44	7.86	5.64	5.63	5.51
Construction		-2.04	0.46	2.29	1.36	1.05
Transportation		-1.01	-0.49	0.39	0.56	0.20
Other Services		-1.82	1.40	2.93	2.13	1.57
GDP (in million leks)	16,813	16,404	50,697	114,222	171,225	204,519
GDP per capita (leks)	5,123	5,032	15,892	36,055	53,474	62,948

SOURCE: Ministry of Finance and IMF Staff Estimates for 1995.

- in contrast to agriculture, there has been a large decline in state industrial production which previously made up the largest share of GDP, a decline that has not been sufficiently offset by growth in private industrial production. Industry's share in GDP has dropped to only

⁶ Estimates of agricultural output vary between data sets, with survey data generally showing lower estimates than administrative based estimates. Given the large weight of agriculture in total production these differences are of significance.

⁷ There are a number of interesting trends emerging in agricultural output (Annex 2, table 7). First, wheat production has increased significantly from the low levels of 1991 and 1992, but (according to statistics) is still well below production levels of the 1980s, thereby requiring imports. Second, milk production now dominates total agricultural production, and accounts for around one quarter/one fifth of total agricultural production (in terms of value). Third, other main contributors to total (gross) agricultural output are vegetables and meat. Underlying these trends are significant changes in cropping patterns (predominantly out of grain crops into fodder crops and livestock), a response to relative price changes, land ownership patterns (discussed in chapter 2) and availability of labor, and access to markets. Changes in area planted is thought to be of less importance, and data on yields show various patterns.

around 12 percent in 1995 from nearly 40 percent in 1990.⁸ Private sector activities are in light industry, including food processing, clothing and textiles, shoes, building materials and metal products. Manufactures have been an important element in promoting Albanian exports which have tripled in US dollar terms since 1992 (albeit from a low base).

- the construction sector has registered the highest real growth from 1992-1995 at 17 percent average per annum. This is followed by transportation (12 percent), services (11 percent), and agriculture (10 percent). Much of the growth in construction has been in private housing, while growth in other services has come mainly from commerce. Activities in private construction and other services are funded to a large extent by external remittances, either directly or through lending of these funds in the informal financial sector.
- remittances from overseas Albanians, whose estimates rose from US\$150m. in 1992 to around US\$300m. in 1995, have been the single largest source of capital inflow in the last three years, amounting to over 10 percent of GDP. These remittances have not only been providing significant balance of payments support, but have also been the most important source of capital for domestic private investments, supporting the growth in the services and construction sectors.

1.22 **Investment.** Investment is still dominated by the public sector (accounting for 10 percent of GDP in 1995), which is largely funded by concessional aid. Private investment has grown rapidly from a zero base, and now accounts for an estimated 6 percent of GDP. Until the past year, private investment was almost entirely financed by capital inflows -- remittances (private transfers). National savings, however, turned positive in 1995, led by private savings (11 percent of GDP) seemingly occurring at the expense of private consumption. There is also improvement in public savings. This is an important step forward as increasing domestic savings are required to finance sustainable investment and promote growth.

The Challenges to Public Finance

1.23 The economic and political transition in 1991-92 led to a mushrooming of the fiscal deficit to 44 percent of GDP in the first half of 1992 due to the decline in output, the weakening of the government's control over state enterprises, and higher fiscal expenditures to counterbalance the output decline. Since then the government has made progress in reducing the deficit to an estimated 12 percent of GDP in 1995, but much of the adjustment has been made on the expenditure side of the equation. This has not come without cost, especially in the area of key public services, such as education and health. Continued efforts will be required in fiscal consolidation, particularly on the revenue side, to bring the deficit further down to a more sustainable level but without further compromising important expenditures.

1.24 **Revenues.** The political and economic transition in Albania in 1991 and 1992 brought about a large decline in total revenues, which fell from 47 percent of GDP in 1990 to 32 percent in 1991 and 25 percent in 1992. This was almost entirely due to the erosion of the tax base with the virtual closure of many state enterprises and the breakdown of tax discipline in those that are still in operation. In order to establish a broad-based tax system, the government introduced excise taxes and import duties in 1992, both of which have since become the major sources of tax revenues. Further effort is needed to broaden

⁸ The decline of state-owned enterprises has gone hand in hand with the demise in central planning, the dissolution of input-output chains, exacerbated by the dissolution of the CMEA, the withdrawal of state subsidies, and the imposition of a hard budget constraint.

⁹ Manufactures account for 60 percent of total exports, two-thirds of which are footwear and textiles, in the main destined for Italy.

the tax base. A VAT system has recently been introduced, and plans to raise VAT rates should help raise revenues by 2-3 percent of GDP above the 1995 level of 26 percent of GDP.

1.25 **Public Investment.** Public investment has doubled in the post-1990 period (as a share of GDP), from 4.2 percent (1992) to 9.7 percent (1994). This reflects a high level of concessional aid. Public investment has been, and will continue to be an important source of growth in the Albanian economy, but increasingly funded from public savings rather than aid. Important features of public investment are the following:

- **Agriculture and Rural Development.** In line with the large role of agriculture in the economy, the government has up to now devoted the largest share of its public investment program to agriculture. In 1994 and 1995, investments in agriculture made up around 16 percent of total public investment.
- **Infrastructure.** After agriculture come transport, communications, water supply and sewerage, all accounting for 11-12 percent of total public investment in 1995.
- **Social Services.** A large part of public investment has accrued to these sectors in 1994 (30 percent) and in 1995 (25 percent), a reflection of strong foreign financing (especially IDA). However, as discussed below, social services are deteriorating, with serious implications especially for the poor. Much more needs to be done to reverse the downward trend.

1.26 **Current Expenditures.** Concomitant with the decline in total revenues was also a reduction in recurrent expenditure. Current expenditures fell from 43 percent of GDP in 1990 to 29 percent in 1995 (Table 1.6). Elimination of subsidies to enterprises, which stood at 14 percent of GDP in 1990, accounted for almost the entire magnitude of current expenditure reduction. There have also been changes in the relative magnitudes of the other items of current expenditures, with falls in operational and maintenance expenditures (from over 10.2 percent of GDP in 1990 to 6.7 percent in 1995) and social security expenditures (from 8.6 percent to 6.7 percent) being offset by rises in interest expenditures (from zero to 2.4 percent of GDP), unemployment benefit and social assistance.

Table 1.6 Public Expenditure as a Share of GDP

	1990	1991	1992	1993	1994	1995
Current Expenditure	43.3	56.1	42.3	33.8	31.3	29.3
Personnel	8.3	11.3	10.6	8.9	9.0	9.1
Interest	0.0	0.0	1.3	2.6	2.6	2.4
Operational and Maintenance	10.2	10.8	10.1	6.5	6.2	6.7
Subsidies	15.7	20.4	8.0	2.2	1.3	0.6
Social Security	8.6	12.1	6.6	6.4	6.2	6.7
Unemployment insurance	0.0	0.0	3.2	3.7	1.3	1.3
Social assistance	0.0	0.0	0.5	1.9	2.2	1.9
Other	0.6	1.5	2.1	1.6	2.5	0.5
Capital Expenditure	18.8	6.1	4.2	7.2	6.9	9.7

SOURCE: Ministry of Finance and IMF.

1.27 **Subsidies and Transfers.** After an increase from 1992 to 1993, when they reached 15.4 percent of GDP, subsidies and transfers¹⁰ as a whole have been on a steady decline (Table 1.6). By 1995, they

¹⁰ These include social security (pensions and maternity allowance), social assistance, unemployment benefit, political prisoner restitution, energy compensation, enterprise support and subsidies.

were around 11 percent of GDP. The initial increase in these expenditures reflected the expansion of the social safety net in 1992-93 when unemployment insurance and social assistance were introduced, and budgetary transfers were made in partial compensation for the liberalization of food and energy prices. Since then, with a recovery in economic activities, social transfers have moderated somewhat in large part due to the sharp reduction in people eligible for unemployment compensation. There has also been some reduction in pensions (down from 6.3 percent of GDP in 1992 to 5.1 percent in 1995) and social assistance (from 2.2 percent in 1994 to 1.9 percent of GDP in 1995). The capacity of the budget to support social transfers even at these reduced levels, however, is seriously questionable, yet (as will be shown later in this chapter) their role in poverty reduction is critical. Price subsidies as a whole have been steadily reduced from 1992 onwards, from 3.5 percent of GDP that year to 0.6 percent of GDP in 1995. In 1995, price subsidies were eliminated for firewood, coal, kerosene, heating and medicine. The only price subsidies left are those on public transportation, rural water supplies, water for irrigation, schoolbooks, funeral expenses, and water and electricity for flour mills and bakeries.¹¹ It is expected that the government will continue to raise prices, as well as public utility charges, gradually toward cost-covering levels, thereby eliminating the subsidies.

1.28 Health and Education. As a share of GDP, public expenditure on health and education amounted to around 6 percent in 1995, which is at par with other developing countries of a similar per capita income. However, as a share of GDP, expenditure on health and education has been falling since 1992, and real expenditure has declined precipitously. From 4.3 percent of GDP in 1992, health expenditures fell to 2.4 percent in 1995, while over the same period education expenditures fell from 4.4 percent to 3.5 percent (Table 1.7). Much of the reduction fell on non-wage operational expenditures, to some extent on wage expenditures, while investments were maintained, due to foreign financing. The real value of recurrent spending on education in 1995 was around 40 percent of its 1990 level. The nature of expenditure reductions, that is mostly on non-wage operations and maintenance is reflected in the dilapidated state of schools and the poor state of hospitals. The serious implications of these development are discussed in the following paragraphs.

¹¹ Generalized wheat and bread price subsidies were phased out in two major steps in 1992 and 1993, leading to more than an eight-fold nominal price increase and a tripling of the real price for bread. To a large degree, such price reforms were designed more to rationalize economic signals than to reduce government expenditure; bread price increases were accompanied by compensatory increases in pensions, unemployment benefit, social assistance and public sector wages. The government did not, however, decontrol bread prices. Thus, when international wheat prices increased in mid-1995, adding to increases in other production costs, an administrative decision rather than a market response was necessary to transmit these prices. The government used a variety of measures, including price controls, to avoid conveying price rises either to consumers or to the government budget. As a first level in a cascade of subsidies, wheat imported by the government was released to mills at a price substantially below import parity. Concessional aid cross-subsidized other commercial imports, thus avoiding a cost to the budget. Further down the chain, the government reduced the rates charged to the largely privatized mills and bakeries for electricity, other fuel and water. Bakers in turn are required to sell any loaves larger than 0.5 kilos at the same ceiling price that had been in place before international wheat prices rose by over a third. Plans are now in place to decontrol bread prices and to remove the subsidies.

Box 1.4: Food Security in Albania

Wheat dominates food security issues in Albania, both by its prominence in consumer budgets and because changing production patterns combined with fledgling marketing channels has left the central budget overly vulnerable to international variability. In the past two years, fluctuations in international wheat prices, rising costs of production, and availability of wheat (and flour) have threatened food security.

The communist government aimed for self-sufficiency in wheat production. With the breakdown in the command economy and central planning, wheat production dropped by half with only a massive program of international food aid and logistics support preventing widespread famine in the winter of 1991/92. Food aid exceeded half the total consumption in the country over a two-year period (July 1991-June 1993), and foreign aid agencies and personnel played a critical role in distribution. While the agriculture sector has largely recovered, it has diversified into livestock, dairying, and horticulture, with little likelihood of wheat production regaining its previous importance.

To a large degree, two separate food systems have emerged, with the rural wheat-producing economy largely distinct from the urban import based grain marketing system. Only 22 percent of farmers sell any wheat at all, and only 4 percent of total production is marketed. Over two-thirds of farm families produce less than 170 kilos of wheat per capita and, thus, are likely to buy some wheat or flour at the margin. There is a strong regional pattern, with the mountainous north and northeast requiring a substantial inflow of grain. Due to poor roads and heavy snow, up to 300,000 people are cut off from supplies in the winter months. Even with the privatization of other links in the market network, the government continues to provision these remote areas for 2 to 4 months prior to the winter road closure on a ration and currently subsidized basis. Out migration from these areas is substantial, but the government does not presently have an information system that is able to adjust supplies to changes in local need.

The entire urban population is dependent on imports of wheat (or flour). Due to the place of bread in the Albanian diet, most urban Albanians are highly vulnerable to price shocks. For this reason, the government has intervened to control the price of bread. The impact of government intervention on consumers has been modest. Implicit subsidies on wheat and explicit subsidies on electricity and water have been price supports to millers as much as consumers. Moreover, bakers have adjusted loaf size to circumvent price controls. Consumers are buying bread in smaller-sized loaves and paying close to market prices.

Table 1.7: Education and Health Expenditures, Share of GDP (percentage)

	1992	1993	1994	1995
Education	4.4	3.6	3.5	3.5
Operational	4.2	3.4	3.2	3.2
- Wage	2.7	2.4	2.4	2.5
- Non wage ^{1/}	1.5	1.0	0.8	0.7
Investment (from budget)	0.2	0.2	0.3	0.3
Health	4.3	3.0	2.4	2.4
Operational	4.2	2.7	2.2	2.2
- Wage	2.1	1.4	1.4	1.4
- Non wage ^{2/}	2.0	1.2	0.8	0.8
Investment	0.2	0.3	0.2	0.3

SOURCE: Ministry of Finance.

NOTES: 1/ Includes School Book Subsidies

2/ Includes Medicine Subsidies up to 1994

Maintaining Essential Services and Transfers for the Poor

1.29 Good health and education are widely recognized as playing a key role in raising individual living standards and, in particular, being an essential element of a poverty reduction strategy. Albania entered the transition with generally good education and health indicators across the board for its per capita income level, reflecting the priority that had been accorded to these sectors by the communist regimes. Doctors and teachers were forced to serve in even the most remote mountainous villages, ensuring that a meaningful service could be offered to all the people. What has happened to the education and health status of Albania's population four years into the transition as public expenditures have been falling? How has access to publicly funded services changed? Are patterns of differential access emerging, and if so, are the poor more disadvantaged than others? What should be done to ensure that past achievements are not lost, but built on for the future? The remainder of this chapter sets out to provide answers to these questions in the areas of health, education and social assistance.¹²

1.30 The main conclusions of the analysis are the following:

Education

- school enrollments, especially in pre-primary, vocational secondary and higher education have dropped dramatically during the transition;
- no data exist on regional patterns of school attendance and educational attainment, but the factors influencing school enrollment suggest that inhabitants of the north/north-east as well as other remote rural areas are most severely affected by deteriorating school quality. Recent migrants to towns and other poor urban dwellers are also facing schooling problems for their children;
- there is an urgent need to arrest the decline in school attendance, to modernize the school system, as well as re-educate and re-train adults. This requires an increase in both investment and recurrent spending.

Health

- certain health status indicators, such as infant mortality and adult morbidity due to infectious diseases, have deteriorated during the transition;
- the health status of the Albanian population shows wide regional variation, with the generally poorer north and north-eastern districts having indicators considerably worse than the national average. However, this is more a function of economic circumstances and traditions than differential access to health facilities;
- the transition has had a negative impact on the availability and quality of health services, especially in the rural areas and the emerging peri-urban areas. Urgent measures are needed to reverse this trend, including increased public expenditure.

¹² Household level data that capture the beneficiaries of public services and transfers is the standard approach to understanding the distributional consequences of public expenditure and public service provision. Unfortunately, such data are not available for Albania, thereby rendering the conventional route of incidence analysis beyond the scope of this report. Nonetheless, using other information, this chapter attempts to sketch out some dimensions of public service provision and transfer payments, including distributional dimensions.

Social assistance

- since its inception in 1993, ndhime ekonomike (social assistance) has played an important role in supplementing the incomes of many Albanian families, especially those who have little farm land and the long-term unemployed. General rural indicators, such as average farm size, show considerable success with program targeting, but other indicators, such as long-term unemployment, show less success;
- in an attempt to address the problem of targeting, the program has been redesigned and conferred greater authority on the shoulders of local governments and municipalities, and overall funding has been curtailed. This far the impact appears to be a reduction in the average payment to families rather than any reduction in the number of beneficiary families. This is an undesirable outcome for those most in-need, given the already declining real value of social assistance payments. Additional measures, both incentives and penalties, have recently been introduced in an attempt to improve program targeting. It is too early to assess their effectiveness.¹³

Education Services have been declining.....

1.31 Albania entered the transition with substantial achievements in education, all the more remarkable for its level of per capita income. In 1990, more than 40 percent of the adult population had completed secondary or higher education.¹⁴ School enrollment ratios were also high at the end of the 1980s, with even the most remote mountainous villages having a school: almost 60 percent of pre-school children (3-5 years of age) were enrolled in kindergartens; around 100 percent of children aged 6-14 were enrolled in primary school; and around 80 percent of the 15-18 years olds enrolled in secondary school. All these figures compare favorably with neighboring Central and Southern European countries, and far exceed those of most other countries with a similar per capita income. Only participation in higher education was low.¹⁵

1.32 Because of their overwhelming association with the ideology of the communist regime, schools were the object of mass destruction during the 1990-92 period. More than 5000 schools were burnt, destroyed or damaged. Pre-primary and primary schools were the most widely affected, and more than half of all primary schools were seriously affected in one way or another. In districts of northern Albania, former land owners reclaimed the land on which schools had been built. Destruction of schools added to years of neglected maintenance and inadequate school supplies, rendering the *quality* of schools rather poor. In addition, with the opening of the country's borders, the freedom for people to move from the countryside to towns, and the relative attraction of non-teaching jobs, large numbers of teachers have left rural schools.

1.33 Enrollments dropped during the 1990-92 period. In 1990 alone, the education system lost 132,000 pupils, or 14 percent of total enrollment. Fall-out was particularly high from pre-primary, upper primary (grades 6-8) and vocational secondary schools (Table 1.8). Not only were school structures physically unwelcoming for children (especially in the winter months), and teachers and learning

¹³ A study on the effectiveness of recent program changes on social assistance targeting is soon to be launched by the Ministry of Labor and Social Protection in conjunction with the World Bank.

¹⁴ Data for Tirana show that the adult population had an average of 11 years of formal education, with the male population being slightly better educated than the female population (11.4 years compared to 10.5 years). But younger-age cohorts (under 40 years) show a more educated female adult population.

¹⁵ There is little documentation of the quality of the school system during the communist period. It is widely known that the curriculum was heavily embodied with communist ideology, and the isolation of the country would suggest that children had little or no exposure to information about the outside world.

materials lacking, some parents required their children to take care of the livestock or earn money in other ways, and the relevance of education, especially old-style vocational education, was rapidly rendered irrelevant. In the school year 1993-94, only two-thirds of children who had begun their primary education eight years earlier graduated from primary school, and of those only two-thirds chose to continue their studies.

1.34 In the last two years the situation has improved a little. Foreign funding has begun the process of school renovation and new school construction, and some materials and books are now available in the schools. Recent pay increases for all public sector workers (including two rises in 1995 and one in early 1996) have improved the attractiveness of teaching, especially as a source in income in the rural areas.¹⁶ Enrollments appear to have stabilized, albeit at a lower level than prior to 1990. But much more needs to be done, especially to ensure that children from poor families and living in remoter parts of the country have access to a quality education.

Table 1.8: Gross Enrollment Ratios

	1990	1991	1992	1993	1994
Pre-school	58.0	50.0	38.0	38.0	38.2
Primary	100.6	97.5	93.7	94.1	95.3
General Secondary	20.7	24.0	25.6	25.4	25.9
Tech/Voc. Secondary	62.0	46.0	32.0	13.0	n.a.
Higher	5.8	6.0	6.0	5.2	4.6

.....and so have Health Services

1.35 The health status of the Albanian population has shown some deterioration in recent years, with important regional patterns that are associated with economic activity. The remote areas of the north appear to have health status indicators significantly worse than the more open and prosperous districts of the south. The mountainous remote areas of the northeast (Has, Puka, Kukes, Dibra, Mirdite, Mat and Bulquize) and the districts of the south bordering Greece (Vlore, Tepelena, Grijokaster, Delvine, Devoll and Sarande) stand out at the two extreme ends of the comparison. The main discrepancies regarding health status indicators appear in infant mortality, the incidence of respiratory diseases in children, induced non-therapeutic abortions, and nutritional status. Although little numerical evidence exists, it is generally acknowledged that population groups living in crowded urban centers without access to proper hygiene - water and sanitation - face significant health hazard especially that of infectious disease transmission as illustrated by the increased incidence of most communicable diseases over the last few years. This is a particular concern as the pace of rural-urban migration gathers.

1.36 The transition period has had a negative impact on health services. The destruction of health facilities in 1992, the shortage of essential drugs and vaccines, and subsequent lack of adequate funds to finance the health care system has caused a severe disruption in the health care delivery system. The rural areas have been worst affected since, in addition to the previously mentioned factors, medical personnel have migrated to urban locations where they can generate more under-the-table payments. But recent migrants to urban locations and poor urban dwellers are also facing severe problems (Box 1.6). The number of primary care access points, including policlinics, health centers, and health posts, has significantly decreased since 1989. Although there is wide regional variation among districts (from

¹⁶ At the end of 1995 the average *basic wage* (there are a number of add-ons) for a primary school teacher was 4900 lek/month (\$52), and a secondary school teacher 5100 lek/month (\$53.50).

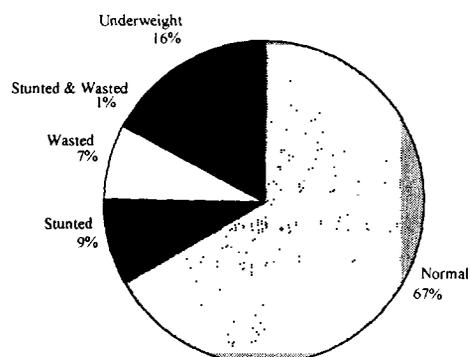
66 per 10,000 population to 3 per 10,000), there is no regular pattern. The availability of hospital beds has also decreased during the transition, and unlike in the case of primary care access points, the variation in the

Table 1.9: Regional Differentials in Morbidity, Mortality, and Facility Utilization

DISTRICT	live births per 10,000 inhabitants	% of at home deliveries	IMR	abortions per 1000 live births	incidence of hepatitis per 10,000 inhabitants	infectious diseases as % of total hospital discharge	respiratory diseases as % of total hospital discharge	visit to PHC per 10,000 inhabitants	visit of children (0-14) to PHC per 10,000
Bulquize	349	1.4	56.2	16	11	2.5	26.4	5351	2048
Dibra	300	22.9	40.6	79	16	14.3	22.6	3205	603
Has	138	0.0	57.8	0	0	0.0	48.8	3950	2630
Kukes	287	49.6	39.8	197	18	11.6	12.7	9768	3851
Mat	260	17.0	48.0	295	16	5.4	25.8	12483	4878
Mirdite	246	23.0	41.6	12	24	14.3	21.5	10361	4369
Puka	266	23.3	47.7	2	9	16.4	25.8	4790	1430
North total	277	23.9	45.2	115	15	10.3	22.4	7447	2802
Delvine	137	0.0	9.0	4	1	0.4	32.8	4209	1498
Devoll	176	49.9	22.9	0	1	0.5	39.6	14885	5703
Gjirokaster	143	9.4	15.8	330	16	11.2	15.1	12037	3543
Sarande	142	1.9	19.1	151	9	6.4	13.2	4640	1998
Tepelena	189	3.3	11.2	87	22	10.5	23.8	7315	2911
Vlore	170	8.9	22.1	672	14	12.5	27.0	13904	1645
South total	147	10.8	18.7	377	12	10.3	22.3	10962	2485
Tirana	155	1.4	24.7	127	19	10.2	13.9	32644	9132
National Avg.	209	11.2	33.4	345	17	8.9	19.9	16930	4969

Box 1.5: Prevalence of Child Malnutrition in Northern Albania

Although no recent nation-wide survey on nutrition is available, several organizations have carried out smaller scale surveys. They have observed some malnutrition in the northern districts. (16 percent of the children were underweight, and almost 20 percent were stunted, wasted or both.) Although the prevalence of moderate



malnutrition is similar both in rural and urban areas, severe malnutrition appears more dominant in rural areas: while 13 percent of children from urban areas are severely malnourished, 22 percent of children from rural areas appear to be in the same condition. The prevalence of malnutrition has considerably decreased since 1993 in the observed districts of northern Albania. This can be attributed to wider land ownership and consumption of animal (especially dairy) products. The highest prevalence of malnutrition exists in children in the age of 10-15 months when mothers stop breastfeeding. This is a common pattern throughout the developing world.

number of hospital beds demonstrates a clear regional pattern. On the other hand, the number of physicians has not changed significantly since the onset of transition. During the communist era health personnel were quite evenly distributed across the country by administrative means. The transition has lifted all political control over the location of employment, and migration of health personnel has been taking place from sparsely populated rural areas to urban centers where working conditions are more favorable and the opportunity to collect under-the-table gratuities are better. This has left villages and small towns with intermittent and/or inadequate health care.

1.37 Prior to 1995, access to health services was not limited by *ability-to-pay* barriers as the health care delivery system was fully financed from the state budget. Now pharmaceutical co-payments, under-the-table gratuities, and health insurance contributions are the order of the day. Together these amount to around 1,850 lek/per person p.a. -- that is close to 9 percent of average per capita gross farm income and 4 percent of average per capita expenditure in the urban areas. Evidence from the urban household survey (cited in Box 1.6) suggests that inability-to-pay is preventing some sick people from receiving health care.

Box 1.6: Health Care and the Urban Poor

Public health care for both legal residents and illegal migrants in Albania's cities is increasingly available only to those who can pay (under-the-table payments). While most urban residents will seek treatment when they are ill, the non-poor are more likely to seek treatment than the poor. The two most important reasons for not seeking treatment are that it is either too expensive or family members are treated at home. Among the urban poor 54 percent said that they do not seek treatment at a clinic because it is too expensive. According to one legally registered employed woman in Tirana, it was necessary to pay both doctors and nurses to get any attention for her father who had just undergone major surgery. Even when her father literally collapsed on the floor, she could not get any help until her husband was able to get to the hospital bringing not only money, but their own instrument for measuring blood pressure. Another employed woman in Lezha experienced similar treatment when she underwent surgery. While in the hospital, she had to administer her own oxygen. Both women confirmed that they had to pay hundreds of dollars to obtain help that they should have received at no charge. When asked how the poor can afford to obtain hospital care, the woman from Lezha remarked that "they do not get help; the poor are left to die."

For those who may not be legally entitled to public health services, the situation can be worse. Families do not even have the right to request treatment at the local clinics. Some families dealt with this by paying several dollars under the table for each examination. In some cases, their children received vaccinations, but in a few cases, young children had not received the necessary vaccinations because they were not on the district list of children. Migrants cannot even be legally buried unless they pay a bribe. According to several respondents, there was a recent death of a young man in Bathore whose family had to pay a \$70 bribe for permission to bury him.

Social Assistance has performed much better

1.38 Legislation enacted with effect from the beginning of July 1993 introduced a program of social assistance, known as Ndhime Ekonomike. The program was designed to provide an income transfer to families that had non-existent or insufficient income from market and non-market sources in order to meet minimal subsistence requirements. The level of subsistence was set at between 70 percent and 100 percent of the income of a family with two unemployed persons, each receiving unemployment benefit, adjusted for family size.¹⁷ Payments can be made at the full amount in the absence of other income, or at

¹⁷ The *base* monthly unemployment benefit was 1,920 lek (per person) in 1995, generating a subsistence level of 3,840 lek per month for a family of two adults. However, the average paid-out unemployment benefit in 1995 was 3,417 lek per month, suggesting a higher monthly subsistence minimum of 6,834 lek. The average full social assistance payment in 1995 was 2,533 lek/month, slightly less than 70 percent of the *base* unemployment benefit, and 37 percent of the actual unemployment benefit level. The 70-100 percent requirement was in fact dropped in January 1995.

a partial amount if other incomes exist but are inadequate. The latter is particularly important for farming families with very small incomes from tiny plots of land. The program is administered through the network of local governments (communes in the countryside and municipality in the towns), and fully funded from the central budget.

1.39 At its inception, centrally mandated rules determined both eligibility and payment levels. Funds were allocated to local authorities to meet all honored claims. In this way, the number of beneficiaries rapidly escalated. In an effort to improve targeting and tighten enforcement of eligibility conditions, various changes have been made in the program. Starting in November 1994, local authorities received their ndhime budget as a lump-sum and it became their responsibility to decide the allocation to families, but payments were still subject to a mandated minimum. Since local authorities were reluctant to withdraw benefit from anyone, they either gave each family less, or came back to the central government and pleaded for more funds. Expenditure on the program rose to 2.2 percent of GDP in 1994 (from 1.9 percent in 1993). The 1995 ndhime budget was reduced (back to 1.9 percent of GDP), the minimum payment level was abolished, and local authorities could retain a part (two-thirds) of any savings on the block-grant (ndhime budget) and use it for community-based development programs. These measures, together with an assessment of living conditions (home visit) and the installation of an inspectorate, are designed to give local authorities incentives, additional instruments and penalties to improve targeting of payments.

1.40 The number of families in receipt of social assistance peaked at the end of 1993 (155,038, around 20 percent of the population), with the rural areas claiming a slightly higher incidence of receipt than the towns. But in terms of expenditure, the towns dominated, accounting for almost 60 percent of total expenditure. The reason for this is that most urban beneficiaries of ndhime were drawing full payment on the basis of no other sources of income, whereas most rural beneficiaries were drawing a partial payment to supplement their farm income. By June 1995, the number of families drawing social assistance had fallen to 137,049, or around 17 percent of the population. While in part a seasonal decline, this number also reflects a tightening of the enforcement rules. The rural-urban incidence of receipt became more balanced in 1995, but still the rural areas have a slightly higher rate. Partial payments continue to dominate (Table 1.10). Payment amounts have declined in absolute terms in the 1993-1995 period, and given inflation have lost around 20 of their real value. In 1995, the average full assistance payment was 2,533 lek per month per family (US\$27). This level of payment represents less than 40 percent of the urban poverty line drawn at half of mean expenditure, and almost half of the amount would need to be allocated to purchasing bread in order to meet minimum subsistence requirements. The partial payment (1,184 lek per month) is roughly equivalent to average gross farm income for the poorest decile of rural households.

There are important regional differences in the incidence of social assistance payments. The 13 districts that comprise the north/northeast have an average incidence of 35.3 percent of families receiving assistance. This compares with 12.4 percent of families in the central districts, and 11.2 percent of families in the southern districts. Focusing on the *rural population* in these three regions shows an even larger concentration of payments to families in the north/northeast. These regional variations are closely associated with variation in average farm size (Table 1.11).¹⁸ With regard to the *urban population* there

¹⁸ Within regions there are also important variations. In the north/northeast, for example, there are two districts that have benefit incidence of more than 60 percent of families (Kukes and Diber), yet Lezhe has less than 12 percent. In the case of Kukes and Lezhe, the correlation between benefit incidence among the rural population and average farm size is strong. In both the central and southern region one also finds districts with a high proportion of families drawing benefit. In rural Pogradec, for instance, almost 40 percent of families were receiving

Table 1.10: Trends in Social Assistance

	Rural families	Urban families	Total	Full payment	Partial payment
Number of families in receipt					
July 1993	76,372	26,328	102,700	29,271	73,429
Dec. 1993	103,616	51,300	155,038	48,173	106,865
July 1994	95,394	56,946	152,344	58,122	94,222
Dec. 1994	83,949	61,808	145,002	63,387	81,615
June 1995	82,689	54,370	137,049	56,992	80,057
Average payment amounts (lek/month)					
June 1994				2,816	1,353
Dec. 1994				2,592	1,088
June 1995				2,533	1,184
Share of population receiving assistance					
1994	19.1%	17.6%	18.6%		

is less regional variation, but nevertheless still a north/northeast concentration of payments. At the regional level, urban incidence of ndhime receipt is only closely associated with the long-term unemployment rate.

1.42 Beyond these regional and district level observations, the absence of nationwide household data render it is impossible to comment further on the efficiency of social assistance targeting.¹⁹ The analysis of urban household data suggests both inclusion and exclusion errors. However, given the widespread nature of poverty in Albania, and the difficulties of differentiating the poor from the very poor, this is not surprising.

1.43 The 1996 budget allocation for ndhime has been further reduced from its 1995 level. The number of claiming families is thought also to be falling but the magnitude of the fall is likely small. Under this scenario, there will be a further reduction in the average payment level, rendering ndhime less of an effective poverty reduction instrument for families most in need. However, unless the number of families claiming ndhime can be reduced substantially, the level of payment will necessarily remain low. Changes currently under implementation in the administration of the program, whereby local authorities can use a part of the unallocated funds for community development projects (paying wages to workers in lieu of assistance), may help limit the number of families assessed eligible for direct assistance, and thereby facilitate larger payments to the most needy.

social assistance in 1994. In contrast, Devoll, also in the southern half of the country (and bordering Greece) makes payments to only 2.5 percent of families (0.9 percent in the rural areas). (By way of possible explanation for this, Devoll has one of the highest average farm sizes of all districts.)

¹⁹ The Albanian Ministry of Labour and Social Protection, together with a research grant from the World Bank, is launching a study (which includes a household survey) later in 1996 to investigate the efficiency of social assistance targeting. The study is designed to compare and contrast targeting efficiency under the former more centralized administrative organization and recent (late 1995) amendments that give local authorities greater autonomy in allocating funds.

Table 1.11: Regional Dimensions of Social Assistance, 1994

	<u>Share of population in receipt of social assistance (%)</u>			Rural pop. share (%)	Average farm (ha.)
	Total	Rural	Urban		
North/northeast	35.3	38.5	25.8	74.7	1.14
Kukes	62.4	66.1	47.6	79.6	0.91
Diber	61.3	65.9	27.1	88	1.19
Puke	47.5	50.1	24.7	89.6	0.89
Lezhe	11.2	8.3	27.1	84.5	1.57
Central districts	12.4	9.2	16.2	54.2	1.44
Gramsh	27.5	27.8	26.5	79.5	1.02
Elbasan	20.3	18.6	22.2	54	1.27
Mallakas	3.5	2.9	6.7	84.4	1.27
Lushnje	5.3	1	17.4	73.8	1.67
Southern districts	11.2	9.3	14.5	64	1.3
Pogradec	34.7	39.2	23.8	70.6	1.21
Skrapar	18.7	16.6	22.3	63.1	1.02
Devoll	2.5	0.9	12.4	85.6	1.73
Sarande	4.4	1.5	8.2	57.1	1.25

CHAPTER TWO

POVERTY IN ALBANIA: THE RURAL AREAS

2.1 The Albanian economy has experienced enormous changes in the past five years that have had a profound impact on rural incomes and welfare. Agriculture has been a central part of the reform program and, as such, has been the subject of a liberalization process affecting all aspects of the production and distribution process, and in particular, land privatization. Early consequences of the land reform have been political stability, agricultural output growth, increased yields in the more fertile areas, some diversified cropping and livestock patterns, and progress in food self-sufficiency. However, progress has been uneven, due in large part to population densities at the time of the land reform which resulted in significant variation in land holdings. Some rural families have very small plots of land, from which they can barely survive. Cash transfers and other sources of income are critical. While the agricultural sector has further growth potential, for a substantial part of the rural population off-farm employment and business opportunities, short-term emigration, and cash transfers will be important elements of a poverty alleviation strategy. For some rural households (perhaps a substantial number), their best chance will be to leave the rural areas and seek a new life in town. This chapter explores these themes.

An Overview of Agriculture and Rural Poverty

2.2 With around 60 percent of the Albanian population living in the rural areas, and relying on agriculture as the mainstay of their existence, developments in agriculture are of great significance to overall welfare. The agricultural sector has recovered well since the virtual collapse of production in 1990-91, and output growth appears to be occurring across most farm sizes. In large part, output growth is a function of shifting cropping and livestock patterns, with farmers moving out of grains into fodder crops and livestock. Some of the growth is also due to yield increases, especially in the coastal plains. Livestock, in particular cattle, are an important part of household income especially for households with very small farms (less than half hectare) and where the land is poor. Yet a large part of agricultural production, including livestock and dairy products, remains for own-consumption. This reflects a near absence of marketing channels and the preoccupation of many rural households with food security -- a reaction to the past when (near) famines were experienced.

2.3 The Government's land reform program of the early 1990s achieved its initial objective of privatizing cooperatives and state farms very quickly, with a reasonable degree of equity, and achieving political and social stability. But because of overall population pressure and the lack of jobs elsewhere in the economy, average farm sizes are very small (1.3 hectare). There is substantial variation in farm size, with larger average holdings on the more fertile plains, and smaller farms in the less fertile mountains. There is a significant number of farms that are too small to be economically viable. Moreover, farms (of all sizes) are divided into fragmented holdings. A land market has yet to develop in Albania, although remaining legal and administrative barriers are soon to be removed. The next phase of land development that can be anticipated will be consolidation, initially within holdings to reduce fragmentation, and in the longer-run across holdings to increase average farm size.

2.4 An estimated one quarter of the rural population lives on a farm that is too small to sustain those families to a very modest level of subsistence from farming alone. The vast majority of these families live in the upland areas and the mountains, and have farms of less than half a hectare. The poorest decile of people live on an agricultural income of less than the equivalent of US\$70 per annum, and are unable to meet even their staple food requirements year round. They are dependent on the provision of subsidized wheat/flour through the winter months (Box 1.4), and on cash transfers (pension and social assistance). Poor families are also found in the foothills and the coastal plains, but their numbers are

fewer. Beyond these very poor families are others whose land holding is of an insufficient size (less than one hectare) to produce a significant marketable surplus in the future. They too will need to supplement their agricultural income with other income.

2.5 Non-farm income is a critical source of income for many farming households. Although impossible to quantify (because of absence of data), it is estimated that somewhere between 70 and 90 percent of rural households have a source of income other than farming. This is clearly a critical part of a survival/improvement strategy. Income comes from a number of sources: *earned income* is derived from wage employment, non-farming business activities, and remittances from absentee family members (private transfers); *un-earned income* is primarily social cash transfers, in the form of pensions, social assistance and unemployment benefit. In terms of incidence the order is (from highest to lowest): pensions, wage employment, non-farming business, social assistance, remittances, and unemployment benefit. However, in terms of magnitude of income rendered to *recipient families* the order is: remittances, wage employment, non-farming business, unemployment benefit, social assistance and pension. In all likelihood it is non-farm *earned* sources of income, especially remittances, that differentiate the upper rural income deciles from each other more than farm income.

The Importance of Land

2.6 Approximately 60 percent of the Albanian population lives in rural areas, although a high rate of rural to urban migration is lessening that share. Following a land reform/land privatization program of the early 1990s, all rural families have some land, albeit very small plots. The bulk of agricultural production is for own consumption, although the trend is towards more production for the market. The staple food crops are wheat and potatoes, while the most important marketed agricultural commodities historically have been wheat, vegetables, meat, and milk.

2.7 Land Availability. Albania's land area is 27,400 km² (out of a total area of 28,750 km²) or 2.9 million hectares. Of this area only about 25 percent (702,000 hectares) is arable land. An additional 15 percent or 425,000 hectares is suitable for use as pasture, while another 105,000 hectares is forested (Wheeler, 1996). The country is typically divided into three geographical zones: (a) the coastal plain with 44 percent of arable land; (b) the hilly or foothill areas with 37 percent of arable land; and (c) the low and high mountains with 19 percent of arable land.¹ The coastal plain is the most fertile area and is generally regarded as having the most agricultural potential, although there are pockets of good agricultural potential sprinkled throughout other areas of the country.

2.8 Although about 417,000 hectares (about 60 percent of arable land area) are irrigated -- with slightly more than half of the irrigated area (226,000 hectares) located in the coastal plain -- the area with operational irrigation systems is considerably less. The combination of widespread violence (often directed at the physical infrastructure) that accompanied the political transformation of the early 1990s and the lack of maintenance in recent years has greatly reduced the number of operating irrigation systems. In 1993, it was estimated that only about 80,000 hectares -- about 11 percent of arable land -- had operating irrigation systems.

2.9 Land Reform. Prior to 1991, the majority of agricultural production took place within the framework of state farms and cooperatives. Following the fall of the communist government, a program of land privatization was approved by parliament (Land Law No. 7501, August 19, 1991). Under this law, the land controlled by the cooperatives was allocated to those families living in the villages of the cooperatives according to several criteria. These criteria stipulated that: (a) land was to be distributed proportionately to every family according to the number of family members as of August 1, 1991; (b)

¹ Plains are defined as having a slope of zero to five percent; hilly land or foothills have a slope of five to 25 percent; and mountains have a slope of 25 percent or greater.

land was to be graded on the basis of irrigation, slope, and quality in order to make the distribution more equitable; and (c) land planted to tree crops was also assigned a different value in the distribution process. In 1992, the privatization process was extended (under Decision 452 dated October 17, 1992) to the land controlled by the state farms.

2.10 As of mid-1995, 365,000 families controlled 426,000 hectares of land formerly belonging to cooperatives. This area was divided into about 1.5 million parcels or plots with about 65 percent of the parcels having received official ownership certificates (tapis).² As a result, the average holding on former cooperative land measures slightly more than one hectare and is divided into four parcels. On the former state farm land about 101,000 families have gained usufruct rights to 120,000 hectares of land divided into 400,000 parcels. This indicates an average holding size of just over one hectare divided into four parcels -- the same as on ex-cooperative land (Stanfield and Jazoj, 1995). About 106,000 hectares of agricultural land has not been distributed because it is of marginal agricultural value or is planted with tree crops and has proved difficult to redistribute.

2.11 The sale of land was prohibited under the terms of Law 7501, but this restriction was removed in July 1995. It was stipulated, however, that land sales or purchases "shall only take place if the land in question is registered in the Registry office in the place in which the property is located." In addition, no land in a district could be sold as long as not every plot in the district was registered. Although registration began in the second half of 1994, the process has been very slow. (Inter alia, because of delays in appointing a registrar and establishing land registry offices). As a result of these complications, there have been no official land sales/purchases to-date.³

2.12 A major feature of the Albanian land reform process was the intention that land should not be returned to those who owned the land before collectivization.⁴ The justification for this decision was that land scarcity is so extreme that concentrating land ownership among the heirs of those who owned land prior to collectivization would create an unacceptably large number of landless households. More practically, the old boundaries and documentation of ownership claims were virtually non-existent. But the decision to allocate land among the members of the cooperatives and state farms and to ignore the ownership claims from the pre-collectivization period has not passed without problems.⁵

² While the tapi is intended to signify land ownership rights, it is only the preliminary part of the land survey and registration process.

³ Passing of a law to permit the sale of land was hotly debated in Albania. Opposition to the law was based on two concerns: (a) in those areas where land holdings were small and/or the land of poor quality, people would very soon give up their land and migrate to town, putting pressure on urban services; and (b) in the south of the country land would fall into the hands of Greek ownership.

⁴ The communist government that came to power in 1944 implemented a land reform in 1946 that redistributed the large land holdings to small-scale private farmers as a means of consolidating its political power. The collectivization process that began in mid-1950s eliminated most small farms by creating collectives and state farms, however, the collectivization process was gradual. As of 1950, about 80 percent of land was individually held and less than 10 percent was held by state or collective farms. Over the next 15 years these shares were reversed.

⁵ In a small number of villages where land assigned by the village land committee had belonged to other village members before collectivization found, land assignments were contested. This set in place a conflict between those viewed as newcomers to the village (typically arriving in the village after collectivization) and those families who were resident in the village prior to the mid-1950s. In some instances, families who found themselves with a contested land claim chose to leave the village.

However, these problems are of a much smaller magnitude than in the urban areas where restitution claims have been honored, or considered.

Box 2.1: Village Living Conditions⁶

In addition to the standard of living that can be afforded on the basis of income derived from agriculture and off-farm sources of income, the condition of rural infrastructure and access to services are important elements of life in rural Albania. Although villages differ in their accessibility to a larger village, town or city, they share a number of common conditions -- extremely poor infrastructure (roads, water, electricity supply and telephones) and quite inadequate services (health and education). These typically add to the picture of hardship and poverty.

Infrastructure Water availability (for both drinking and irrigation) and water quality are common problems. According to UNDP's Human Development Report (1995), only 47 percent of the rural population has access to piped water or a well, and only 5 percent of the rural population has piped water inside the house. It is not unusual for women (responsible for fetching water) to have to walk for more than half an hour to their nearest safe water source, and in summer months when water is more scarce, they often go in the middle of the night to avoid long daytime queues.

During Hoxha's regime, households were wired to accommodate one electrical socket per room and about 22 watts of electricity. In many villages, however, the supply of electricity is intermittent and the current low. This affects small businesses, like the local flour mill, as well as homes.

Off the main roads, which themselves are typically one lane and badly maintained, many rural roads are little more than a dirt track, often steep and pitted. Less than a robust four-wheel drive vehicle or a heavy truck would find them impassable. Many villages rely on donkeys and horses for day-to-day transportation, including for getting produce to market (often the road side). For emergencies, like a serious illness, villagers either call upon the one vehicle in the village to transport them to the hospital (often for the sum of a few hundred leks), or walk to the main road carrying the sick person and flag down a passing vehicle. Children walk to school, often some kilometers along muddy tracks and through snow in the winter. Farmers walk to their distant land parcels, or travel by donkey/horse.

Health Access to basic health services varies considerably from one village to another. Some villages enjoy a well maintained and well equipped clinic, with good nursing staff that does not charge for services. Yet other villages have very badly maintained and poorly equipped facilities, medical staff that are not available on a regular basis and where an under-the-table payment is the norm. The better clinics are typically ones that have benefited from donor financing -- even a small amount of help, like a few drugs, seems to make a huge difference in terms of the attitude of both staff and clients.

Education Schools are typically in worse condition than health facilities. Many were destroyed, or badly damaged during the 1990-1991 period, and still lack windows, parts of roofs and basic furniture (desks and chairs). Winters are cold, and bar the odd wood stove, classrooms are unheated. Teachers are trying to find work in the less remote places, and only stay in the villages if they have to:

"Ramazan, a young teacher of English, teaches two days a week in Elbasan, and -- only because he cannot find full-time work in the city -- three days a week in the village. He is dissatisfied because he feels that the impoverished conditions of the village have reduced the children's interest and capacity to learn. They walk up to two hours to school each way, and have little time to do their homework. Their parents don't push them, and most of the pupils lack interest, leaving at the age of 14 or 15, before completing the basic cycle, to help with agricultural work, take care of livestock or help make ends meet in other ways. The children lack winter coats and boots; many come to school hungry".

⁶ This section is drawn from one of the field reports commissioned under this study: "An ethnographical study of the small-scale credit program in Tirana and Elbasan Districts", by Nora Dudwick, March 1996.

Box 2.2: Data Sources and Methodology

There are no national surveys on which to base an assessment of rural household income. Consequently, it is necessary to rely on the few sample surveys that examine different aspects of rural households. It should be stressed, however, that this approach is a second best option because the samples were assembled using different methodologies, are often drawn from different districts, and intended to serve different purposes. The three sources of survey data that have been used in preparing this analysis are:

- Land Research Institute Sample Survey. This survey, carried out in 1995, was designed to investigate land use activities at the household level in five districts with particular emphasis on subdivision of land, purchase/sale of land, and investment in agricultural land. The survey was administered in 50 villages and covered about 800 households and 3000 parcels of land.
- Special Agricultural Survey for 1994. This was the first in what is to become an annual survey of agricultural production at the household level. The survey, which was conducted in November and December 1994, concentrates largely on production and marketing data from crops and livestock. It is possible to use these data to estimate gross and net household income from agricultural activities. The survey covered 1095 households in 18 of Albania's 36 districts.
- Annual Agricultural Survey for 1995. This is a slightly modified version of the 1994 survey of household agricultural activity. Because of the inclusion of some new items (e.g. milk from sheep) data from the two years are not strictly comparable.

The main weakness of these data is that they do not provide information on sources of income other than from agriculture. Recognizing that off-farm wage employment and business income, migrants' remittances, pensions, and social assistance are all important elements of household incomes makes their omission from the surveys a serious shortcoming in the data. As a result, this report is not able to provide details on total household income. As an alternative, the report presents a typology of rural households based on the characteristics of the farm (e.g., size, location, land quality and fragmentation, and livestock holdings) and gross farm income. Finally, using a variety of information sources an effort is made to estimate the number and types of households that are most likely to have significant sources of off-farm income, and the orders of magnitude of those incomes.

Profile of Rural Households in 1994

2.13 The results from the 1994 Special Survey of Agriculture are organized around the location and amount of land that is available to households, and this will serve as the basis of the household typology. The salient points that emerge from 1994 survey data fall into three categories: (a) size and fragmentation of land holdings; (b) land use patterns; and (c) levels and composition of gross farm income.

Size and Fragmentation of Holdings

2.14 Because of existing population densities at the time of the 1991 Land Reform, land holdings vary in size beyond family size. The survey results for five districts reported in Wheeler (1996) indicate that about 50 percent of households received less than one hectare of land and 25 percent gained access to more than 1.5 hectares. Data from the 1994 Special Agricultural Survey confirm that there is considerable variation in holding size (Table 2.1). The average holding size⁷ across the sample and the

⁷ The survey uses two definitions of holding size, estimated and measured. Estimated holding size is based on the respondents reply to a question about the size of the farm or holding. Measured holding is based on the holding size as measured during the land registration process. Since the latter data series is incomplete, all references in this report to holding and parcel size are based on the "estimated" variable.

country is about 1.3 hectares, but there is significant variation in holdings within each of the stratum. For example, in the mountain stratum more than 50 percent of the sample households have less than half a hectare of land, while about 15 percent of households have access to more than 1.5 hectares of land. In contrast, in the coastal stratum only five percent of the sample has access to less than a half a hectare of land, while over half the coastal sample has access to more than 1.5 hectares.

Table 2.1: Profile of Agricultural Holdings, 1994

Region and Holding Size	Pct of Stratum	Number of Households	Avg Holding Size	Avg Area Cultivated	Number of Parcels	Avg Parcel Size	Holding Size per capita	Holding Size per Adult
Coastal								
< 0.5 ha	5.0	19	0.3	0.25	2.6	0.12	0.15	0.15
0.5 - 1.0 ha	16.3	62	0.8	0.67	4.3	0.18	0.22	0.35
1.0 - 1.5 ha	26.3	100	1.3	1.08	5.2	0.24	0.30	0.53
1.5 - 2.0 ha	20.3	77	1.8	1.51	5.6	0.31	0.34	0.60
> 2.0 ha	32.1	122	2.8	2.36	6.7	0.41	0.46	0.84
Total	34.7	380	1.73	1.47	5.5	0.35	0.34	0.60
Foothills								
< 0.5 ha	1.9	25	0.3	0.25	2.2	0.13	0.07	0.10
0.5 - 1.0 ha	21.0	44	0.8	0.69	4.9	0.16	0.24	0.34
1.0 - 1.5 ha	23.8	50	1.2	1.14	6.2	0.19	0.24	0.40
1.5 - 2.0 ha	22.4	47	1.8	1.61	5.4	0.33	0.34	0.62
> 2.0 ha	21.0	44	2.7	2.53	6.5	0.42	0.38	0.62
Total	19.2	210	1.45	1.34	5.3	0.29	0.27	0.45
Upland								
< 0.5 ha	30.7	122	0.3	0.25	2.8	0.10	0.06	0.10
0.5 - 1.0 ha	28.0	111	0.8	0.68	4.5	0.17	0.16	0.27
1.0 - 1.5 ha	19.1	76	1.3	1.10	5.7	0.22	0.23	0.39
1.5 - 2.0 ha	12.6	50	1.8	1.57	6.7	0.26	0.30	0.54
> 2.0 ha	9.6	38	2.7	2.14	6.3	0.43	0.44	0.71
Total	36.3	397	1.02	0.88	4.7	0.24	0.19	0.32
Mountains								
< 0.5 ha	53.7	58	0.2	0.20	2.8	0.08	0.05	0.09
0.5 - 1.0 ha	20.4	22	0.8	0.46	5.0	0.15	0.15	0.29
1.0 - 1.5 ha	11.2	12	1.1	0.91	6.3	0.18	0.26	0.35
1.5 - 2.0 ha	8.3	9	1.8	1.35	5.9	0.30	0.34	0.60
> 2.0 ha	6.5	7	2.7	1.54	6.6	0.41	0.43	0.67
Total	9.9	108	0.71	0.51	4.1	0.16	0.14	0.24
All Areas								
< 0.5 ha	20.5	224	0.3	0.24	2.7	0.10	0.06	0.10
0.5 - 1.0 ha	21.8	239	0.8	0.66	4.6	0.17	0.19	0.31
1.0 - 1.5 ha	21.7	238	1.3	1.09	5.6	0.22	0.26	0.45
1.5 - 2.0 ha	16.7	183	1.8	1.54	5.9	0.30	0.33	0.59
> 2.0 ha	19.3	211	2.8	2.33	6.6	0.42	0.44	0.76
All	100	1095	1.3	1.14	5.0	0.26	0.25	0.43

SOURCE: Calculated from the Special Agricultural Survey for 1994.

2.15 Perhaps the most striking outcome of the land privatization process was the highly fragmented holdings that were created. Because the emphasis was on ensuring equity in the land holding pattern, at least at the village and district levels, considerable effort was put into grading different types of land and ensuring that households received small parcels of comparable land.⁸ As a result, the average number of parcels per holdings is five. Even the smallest holdings (less than 0.5 hectare) are divided into at least two parcels. Among the largest holdings, the average number of parcels is between six and seven. The pattern of fragmentation is consistent across all strata with the result that average parcel size is surprisingly similar for holdings of the same size in the different strata. On the other hand, although the number of parcels increases with larger holdings, average parcel size is three to six times larger on those farms averaging over two hectares than those averaging less than a half hectare. Comparison of data between 1994 and 1995 shows an increase in the number of land parcels, especially for the bigger land holdings. The reason for this is not clear, but it could be associated with marriage, inheritance or greater intensity of land-use.⁹

Box 2.3: Land Use Patterns

Analysis of the 1994 data set provides some observations on the type of crops produced, livestock, and the volume and value of marketed production and own consumption (See Annex 2, Tables 1 and 2). Points of interest are the following:

- **Major Crops: Wheat.** In terms of hectareage, wheat production is the most important crop in virtually all strata and for all holdings. However, the value of wheat production (for both own consumption and sales) is rarely more than a fifth of gross farm income and averages only 16 percent across the sample. In general, the importance of wheat as a source of income is greater away from coastal areas and on the larger holdings.
- **Major Crops: Fodder.** Rivaling the importance of wheat are the two fodder crops (maize and alfalfa) which together account for an average of about 16 percent of cropped area. The production of these crops are far more important in the coastal stratum than the other areas of the country. No clear pattern emerges with respect to the production of fodder crops by holding size.
- **Crop Marketing.** The importance of cash crops to gross farm income is small. The share of wheat production that is sold averages just four percent across the sample. Holdings in the coastal areas sell the largest share of wheat (positively correlated with farm size), but this does not exceed 10 percent of gross farm income. For the two fodder crops, the value of marketed production is trivial, only one percent of income with no discernible pattern by stratum or holding size.
- **Sources of Farm Income.** The division between income derived from crop and livestock production varies with respect to holding size and location. Crop production is a more important component of income in coastal areas and on larger holdings, while livestock tends to be of greater importance on smaller holdings and in the mountain areas.

These land use patterns give rise to variation in land productivity (that is, value of agricultural production per hectare). Normalizing for holding size shows that small land holdings are worked more intensively than bigger land holdings: on average, holdings of less than one hectare generate a gross farm income *per hectare* twice that of farms larger than one hectare (Annex 2, Table 3). There is less variation in the plains and foothills, and most variation in the mountains. Mountain farms of less than 0.5 hectares are worked most intensively of all farms, yet mountain farms of more than 1.5 hectares are farmed least intensively (the number of mountain farms of more than 1.5 hectares in the sample is very small -- 16).

⁸ Often, the fields of comparable land were simply divided into parcels so that each household in the village received a parcel of a particular land type.

⁹ Annex 2, Table 1 shows the amount of fallow land. As a share of arable land, it was around 12 percent in 1994 and 9 percent in 1995.

Levels and Composition of Gross Farm Income

2.18 The strong correlation between holding size (and in particular livestock/dairy) and gross farm income, combined with the variation in land holding size, results in large variations in the levels of gross income derived from agriculture. The poorest ten percent of households have a gross farm income that is less than one fifth of the mean and only 7 percent of that of the richest ten percent of households.¹⁰ This variation, in turn, affects the levels of own consumption and marketed output. The value of marketed output differs by a much larger factor between the lowest and highest deciles (about 60). It must be noted, however, that it is only the highest income group that has such a high share of marketed output. Far more typical is the share of marketed output characterizing the other deciles -- ranging between seven and twelve percent of gross farm income. The households in the highest decile market about 24 percent of output, while the average for the sample is 14 percent.¹¹

Table 2.2: Gross Farm Income by Deciles (1994)
(Deciles calculated by gross farm income per equivalent adult)

Decile	Gross farm Income	Value of Marketed Output (lek per annum)	Value of Own Consumption	Share of Marketed Output (%)	Share of Own Consumption (%)
1	6,138	365	5,772	5.9	94.1
2	12,505	1,242	11,263	9.9	90.1
3	18,090	1,546	16,544	8.5	91.5
4	22,970	1,971	20,999	8.6	91.4
5	27,690	2,503	25,186	9.0	91.0
6	33,740	3,316	30,424	9.8	90.2
7	41,271	4,202	37,069	10.2	89.8
8	51,876	6,814	45,062	13.1	86.9
9	68,243	10,188	58,055	14.9	85.1
10	120,472	25,267	95,205	21.0	79.0
Mean	39,995	5,662	34,333	14.2	85.8

¹⁰ The Gini coefficient for gross farm income is 0.42 (1994).

¹¹ This is a typical pattern found in other low income countries with a large agricultural sector. It is often the case that the majority of marketed production in land constrained low-income countries is produced by the 10 to 20 percent of households with the largest land holdings.

2.19 When gross farm incomes are calculated on an adult equivalency basis¹² a similar picture emerges. Gross farm income of the poorest decile *of people* (adult equivalents) is a mere 6,138 lek p.a. (US\$65 at current exchange rates). Of this, only 6 percent is derived from the sale of agricultural produce. At the other extreme is the richest ten percent of persons (on an adult equivalency basis), where the average gross farm income is 120,472 lek p.a. (US\$1,268), of which 20 percent is derived from sales. The value of own consumption of a person in the top decile is 16.5 times that of a person in the poorest decile (Table 2.2).

2.20 The geographical distribution of income groups confirms the conventional wisdom that the population living in the upland and mountainous areas of the country has less farm income than people living in the foothills and plains.¹³ For example, **more than half of the population in the lower five income deciles resides in the upland and mountainous areas, while three-fourths of the population in the poorest decile live in these areas.** By contrast, well over half of the households in the top 30 percent of the (gross farm) income distribution live in the coastal plain and only about 18 percent of the top three deciles live in the upland and mountain strata. It is also clear, however, that all strata contain significant numbers of low-income households. Between 10 and 20 percent of the households in the lower half of the income distribution are found in the coastal plain.

The Incidence of Poverty on the Basis of Gross Agricultural Income

2.21 The absence of a representative household data set that includes information on all sources of income (or an expenditure survey which can proxy income) renders poverty analysis of Albania's rural areas difficult. It is known from small-scale surveys, from qualitative interviews with households and from administrative data that many rural households have a source of income other than farming (See below). But the household incidence and magnitude of non-farming incomes is not known. Therefore, as a second-best approach, poverty analysis is undertaken in this section with *gross farm income data only*. (Based on rough macroeconomic estimates of non-farm income and transfers, farm income may account for between 75 and 80 percent of rural sector incomes.)

2.22 In the absence of a country-defined or an official poverty line, and given the partial nature of the income data, a *relative poverty* line (defined as *on-half of mean gross farm income per adult equivalent*) is used in this analysis.¹⁴ Applying this poverty line, a poverty incidence of 29 percent is observed (Table 2.3). The poverty gap is 14 percent. Poverty incidence and poverty gap disaggregated by agricultural strata show tremendous variation, reflecting the same patterns as mentioned above. The incidence of poverty is highest in the mountains (54 percent) and lowest in the coastal plains (10 percent) (Table 2.3). The poverty gap is also highest in the mountains (26 percent) and lowest in the plains (6 percent) suggesting that poverty is both pervasive and deep in the mountains (and, to a lesser extent in the upland areas), and less common and shallower in the coastal plains.

¹² In the absence of detailed information on household size, an equivalency factor of 0.6 was used.

¹³ Because the 1994 survey was based on a representative sample, these distributions can be regarded as reflecting the actual distribution of the population.

¹⁴ The mean of the distribution is 39,995 lek p.a. per adult equivalent. Thus, a poverty line set at half the mean has a value of 19,998 lek. p.a. (US\$210 p.a. per adult equivalent at current exchange rates). This compares with a mean of 54,000 lek p.a. per adult equivalent for Tirana in 1994, and a poverty line at half the mean of 27,000 lek (US\$283). (Tirana household expenditure survey, INSTAT.)

Table 2.3: Poverty Incidence and Poverty Gap by Strata based on Agricultural Income, 1994
(poverty line = half of mean gross farm income per adult equivalent)

Strata	Poverty Incidence (%)	Poverty Gap (%)
Coastal	10.4	5.6
Foothills	24.8	12.3
Upland	39.6	18.9
Mountains	54.4	26.3
All	28.9	14.0

SOURCE: Calculated from the Special Agricultural Survey for 1994.

NOTE: Poverty incidence, or poverty headcount, is the percentage of people below the poverty line; poverty gap is the average shortfall of income per adult equivalent as a percentage of the poverty line

A Household Typology Based on Land and Livestock Holdings

2.23 Gross farm income is determined by three factors: the amount of cultivated land, the number of cattle, and the stratum in which the holding is located. Consequently, the household typology that delineates the poor from the non-poor is based on these three variables (Table 2.4), but because farming patterns are different in the various strata, the typology emphasizes different variables in the various strata. For the coastal and foothill strata, the correlation between the number of cattle and cultivated area is very high with the result that the construction of the household typology can rely on just one of these.¹⁵ In the upland and mountain strata, however, the correlation between land area under cultivation and the number of cattle owned is weaker and a more accurate typology is derived from using the number of cattle as the independent variable.¹⁶ Consequently, while the typology is based on area cultivated in the coastal and foothills strata and on the number of cattle (as a proxy for livestock) in the upland and mountain strata, it must be recognized that the relationship between land access and livestock is complementary and complicated. In all of the strata, households use a combination of land and livestock to maximize farm income. This optimization process will be influenced by numerous other variables including household labor, other sources of income, and local market conditions.

¹⁵ For these two strata, the better variable -- in terms of fitting the regression equation -- proved to be the amount of land cultivated by the household.

¹⁶ The explanation for the weaker correlation in the upland and mountain strata seems to be the combination of smaller individual holdings and the availability of non-arable pasture land that can be used to support livestock. The survey data do not allow an assessment of access rights to pastures.

Table 2.4: Household Typology

Location and Land/Livestock Assets Needed to Exceed Poverty Line(a)	Household Description	Agricultural Output	Estimated Number of Households
<p>Coastal</p> <p>Households in this stratum need at least 0.7 hectares in order to earn a gross farm income that exceeds the poverty line.</p>	<p>Households in this stratum that are above the poverty line have an average of 1.9 hectares and 2 head of cattle. Those below the land threshold have access to 0.6 hectares and less than two cows.</p>	<p>Average non-poor households have an gross farm income of 167,500 lek compared to 93,000 for poor households. The major difference between the households in terms of activities is that the non-poor households rely more heavily on crops as a source of income.</p>	<p>About 90 percent of the sample households in the coastal stratum have more than 0.7 hectares of land. The 10 percent under the poverty line have a land holding not much less than the minimum. Their poverty can be considered as shallow.</p>
<p>Foothills</p> <p>Households in this strata need more than one hectare to exceed the poverty line relying only on gross farm income.</p>	<p>Households in this strata that are above the poverty line also have an average of 1.9 hectares and 2 head of cattle. Those falling below the threshold have access to 0.6 hectares of land and less than two cows.</p>	<p>Average non-poor households have an gross farm income of 110,000 lek compared to 73,000 for poor households. Non-poor households have slightly more marketed production, but otherwise the sources of income are similar.</p>	<p>About seventy five percent of the population of this stratum have the necessary combination of land and cattle to exceed the poverty line. The 25 percent who do not are some way below the poverty line. They are in deeper poverty.</p>
<p>Upland and Mountain</p> <p>Households in these strata need more than two cattle to exceed the poverty line relying only on farm income.</p>	<p>Households in this strata that are above the poverty line have an average of four head of cattle. Those falling below the threshold have access to less than one hectare of land and less than two cows.</p>	<p>Average gross farm income for non-poor households in this stratum is 84,000 lek. For the poor households average income is 55,000 lek.</p>	<p>About fifty eight percent of the population of these strata have the necessary combination of land and cattle to exceed the poverty line. The 42 percent of people under the poverty line are in quite deep poverty.</p>

NOTE: (a) Poverty line is defined as half of mean gross farm income per adult equivalent.

2.24 On the basis of the above typology and the relative poverty line, it is possible to estimate the carrying capacity of Albania's arable land area, and to estimate the surplus population currently attempting to live off the land. This calculation assumes that irrespective of changes in cropping patterns and technology, a minimum land holding of 0.7 hectares in the coastal plains, 1 hectare in the foothills and 1.5 hectares elsewhere would be necessary to generate a sufficient income *from farming alone* for an average size family to live above the poverty line. Also assumed in the calculation is that land consolidation occurs only among the smallest land owners, thereby creating viable units out of existing non-viable units. Such a calculation indicates that around 450,000 people (around 80,000 families), or 24 percent of the rural population, are surplus to the carrying capacity of the land.

Non-Farm Sources of Income

2.25 As already indicated, however, farm income is not the only source of household income for rural households. Wheeler (op.cit.) reports on the main sources of household income by holding size for five districts (Table 2.5). As expected, those households with larger holdings derive a larger share of total household income from agriculture and dairy. However, a relatively large number of households with very little land (less than half hectare) also rely on agriculture as their main source of income. Income from wage employment is of greater importance to households with less than one hectare than bigger land holdings, as is pension income. Remittances as the most important source of income apparently bear little relationship with size of land holding, and are more likely a function of household composition: a young man in the 20-34 age range who is not the head of household appears to be critical (Box 2.3). In some instances, however, the male head of household is absent, leaving a de facto female household head to run the farm.

Table 2.5: Main Sources of Household Income by Holding Size, 1995

Main Source of Income	Share of Households Reporting Main Source of Income by Holding Size				
	< 0.4 hectares	0.4 - 0.9 hectares	0.9 - 1.6 hectares	> 1.6 hectares	All
Farming	30.9	46.4	56.9	59.2	48.4
Dairy	4.1	9.1	10.4	16.5	10.1
State Work	18.0	11.5	9.8	4.9	11.0
Private Work	6.2	11.5	3.3	5.8	6.8
Migrant	2.6	4.3	8.7	5.8	5.3
Pension	37.1	16.8	9.8	6.8	17.6
Other	1.0	0.5	1.0	1.0	1.0
All	100.0	100.0	100.0	100.0	100.0

SOURCE: Wheeler, 1996.

2.26 According to administrative data and data from the Albanian Development Fund, a very large share of rural households have a source of income other than farming. With regard to market income, around 30 percent of households derive income from wage employment (primarily public sector but also some private sector), around 25 percent benefit from remittances, and an estimated 15 percent have business income other than farming. The value of these off-farm activities is very significant for beneficiary families as the following figures show (all figures are lek per family per annum):

income source:

gross farm income:

poorest decile	18,925
average	107,601
richest decile	267,647

remittances	142,000
public sector empl.	63,000
non-farm business	25,000

pension	10,800
social assistance	15,000

2.27 For the poorest decile, any source of *earned* non-farm income exceeds farm income. For the average rural family, having a family member working in wage employment in Albania makes an important contribution to total household income, whereas remittances more than match farm income. These income comparisons go a long way in explaining the forces motivating farm families to participate in one or other of emigration or migration to find wage employment.

2.28 Social incomes, or cash transfers, are also of importance to farm families. Some 35 percent of farm families receive a pension income, and 19 percent receive means-tested social assistance (See Chapter 4). According to Wheeler, pension income is the main source of income for around 18 percent of rural households, and around 37 percent of households with less than half hectare of land. Average rural pensions for former agriculture cooperative members are very low (10,800 lek p.a. in 1995, about \$115) suggesting that households who depend on pension income are in extreme poverty. Average social assistance (partial) payments are a little higher than the agricultural pension (15,000 lek per annum). Their payment level is designed to complement farm and other sources of income, rather than be a substitute.

Box 2.4: Remittances in the Rural Economy

By far the largest single source of income in the villages is remittances from abroad, mainly Greece. Eleven of the thirty households we spoke with in one village had sent men from the families — usually adult sons — to Greece at least once, and most had come back with several hundred dollars of earnings, \$100 on up. In another village, the kommune center, we learned from the kryeplak that of the 320 families, at least 50 had men in Greece. Families used the remittances to purchase livestock, improve their houses, pipe water into their yards, pay for furniture, household items and clothes, and to repay loans. As one household head noted, over the last years, some families had become richer, others poorer, and the most salient difference was migration. Families with only one adult male were at a disadvantage, because he would be expected to stay and take care of the family. Conversely, large families with several adult sons had the best chance of getting ahead financially, as sons brought back hundreds, and sometimes thousands of dollars (Dudwick, 1996).

CHAPTER THREE

POVERTY IN ALBANIA: THE URBAN AREAS

3.1 Albania is the least urbanized country in Europe: only 40 percent of the population lives in urban areas. In large part, this low level of urbanization is due to the policies of the former regime, which provided incentives to rural areas to increase farm and mining production, as well as controls on internal migration to alleviate development pressures in cities. But cities continued to grow despite the government's intentions. Between 1970 and 1980, the urban population increased by 2.8 percent (World Development Report 1996). Since 1990, however, the rate of urban growth has dramatically increased. In greater Tirana alone, the population rose from 374,000 in 1990 to the present population of an estimated 545,000 people.

3.2 Living conditions in urban Albania have been poor for decades, but the transition to a market economy is posing new challenges for the urban population. While Albania's cities have grown, state-owned enterprises have continued to downsize or be liquidated, and many urban workers are without jobs. At the end of 1995, for example, around 30 percent of the urban labor force was registered as unemployed, of which 80 percent had been unemployed for more than one year.¹ For many urban families, therefore, obtaining enough money to buy food and other necessities means finding sources of income other than wages. In 1995, some 8 percent of urban families were in receipt of unemployment benefit, and about 18 percent in receipt of social assistance. Others have been receiving remittances from family members living elsewhere, finding temporary jobs, borrowing money (from relatives, friends and moneylenders), or starting small businesses. Further, rapid and unplanned urban growth is overwhelming the capacity of cities to provide adequate housing, infrastructure, and urban services. Most neighborhoods lack adequate streets and regular solid waste collection. Urban schools are overcrowded and public health facilities require payment for services.

3.3 How are urban households, particularly those at or below the poverty line, coping with these conditions? This chapter attempts to assess the dimensions of urban poverty, encompassing both urban and peri-urban areas (that is long-term urban residents and recent migrants to urban areas), to highlight the characteristics of those most vulnerable to poverty, and to examine household strategies for coping with evolving conditions. Following an overview of urban poverty, the remainder of the chapter is divided into four parts. The first part looks at poverty incidence and depth in the four towns covered by the study. The second part is the poverty profile -- a profile of the poor and their household characteristics (household size and composition, labor market status, education, sources of household income, assets and expenditure patterns). Migration and location are also examined, as well as gender issues. Due to the methodological and data differences, the findings from the survey in the three medium-sized cities are presented separately from the findings on Tirana's peri-urban neighborhoods. The third part of the chapter looks at how the urban poor live, their physical, environmental and social conditions, and their access to urban services. The fourth and final part extracts the priority problems facing urban households, and examines their coping strategies. The non-representativeness of the sample should be borne in mind throughout the chapter.

¹ Unemployment figures need to be interpreted with caution. On the one hand, official estimates might underestimate unemployment since registration has little relevance once the period of unemployment benefit expires. On the other hand, some (many?) of those who are registered as unemployed are most likely working in the grey/black economy.

An Overview of Urban Poverty

3.4 This chapter draws on a number of information sources, both qualitative and quantitative. These are discussed in Box 3.1 and in Annex 1. A central source of information is a household survey that was conducted in Elbasan, Fier, and Lezha as well as the peri-urban areas of Tirana in January 1996, and a pre-test of the survey instrument carried out in October 1995. (Box 3.1 provides some background information on these towns.) Although providing important insights into household circumstances in the selected neighborhoods, the non-representativeness of the sample must be stressed.²

3.5 In the absence of a country-defined or official poverty line, one absolute and one relative poverty lines are used in the analysis. Because of arbitrariness of the absolute line, however, most of the analysis relies on the relative line. The absolute poverty line was set at the *current exchange rate equivalent* of US\$1 per person per day.³ The relative poverty line is defined as 50 percent of mean expenditure. These two benchmarks effectively correspond to upper and lower poverty lines. Annex 3, Table 1 shows the expenditure per capita and the corresponding adult equivalents for the poverty lines.

3.6 The incidence of poverty varies considerably between towns. Using a *relative poverty line* of half of mean expenditure⁴, around 12 percent of the population of "old" Tirana (but 20 percent of peri-urban Tirana), 25 percent of the population of Lezha and Elbasan, and only 9 percent of the population of Fier are in poverty. Grossing up for all urban Albania suggests a poverty incidence of around 15 percent, or 185,000 people, but it should be repeated that the sample used here is not representative. With the exception of Tirana where poverty is apparently quite shallow, much of the urban poverty is deep: that is to say, the income shortfall of households under the poverty line is substantial, indicating that many urban households are in extreme poverty. These poverty figures are closely associated with unemployment rates, levels of education, remittances and other economic opportunities. Urban households spent approximately 70 percent of their income on food -- of which a large part is on bread -- and a further 12 percent on electricity. Yet their ownership of consumer durables is surprisingly well developed: 90 percent of households (75 percent of those below the poverty line) own a television, and 78 percent (55 percent below the poverty line) own a fridge.⁵

3.7 Urban poverty has some distinct characteristics:

- poorest of all, both in terms of incidence and depth are households with an unemployed head. These unemployed heads are typically male, in their early 40s, and with little or no formal education. They head families with 2 or more children. (A sub-group of the unemployed poor are those with more educated heads but who cannot escape poverty due to the lack of job opportunities).

² Analysis was also undertaken (in Albania) of the 1993 and 1994 Tirana Household Expenditure Surveys, surveys that are representative of Tirana. To-date this analysis has not been made available to the World Bank. The findings that are cited in this chapter come from published sources.

³ The more correct conversion procedure is to use purchasing power parity (PPP). However, no official estimate exists for Albania at present. Based on international comparison, the PPP exchange rate would be higher by a factor of between 3 and 5, implying a much lower poverty line than commonly used in World Bank poverty analysis.

⁴ The poverty line is 2,242 lek/month per adult equivalent for Tirana (1994) and 2,083 lek/month for Elbasan, Fier, Lezha and peri-urban Tirana (1996). In US dollar terms, the amounts are \$24 per month for Tirana and \$22 for the other towns. Poverty lines differ due to different data sets.

⁵ These are most likely purchased with remittances, or brought to Albania by returning migrants.

- next come three-generational households headed by a pensioner, often a woman who has survived her husband. While pensioners themselves are not among the poorest, the presence of unemployed grown-up children and dependent grandchildren in their households makes them poor. The monthly pension, \$30 per month, is above the poverty line used in this analysis (half of mean expenditure), but not when shared among a household of 5 or 6 persons.
- households headed by a low-wage earning man constitute the third largest group in poverty. These household heads are around 50 years of age, have little or no education and are employed or self-employed in a low paying job. In these households, as in those households in the categories above, high unemployment among women compounds the lack of market-derived income.
- poverty is more prevalent among children and young adults than among prime-aged people. Families with 3 and more children are especially vulnerable to poverty. (This is a pattern generally observed in more developed countries.)
- households that have no regular source of market income and rely on social cash transfers are typically very poor. The social assistance program, Ndhime Ekonomike, is playing a key role as the social safety net, but the program appears to suffer from inclusion and exclusion errors, and payment levels are very low.
- private transfers, especially remittances from abroad, are a critical source of income and investment for urban households. Households regularly benefiting from remittances are more likely to be non-poor, if not affluent.

3.8 While home and land ownership do rise with income, access to urban services do not differ significantly for the poor compared to the non-poor. The bulk of the urban population receive largely inadequate urban services and are exposed to unhealthy environmental conditions. In this way, the poor and the non-poor face equally badly. The poor differ from the non-poor in one important way: they are less able to pay for urban services and, in the case of health services for example, do not seek medical treatment because of the expense. Yet, despite the deficiency of urban services, these are not cited by either the poor nor the non-poor as priority problems. People have been living with these problems for decades and have learned to cope. On the other hand, economic insecurity is a new phenomenon. High unemployment, falling real wages and job insecurity are all major problems.

Urban Poverty in 1996

Poverty Incidence and Poverty Gap

3.9 Approximately 15 percent of Albania's urban population (185,000) live below the poverty line set at half of mean expenditure. At the higher poverty line of US\$1 expenditure per day per adult equivalent, the figure doubles to around 30 percent (370,000 people). Although poverty incidence is lowest in Tirana, because of its large population, the absolute number of urban poor is greatest there (70,000-150,000 depending on the choice of poverty line). Of the towns covered in this study, poverty incidence is highest in Elbasan and Lezha (Table 3.1). These same two towns have also the biggest poverty gap, that is households who have expenditures (incomes) way below the poverty threshold. Poverty gap estimates show that the depth of poverty in the 3 medium-sized towns is about 35 percent of the relative line set at 50 percent of the mean expenditure. These poverty gaps are large by Central and Southern European standards. However, in nominal amounts, the gaps are not so large. Based on the relative poverty line, an average poor individual needs 737 leks per month (US\$7.76) to reach the poverty line. The poverty gap is less for Tirana, averaging 16 percent of the poverty line (360 lek per month).

Box 3.1: Data Sources and the Urban Sites

Data sources. Since only one data source (the Tirana Household Budget Survey) was available at the time of preparing this report, much of the data and information that was needed to compile this chapter had to be gathered. There are four data/information sources used in the analysis, of which the first three were gathered specifically for purposes of this report:

- **Background Poverty Study.** The purpose of this study was to investigate how the population views poverty, both before and after reform. This investigation included a review of the literature, and interviews.
- **Urban Household Survey.** A non-representative survey was conducted in three cities and peri-urban Tirana in January 1996. A team of local interviewers administered 471 questionnaires in three medium-size cities (Elbasan, Fier, and Lezha), and another 52 questionnaires in four neighborhoods within or bordering the administrative boundaries of Tirana, where there is a substantial migrant population. (See below and Annex 1)
- **Qualitative Assessment of Poverty in Urban and Peri-Urban Areas Surrounding Tirana.** In addition to the quantitative survey, a local team of interviewers conducted in-depth interviews with 40 households located in the Tirana District and peri-urban Shkodra. The interviews focused on the reasons for migrating to the cities, survival strategies, problems encountered in securing housing and urban services.
- **The Household Budget Survey for Tirana, 1993 and 1994.** This survey had been conducted by the Albanian Institute for Statistics (INSTAT) in 1993 and 1994. The survey covered 3179 households, although income and expenditure information was collected only over a subsample of 807 households. The same sample was used in both 1993 and 1994. Analysis of these data were undertaken by INSTAT. {this input is still awaited}

Urban household survey. In assessing urban poverty, it was important to select a (non-representative) sample of households located in various urban settings in different parts of the country. To ensure a diversity of cities, the survey covered Tirana's peri-urban neighborhoods and three medium-sized cities: Elbasan, a city with high unemployment; Fier, a city where the incidence of international migration is high; Lezha, a city in the northeast part of Albania which is the poorest part of the country. Together these four cities account for around two-thirds of Albania's urban population.

* **Elbasan** is located in the central part of Albania in a plain near the banks of the Shkumbini River. Surrounded by mountains, the city has a population of about 110,000. While Elbasan was an important industrial city in the past, many of its factories (most notably the steel works) have closed during the past few years. The closing of these factories led to massive unemployment -- in excess of 40 percent. Consequently, many people, especially young men, have migrated to Greece, Italy, and other European cities to find jobs. They remit money to their families.

* **Fier** is one of the most economically important cities in the southeast part of Albania. Having experienced growth during the past 10 years, the city now has a population of 100,000. Because Fier is located near oil producing areas, many of the city's workers are employed by the oil wells or related enterprises such as oil production. Additional workers are employed by a chemical factory, thermo-power station, and smaller factories. Numerous factories in Fier, however, have closed and unemployment is quite high, at around 20 percent. In comparison to Elbasan, Fier has a much higher incidence of international migration and homes receiving remittance income.

* **Lezha** is located in the northern part of Albania, and is a small city with a population of 15,000 people. About 40 percent of the labor force works for the state; 15 percent are involved in business and private activities (for example, selling various items such as construction materials, cigarettes, clothing, food products), 10 percent have emigrated, and 35 percent are unemployed. Environmental conditions are poor due to an inadequate water supply, lack of safe sanitary facilities, poor drainage, and poorly managed solid waste.

* **Tirana** as the capital of Albania, and the most prosperous town, is rapidly expanding as a result of migration. Rapid growth, which has occurred through the informal development of land, has overloaded the capacity of existing infrastructure networks, and the informally developed areas lack adequate roads, water and sanitation, drainage, electricity, and solid waste services. Four neighborhoods (or quarters) located within these migrant areas were included in the household survey.

Measuring poverty. In this analysis, household expenditure rather than household income is used because it is considered a more reliable indicator of welfare or current living standard. To account for differences in the size and demographic composition of households, household expenditure is expressed in adult equivalent units. The OECD scale is used with the corresponding weights of 1.0 for the first adult, 0.7 for the next adults, and 0.5 for children under 14 years of age.

Table 3.1: Poverty Incidence and Poverty Gap for Tirana and Three Other Towns, 1996

	\$1 (2850 lek/m) ^a	50% Mean Expenditure ^b
Poverty Incidence (headcount)^c		
All Three Towns	38.4	19.6
Elbasan	41.9	23.8
Fier	22.3	9.4
Lezha	50.3	25.0
Tirana (peri-urban)	34.6	20.4
Tirana (1994) ^d	26.2	12.0
Poverty Gap^e		
All Three Towns	32.9	35.4
Elbasan	34.4	34.3
Fier	25.1	23.9
Lezha	35.0	40.5
Tirana (peri-urban)	30.4	30.0
Tirana (1994)	21.8	16.6

NOTES:

- a. Nominal exchange rate.
- b. Means are 4,166 lek/m for combined Elbasan, Fier, Lezha and peri-urban Tirana 1996 data set, and 4,484 lek/m for Tirana 1994 data set.
- c. Poverty incidence, or poverty headcount, is the percentage of people below the poverty line.
- d. Tirana household expenditure survey, 1994. (INSTAT) All other estimates are from World Bank Survey, January 1996.
- e. Poverty gap is the average shortfall of household expenditure per adult equivalent as a percentage of the poverty line.

Poverty and Household Characteristics: the Poverty Profile

3.10 There are distinct socio-economic and demographic characteristics that are closely associated with urban poverty.

3.11 *Nuclear households with 3 or more children are likely to be poor.* Household size is closely linked with poverty: the larger the number of children, the more likely the household will be poor. About 60 percent of households are nuclear in structure, with eight out of ten having 2 or more children. In these households, poverty incidence increases with the number of children (Table 3.2). Poverty incidence is highest among households with primary school children, aged 6 to 9 years old, based on the relative poverty line of 50 percent of mean expenditure. The poverty gap is also high among nuclear households with three or more children.

3.12 *Extended households are more likely to be poor when they are headed by a woman.* More than one-third of families are extended, consisting largely of 3-generation families with 1 or 2 elderly parents, their children, and grandchildren. Poverty rates for extended households mirror the overall average across the different poverty lines, suggesting that extended households do not necessarily increase the likelihood of poverty. The exception is situations where the household head is a woman. These households, comprising less than 10 percent of all households, have a poverty incidence twice that of male-headed extended households, and a higher poverty gap. Female household heads are typically poorly educated (primary or less), and heavily dependent on social cash transfers.

3.13 *Pensioner household heads are typically not poor, but those that support other adult family members tend to be poor.* Around 10 percent of households have an elderly member, age 60 years and

above. This group of individuals has one of the lowest rates of poverty, and the lowest poverty gap. This suggests that the old-age pension is an important social cash transfer that prevents or reduces poverty among the elderly population. Elderly individuals who live under conditions of poverty, roughly 20 percent of pensioner heads, have the following characteristics. They have larger families than non-poor elderly individuals, with an average size of 5.7 members compared to 4.5 among non-poor households. They also have twice as many family members who are unemployed (that is, adult dependents). These adult dependents are mostly unemployed sons and daughters who seek refuge and financial security in an extended family arrangement.⁶

Table 3.2: Poverty Incidence, Poverty Gap and Household Characteristics, 1996

	<u>\$1 (2850 lek/m)</u> Poverty Incidence	<u>50% Mean Expenditure</u> Poverty Incidence	Poverty Gap
Household Composition			
One adult only	20.0	20.0	37.5
Couple only	9.1	0.0	n.a.
Nuclear w/ 1 child	28.3	15.2	26.0
Nuclear w/ 2 children	29.8	16.0	34.5
Nuclear w/ 3+ children	38.6	19.8	43.1
Extended, couple w/ children, elderly parents	35.2	17.2	30.0
Extended, single male parent + children	66.7	66.7	40.3
Extended, single female parent + children	74.1	29.6	42.4
Couple + other adults	50.0	0.0	n.a.
No. of children (0-14 years)			
0	32.4	15.7	30.6
1	36.0	15.3	37.1
2	35.1	21.6	38.3
3 or more	48.9	25.5	41.8
No. of elderly (over 60 years)			
0	34.3	18.3	n.a.
1-2	37.7	17.0	n.a.
No. of unemployed			
0	24.1	14.9	n.a.
1	39.9	28.4	n.a.
2	38.6	24.3	33.5
3 or more	49.4	40.5	36.0
Total	38.4	19.6	35.4

⁶ One family in the Old Selite neighborhood of Tirana consisted of an elderly couple and their married son and his wife. The family came to Tirana 13 years ago. They purchased their home from the legal owner and have the tapi for the house and the land on which it is situated. The family lives solely on the pension income of 2,500 lek per month. The house is in very poor condition with the ceiling in need of serious repair. The son is unemployed as is his pregnant wife. The family is now worrying about how they are going to pay for the costs of delivery and having another person to feed on such a meager income.

3.14 *Unemployment is a significant determinant of poverty.* The impact of job losses as a result of economic restructuring continues to affect the lives of many urban Albanians. The 1996 household survey found about one-third of working age individuals not formally employed, and the majority (two-thirds) of these people are young, between 15 and 35 years old. More than half have primary education and about 44 percent have secondary education or vocational training. Regardless of the poverty line used, the findings show that an individual's employment status is a strong predictor of poverty. The incidence of poverty rises sharply as the number of unemployed members increases, especially for those households with three or more adults that are unemployed (Table 3.2). Further, nearly every unemployed member has been out of a job continuously for more than one year. About 35 percent of the unemployed live in extended three-generation households and one in four are in nuclear households with more than three children.

3.15 The link between poverty and unemployment is particularly evident among household heads. One out of every four household heads, average age of 41 years, is unable to support a family through income earned from work. Nearly all unemployed heads (97 percent) lost their jobs as permanent employees in state-owned enterprises. Not only is poverty more widespread among unemployed heads but they also suffer from deeper poverty. The majority of poor unemployed heads live in nuclear households with 2 or more children, many of who are under 14 years. Poor unemployed heads of nuclear households have neither the economic security of a regular wage income nor the added benefit of extended family support, which, in a number of instances, can provide a diversified income base. About three-quarters of their income comes from social assistance and unemployment benefits.

3.16 *Education makes a difference for many, but not all.* There is a strong correlation between education and poverty (Table 3.3). Among household heads, poverty incidence declines the higher the level of education. Almost half of household heads with no formal education fall below the poverty line. This inverse relationship between poverty and education also is reflected in the narrowing poverty gap as more years of schooling is attained.

Table 3.3: Poverty Incidence, Household Expenditure and Education of Household Head, 1996

	Education of Household Head					All heads
	None	Primary	Vocational	Secondary	University	
Average expenditure/ adult equivalent (lek per month)	3075.7	3494.0	3746.7	4407.6	5598.4	4165.5
Poverty incidence ^a	46.2	19.3	17.9	15.8	6.7	19.6

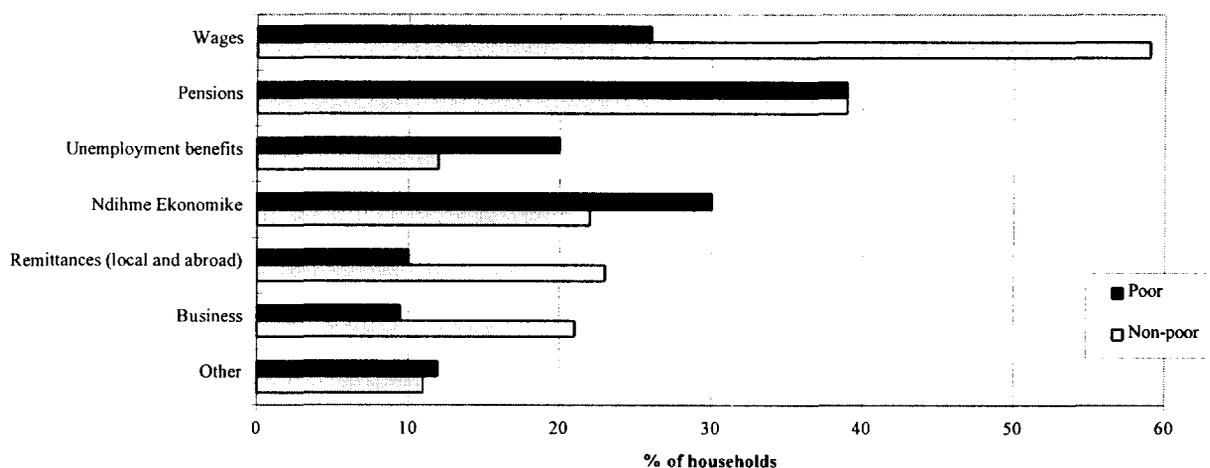
NOTE: a. Below 50% of mean expenditure poverty line.

3.17 The education-poverty relationship works primarily through the labor market. While the economic restructuring in Albania affects working individuals across occupational groups, regardless of educational attainment, university-educated heads of households are less likely to be unemployed than all others, thereby escaping poverty.⁷

⁷ The level of education and employment status of household heads further explains why households in Fier are less likely to be poor. Fier has roughly twice as many household heads with university diplomas or postgraduate degrees (31 percent) than in Lezha (16 percent) or Elbasan (11 percent). Consequently, the incidence of unemployment is also lowest among household heads in Fier (14 percent) compared to Elbasan and Lezha (30 and 35 percent, respectively).

3.18 *Poverty status is a function of the mix of sources of household income.* There are important differences in the composition of household income between the poor and the non-poor (Figure 3.1). One-half of households rely on wage income. The second most important income source for 40 percent of households is pension income. Among the poor, however, wage income is second to pensions as the most important income source, followed by social assistance (ndhime ekonomike) and unemployment benefits. Based on the lower relative poverty line (50 percent of mean expenditure), social income transfers make up about two-thirds of the poor's average monthly income, compared to only one-third for non-poor households. Non-poor households are also likely to have more than one source of earned-income. One out of five non-poor households receive remittances from a relative working abroad, and a similar proportion earn additional income from a business activity. Less than 10 percent of poor households receive remittances and/or have businesses. Finally, the small proportion of households earning agriculture-based income also are more likely to be non-poor households.

Figure 3.1: Income Sources of Poor and Non-Poor Households
(based on half of mean expenditure poverty line: Elbasan, Fier and Lezha)



3.19 *Low asset ownership is positively correlated with poverty.* Not only do poor households have lower incomes, they also have fewer assets that can be sold or traded to meet consumption needs in times of an emergency or household crisis (Table 3.4). Based on a simple asset index, poor households have an average index of 2.6 compared to 4.2 for the non-poor⁸. The consumer durables most commonly owned by households are television, refrigerator, and radio. More than 50 percent of poor households own these items. (Households receiving remittances have the highest asset index (5.1) of all households. Also, they are twice as likely to own farmland.)

⁸ Each type of asset (consumer durable) owned by the household was assigned a score of 1. A total score of assets per household was then calculated to arrive at an average index. (See Demery and Grootaert, 1993 for methodology.)

Table 3.4: Asset Ownership by Poverty Status and Remittances from Abroad (% of households)

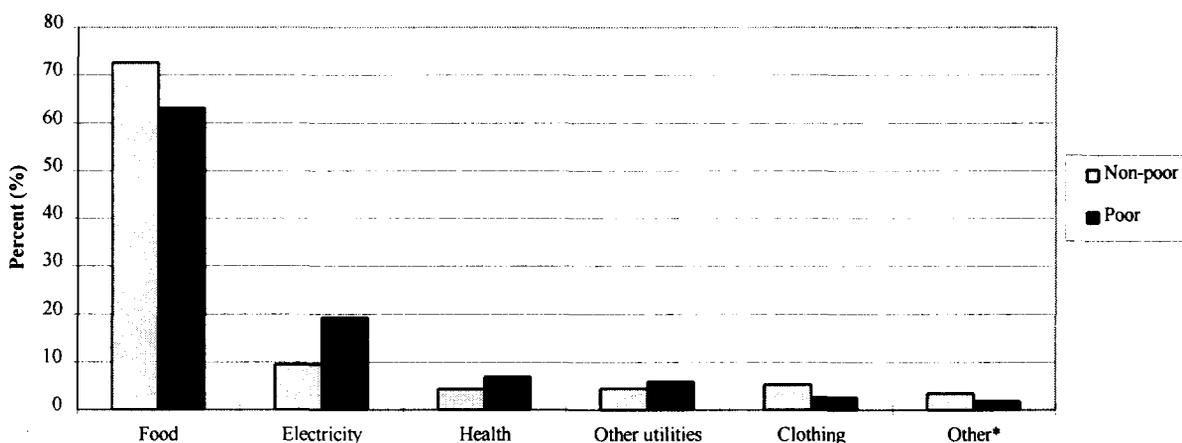
	Poverty Status ^a		Remittance Income From Abroad		All Households
	Non-poor	Poor	Non-recipient	Recipient	
Water pump	6.2	1.2	5.1	6.6	5.3
Hot water heater	19.1	7.1	12.7	39.5	17.0
Refrigerator	82.9	54.8	75.2	92.1	77.9
Freezer	11.4	2.4	7.3	22.4	9.8
Telephone	13.4	4.8	10.9	17.1	11.9
Radio	78.8	57.1	73.2	84.2	74.9
Television	92.8	76.2	89.9	89.5	89.8
Car	13.4	6.0	9.9	23.7	12.1
Motorcycle	1.6	3.6	1.5	3.9	1.9
Bicycle	28.9	17.9	25.1	36.8	27.0
Sewing machine	27.4	16.7	25.3	26.3	25.5
Washing machine	48.1	17.9	39.0	61.8	42.7
Truck	2.1	2.4	1.8	3.9	2.1
Own farmland	8.5	4.8	6.6	14.5	7.9
Asset index ^b	4.2	2.6	3.7	5.1	4.1

NOTES: a. Half of mean expenditure.

b. Refers to average number of assets owned (consumer durables only).

3.20 *While food is the largest expenditure item for both poor and non-poor households, the poor consume less.* Urban households spend a major share (70-75 percent) of their monthly household budget on food, followed by electricity (12 percent) (Figure 3.2). According to the survey data, the poor have a smaller food expenditure share than the non-poor, but a very high expenditure share on electricity and heating.⁹ Those living below the lower poverty line spent, in the month of January, an average of 23 percent of their monthly expenditure on electricity and heating (Annex 3, Table 8).

Figure 3.2: Monthly Household Expenditures Shares



⁹ These findings on food shares are unusual. They may be a function of inadequate information given in the interviews. On the other hand, the survey was conducted in January, one of the coldest months of the year, and short-term expenditure on electricity and heating might reduce expenditure on food.

3.21 The poor spend a very large part of their monthly food expenditure on bread alone. They typically consume less, about half of the average non-poor household's weekly consumption of meat, milk and yogurt, vegetables, and potatoes. In many instances, poor households modify their dietary patterns by consuming inexpensive and less nutritious food. This has serious implications for the labor productivity of working adults as well as the health and nutritional status of mothers and their young children.¹⁰

Poverty and Household Conditions

3.22 The profile of urban poverty presented above is a snapshot of the poor based on their discrete position with respect to an income benchmark that classifies them as either poor or non-poor. These statistics, however, tell only part of the story. The following section discusses how the urban poor live, their physical, environmental and social conditions, and their access to urban services.

3.23 A starting hypothesis for this work was that those at or below any given poverty line would have worse living conditions than those of the non-poor. For example, it was expected that the poor would have significantly lower levels of home and land ownership, lower access to urban services, and greater difficulty meeting basic needs than those whose incomes fall above the poverty line.¹¹ The findings of the fieldwork and the data analysis reveal, however, that this is not necessarily the case. Those whose income are above the poverty line, however it is defined, can be just as disadvantaged as those identified as poor. Similarly, the migrants' responses to the survey questions indicated that their situation was not dramatically different from that of the non-migrants (Box 3.2). In general what emerges is that the conditions of the urban environment are hard for all inhabitants, and only gradually as some families are amassing resources are they able to make modest improvements to their immediate environment (i.e. their home). For the rest, urban infrastructure and services are beyond their control, and there is little that can be done individually to arrest the declining quality of public services (such as health, education, garbage collection) and make good the decades of under-investment in urban infrastructure. These are broader community, local government and central government responsibilities.

3.24 *Income level affects home and land ownership, but not to a large degree.* Urban housing consists largely of single family homes and apartments. Most of the houses and apartments are very small, with the average household of four to six people squeezed into a 30 square meter space divided into two or three rooms. The houses and apartments are poorly insulated with evidence of substandard workmanship and neglect of needed repairs. Whether they live in houses or apartments, however, most of the families interviewed revealed that there is a high incidence of home and land ownership, even among a substantial proportion of migrants. However, a smaller percentage of the poor own their houses or apartments as well as the land. More specific findings are:

- In the 3 medium-size cities, most households (92 percent) own their housing unit with the non-poor (93 percent) owning their unit somewhat more often than the poor (83 percent). Less than half of all households own the land on which their house is situated, with the non-poor reporting higher levels of land ownership than the poor (50 percent versus 32 percent). A smaller percentage of households in the Tirana neighborhoods own their home (69 percent) but a higher proportion own the land (62 percent), with no significant difference between income groups.

¹⁰ During one household interview with a poor family in Mihal Grameno, the mother of a four-year old boy fed her son a piece of bread with butter for dinner.

¹¹ In this section, all references to poverty are based on the lower relative poverty line of 50 percent of mean expenditure per adult equivalent.

Box 3.2: Recent Migrants to Tirana

One out of every three households interviewed in peri-urban Tirana was a migrant family who had moved to Tirana within the past five years. Almost one-half came from another city in Albania and about one-third came from a rural area. For the majority of families (60 percent), their decision to relocate was driven mainly by their desire to find a job, to have better income opportunities or to improve their overall living conditions, while others (32 percent) had hopes of finding better housing conditions.

Based on the sample of households interviewed, migrant families are broadly similar to the average native residents of Tirana with respect to household structure and income. But there are some distinct characteristics observed among the migrant households:

- Migrant heads of households are younger on average (42 years) than non-migrant household heads (52 years).
- None of the migrant households had a female head. Consequently, there also are no single parents among the heads of migrant households. Discussions with migrant household members revealed that the men in the household, usually the father or the son, move to the city first to lay the groundwork for the rest of the family to follow.
- Although migrant households have a slightly higher average number of unemployed members (2.3) than non-migrant households (1.6), their average expenditure per adult equivalent shows that they are not necessarily poorer (4,277 leks/month compared to 4,587 leks/month for non-migrant).
- Next to wages, profits from businesses and other entrepreneurial activities is the second most important source of income for migrant households. Both of these sources constitute about one-third of the total household income. About 12 percent of income comes from agriculture which suggests that migrants, particularly those who came from the villages, are maintaining economic ties with the rural areas.
- Among migrant households, there is low asset ownership with an asset index of 3.5 versus 4.6 for non-migrants. They are less likely to own a washing machine, refrigerator, freezer, television, or a sewing machine.

With regard to home and land ownership, about the same percentage of migrants and non-migrants own the land on which their house is situated. But only 78 percent of the migrants have the necessary legal document (tapi) for the land, compared to 91 percent of non-migrants. Migrants receive more water than non-migrants. Among the Tirana respondents, migrants are better off than non-migrants with respect to the availability of piped water. With regard to priority household problems, a higher proportion of non-migrants than migrants mentioned economic problems and unemployment as their households' priority problems.

- Households that do not legally own their house or land encounter numerous hardships. For example, unregistered families cannot collect social assistance from, or obtain state sector jobs in the city in which they are now living. They also do not have the legal right to enroll their children in local schools.

3.25 *Overcrowding is an indicator of poverty in Lezha and Tirana.* While the total house or apartment size of poor households may be larger than the non-poor, average housing density figures show that there is no significant difference between income groups. Within Lezha and Tirana, however, there is more overcrowding in poor households than in the non-poor households.

3.26 Both the poor and the non-poor receive largely inadequate urban services and are exposed to unhealthy environmental conditions. While there are some differences in service levels that reflect income -- for example, the location of the water tap and toilet (indoor versus outdoor) and the type of the toilet available ("western versus eastern") -- the type and quality of most household services provided generally have little to do with income (Table 3.5).

Table 3.5: Household Services for the Poor and Non-Poor*
(as a percentage of households with service)

Household Service	Non-Poor	Poor	Total
Electricity	100	99	99.8
Piped water/indoor tap	86	77	85
Pipedwater/outdoor tap	20	21	20
Central sewerage	86	76	84
Indoor toilet	63	43	59
Eastern-style toilet	79	92	81
Western-style toilet	17	2	14
Shower inside	66	54	64
Shower outside	11	14	12

*Based on a poverty line of 50 percent of mean expenditure per adult equivalent, i.e. the lowest poverty line.

3.27 **Both the poor and non-poor have similar access to water supply**, and both the poor and the non-poor are exposed to unhealthy environmental conditions. While there are service level differences that reflect income, the type and quality of the water supply service of most households are similar for both groups. For example, piped water from the public water supply is the main source of water for almost all of the households, regardless of income level. And most (82 percent) have indoor taps. Excluding the group that has water 24 hours a day (30 percent), households in these cities receive piped water on average 6.5 hours a day. While most households receive water on a daily basis, there was no significant difference in daily water availability between the poor and the non-poor.

3.28 The poor and the non-poor receive the same level of service largely because higher income households generally are located in the same neighborhoods and buildings, and on the same floors as the lower income households. In some cases, however, the poor have some disadvantages. In the 3 medium-size cities, for example, a lower percentage of poor households (77 percent) have an indoor tap as their main water source than non-poor households (86 percent). Moreover, among the households that reported leaky taps (24 percent of the total sample), poor households tend to have more leaks than the non-poor.

3.29 **Poor sanitation conditions affect all groups.** All income groups have similar sanitation conditions. In the 3 medium-sized cities, 75 percent of the respondents reported that they are connected to the central sewerage system, despite their income level. In Tirana, the survey revealed that a higher percentage of the poor and migrants are connected to the sewerage system than the non-poor and non-migrants. Nonetheless, more poor households than non-poor households have an outdoor bathroom facility consisting of a hole in the ground or some remnants of a squat plate inside a poorly constructed shack in their yards.

3.30 **Infrequent solid waste collection affects the poor and non-poor.** Most (93 percent) of the respondents dispose of their household waste simply by throwing it outside their home. Only slightly more than half of the respondents in the 3 cities (54 percent) indicated that solid waste is regularly collected, with no difference between the poor and the non-poor. In Tirana, however, migrants receive a lower level of solid waste collection service than non-migrants.

3.31 **Household location is more important than income in determining adequacy of public services.** The general quality of urban services such as water supply, sanitation, and solid waste management differs more by city than by income level. For example:

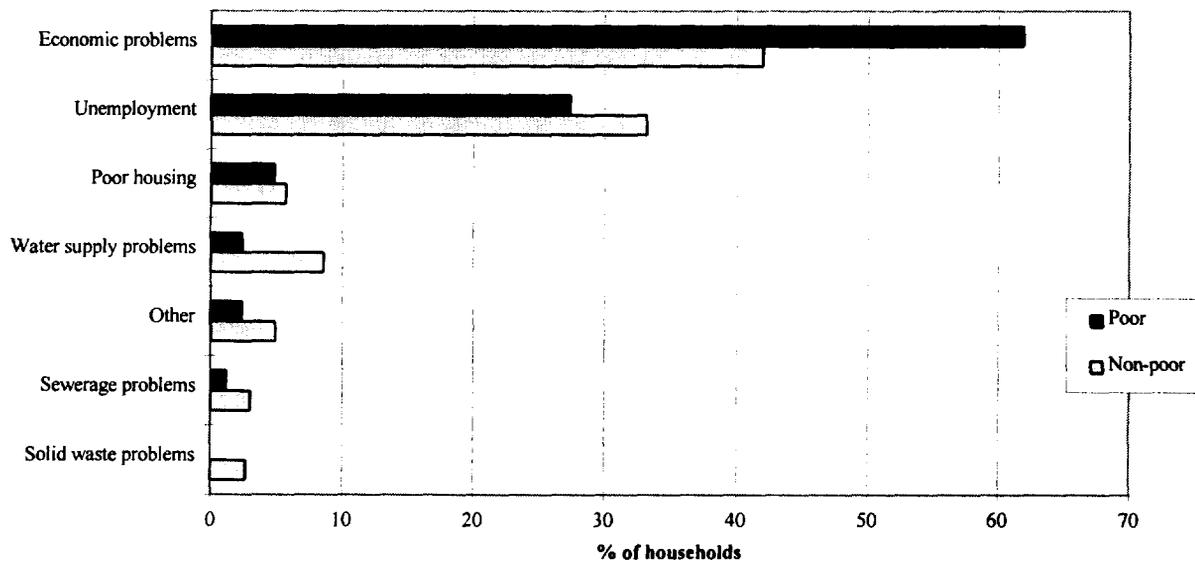
- Only 62 percent of the respondents of Fier have water every day, while 90 percent of the respondents of Elbasan and 85 percent of the respondents of Lezha receive water on a daily basis. On average, most households in Lezha receive water 12 hours a day, while the average household in Elbasan and Fier receive water 6 and 5 hours a day, respectively.
- Tirana has the most inadequate sanitation system among the surveyed cities. In contrast to the other cities, where over 70 percent of the households surveyed are connected to the central sewerage system, only about 35 percent of the sampled households in Tirana are connected to the central sewerage system. Another 56 percent use septic tanks.
- Households in Tirana are receiving a lower level of solid waste collection service than those in the other cities. Whereas 54 percent of the households in the other cities receive regular solid waste collection, only 28 percent of the Tirana's households report that they have regular solid waste collection service.

Priority Household Problems and Coping Mechanisms

3.32 Notwithstanding the many deficiencies in housing and urban services among the areas surveyed, most survey respondents did not mention these problems when asked to identify their households' most important or priority concerns. As discussed below, income insufficiency in general, and unemployment, in particular, emerge as household priorities.

3.33 *Unemployment is the biggest problem for both the poor and the non-poor.* When asked to identify their households' most important household problems, about half of the respondents mentioned lack of income (Figure 3.3). Both the poor and non-poor focus on these concerns, indicating that both groups are confronting similar problems, although the latter may have better mechanisms for coping with these conditions. Thirty-two percent of the respondents were more specific about their economic problem and mentioned unemployment as their household's priority problem. Again, there was no significant difference between the poor and the non-poor with respect to this problem. In fact, there was a higher percentage of the non-poor than the poor who mentioned unemployment as a priority.

Figure 3.3: Priority Problems in Elbasan, Fier and Lezha



3.34 ***Both the poor and the non-poor adopt similar coping mechanisms.*** Because income generation continues to be, or has become even more difficult during the year prior to the interview, both the poor and the non-poor cope with their situations by finding new sources of income or by adopting other strategies. The various coping mechanisms are:

- Finding new sources of income, such as temporary jobs, setting up a small shop or business, receiving remittances from relatives abroad, receiving help from family and friends, and selling various items on the street. Many people now have two jobs, and in some cases the "extra job," is illegal (for example, working off the books for a private enterprise).
- To cope with a difficult life, families have either reduced or postponed certain expenditures, with virtually no difference between the poor and the non-poor. The main types of expenditures sacrificed include home repairs, furniture, and a combination of several expenditures. Around one quarter of families have consumed less bread during the past 12 months, and 33 percent of the respondents said that they consumed less food items other than bread, particularly meat and fish, and vegetables and fruits.
- Only 10 percent of the families interviewed operate garden plots either to grow their own food, and in some cases, sell produce. According to the survey, 9 percent of the non-poor have a garden plot, while 13 percent of the poor own a plot of land. Poor families with female heads are more likely to own a garden plot than those with male heads, and households in Lezha are more likely to have a garden plot than those in Elbasan or Fier.
- During the past year, more than one third of families interviewed had to use their savings to meet expenses, 30 percent had to fall behind in the repayment of debts (with 50 percent of the poor falling behind), and another relatively small percentage of respondents (21 percent) had to give less help to other family members. In Tirana, a significantly larger proportion of households, particularly migrants, had to take money out of their savings.
- For many poor Albanians, getting enough food or necessary medical care will depend on how much help is provided by family, friends, and neighbors. In the 3 cities, the majority (67 percent) borrowed from relatives or friends. In Tirana, 26 percent of the respondents said that they had to borrow to make ends meet (Box 3.3).
- While some of the unemployed who worked for state companies received unemployment benefit during the past 12 months, other respondents (38 percent) have applied for social assistance. Among the poor, a little more than half said that they applied for this support. But they did not always receive the assistance, largely because the household did not qualify.

Box 3.3: Borrowing to Supplement Income

Many families borrow money to supplement their incomes to cover daily expenses, to cope with unexpected expenses such as hospitalizations, or to start or complete house construction. Despite the strong family networks, there appear to be clear distinctions between exchanges of money within the household, and between related households. For example, exchanges of money between working-age children are not referred to as loans; the only time a respondent indicated that he "borrowed" from a parent was when the children and parents lived in separate households. By contrast, exchanges of money between siblings, even cousins, take the form of loans, usually of no fixed term, and without interest. Similarly, the frequent small loans that pass between friends and neighbors, even the larger loans between close friends, are without interest. People also have been forced to borrow from moneylenders, usually at around 5 percent monthly interest. And such indebtedness has become a major problem for many poor families. In some cases, it threatens families with the loss of their homes, which they often put up for collateral.

CHAPTER FOUR

PROSPECTS AND POLICIES FOR POVERTY REDUCTION

4.1 Significant progress in macroeconomic stabilization, sweeping structural reforms, massive emigration and substantial inflows of concessional foreign aid have all contributed to the remarkable growth recovery in Albania over the last three years. Privatization of farm land has given the large rural population -- at a minimum -- a safety net, and in many cases a basis for more significant income growth. In the urban areas, private business opportunities, self-employment and remittances from emigrants have given the population a critical boost, and helped counterbalance huge public enterprise job losses. Both rural and urban populations alike have benefited from the introduction of a social safety net, comprising unemployment benefit and social assistance, but both have had to cope with very poor infrastructure and declining public and social services. But while the economic successes have raised the incomes of the Albanian people, a large part of them remain poor -- indeed, very poor by European standards. This reflects the inheritance from the past, especially the last half century which did little to improve the living standard of most of the population. Together, decades of economic mismanagement, rapid population growth, a low per capita arable land area and mass loss of unviable jobs have all contributed to making Albania a very poor country with a large number of poor people. Many years of sustained economic growth, well in excess of the annual population growth rate of close to 2 percent, will be needed to bring Albanians close to the income level of people in other southern and central European countries. This chapter discusses the policy framework that is needed to achieve this outcome.

4.2 This chapter is organized in the following way. It begins by recalling the essential elements of the poverty profile (within the serious confines of the data limitations) and their regional dimensions. The chapter then goes on to discuss two complementary sets of anti-poverty policies: those that are critical to the perpetuation of a high growth rate that will benefit the bulk of the population, and those specifically targeted at the poor. The chapter attempts to offer both broad and more specific policy recommendations wherever possible in both of these areas. However, it is not possible to provide specific recommendations everywhere due to lack of information. Subsequent Bank reports (such as the forthcoming Country Economic Memorandum: CEM) will address some of these voids, and provide additional details.

4.3 **Poverty incidence.** The absence of nationwide, comprehensive household data render poverty analysis difficult, and will continue to hamper the ability to develop an effective poverty reduction strategy for Albania. Moreover, the situation is very fluid, with populations moving from rural to urban locations, in- and out-of country, and businesses springing up one day and failing the next. ***One of the key recommendations of this report is that Albania launch a nationwide survey of household incomes and expenditures to help better quantify the extent of poverty, characterize the poor, understand better the importance of new sources of income, and aid public policy and program design.*** The best estimates that can be derived from available information suggest that around 30 percent of the rural population (approaching 600,000 out of a total of 1.9 million), and around 15 percent of the urban population (185,000 out of an urban total of 1.3 million) are in poverty *relative to* the rest of the country's rural and urban populations.¹ On the basis of these figures, around one-quarter of the population nationwide is in *relative* poverty. (No absolute measure of poverty can be made.) Although

¹ The poverty lines are derived from two different data sets: one for the rural areas and one for the urban areas. Both lines are *relative* lines, drawn at 50 percent of mean expenditure per adult equivalent. If the rural line is inflated by 25 percent to proxy non-farm income (the data set captures only agricultural incomes), the value of the two poverty lines is identical (25,000 lek p.a.). In this way, rural and urban poverty estimates can be reasonably compared.

the orders of magnitude cannot be precise, all evidence suggests that poverty is more pervasive among the rural population than the urban population², but, generally speaking, poverty in the rural areas is *less deep* than in the towns. This reflects the role of land in the rural areas, providing a private safety net, whereas the unemployed urban populations have no such private safety net other than relatives -- they are entirely dependent on the social safety net, which may or may not be reaching them. The main correlates of (income) poverty are very small farms, few animals and poor off-farm income earning opportunities in the rural areas, and unemployment due to mass public sector job destruction in the urban areas.

4.4 ***Regional issues.*** All indicators suggest a regional dimension to poverty, which to some extent cuts across the rural-urban distinction. For example, coastal rural areas have a poverty incidence that is lower than most towns. Poverty is most pervasive in the north/northeast, which is predominately rural and mountainous, and where close to half of the population are in poverty.³ Here, average land holdings are small (less than 0.5 hectare), farm incomes are low (especially cash incomes from marketed produce), there are very limited opportunities for off-farm employment, the fertility rate and infant mortality rate are higher than elsewhere, and there is evidence of malnutrition in infants and young children.⁴ Even the towns of the north, e.g. Lezha, have a higher poverty incidence and depth than some other towns. Outside the north/northeast there are substantial pockets of poverty in both rural and urban locations. For example, very poor people can be found in the mountains around Pogradec and in the district of Gramsh. With regard to the towns, those with the highest rates of unemployment, e.g. Elbasan, are particularly vulnerable to poverty, as are those whose rural hinterland is producing very little. By contrast, "old town" Tirana has a lower poverty rate.⁵

4.5 ***Access to public services.*** Most rural and urban populations are faced with poor physical infrastructure (roads, water supplies and sewerage systems) and deteriorating social services (health and education). This reflects both decades of under-investment, and declining fiscal revenues in recent years. There are some variations in quality and access to public services -- for example, Tirana has the most inadequate sanitation system of all major towns, rural areas and emerging peri-urban settlements generally have worse access to public health services and schools compared to established towns -- but there is no obvious distinction between the poor and the non-poor since entire communities are the typical service unit. This may, however, be changing as the notion of "user charge" or "fee for service" is being introduced for many public services, including health and education, thus imposing a direct cash cost on service use, a particular problem for people with little disposable cash incomes (e.g. subsistence farmers).

Promoting Economic Opportunities for the Poor

4.6 Because of the pervasiveness of low incomes and continuing population growth, sustained economic growth is the key to poverty reduction in Albania. Since most of the poor (and non-poor) depend on income from labor -- from work on their own land, from wages, or from self-employment -- the optimal growth pattern is one that promotes broadly based rural development and urban employment

² The predominance of the poor in the rural areas is a similar pattern to much of central and southern Europe, but it differs from FSU countries where poverty is more common in the urban areas.

³ These are the districts of Bulqize, Dibra, Has, Kukes, Mat, Mirdite, and Puka.

⁴ Within this region, however, there are important variations: for example, the districts of Mirdite and Puke have the lowest average farm sizes; Diber and Kukes have the highest incidence of social assistance payments; and Has and Bulqize have the highest infant mortality rates. Within districts, and constituent communes and villages one would also find further variation.

⁵ Some of the emerging areas of Tirana, the peri-urban areas, have higher poverty rates.

and self-employment. This, together with emigration for work, is not dissimilar from the growth path that Albania has followed in the past three years. But, from the initial low base and the correction of inherited major distortions, rapid growth has, this far, come easily, especially in agriculture, construction, services and small businesses. Moreover, this growth was fueled by investments stemming from remittances (private capital flows from abroad), and concessional aid -- capital sources that cannot be depended on for the future. While every effort should be made to promote the continuation of these sources, new sources of capital will be needed to underpin a dependable and sustainable growth path for the future. Recent improvements in private and public domestic savings augur well in this regard, and further measures that help create conditions for mobilizing domestic and foreign savings to sustain high levels of investment are desirable. (For example, further reforms in the banking sector are needed to mobilize and intermediate private savings, greater effort at mobilizing revenues to raise public sector savings, as well as policies that continue to promote low inflation and a stable exchange rate.)

4.7 There are four basic elements to the “growing out of poverty” strategy:

- **rural development:** maximizing the growth potential of the agricultural sector, and promoting up-stream and down-stream linkages with agriculture to develop off-farm rural employment;
- **urban development:** facilitating self-employment and private small- and medium-enterprise development in the urban areas;
- **public expenditure:** ensuring efficient public expenditure/public investment to underpin private sector growth in both rural and urban areas, and creating a healthy and well-educated, flexible labor force; and
- **mobility and migration:** facilitating the mobility of the population to move from areas of low economic potential to areas of higher economic potential.

Rural Development

4.8 Agricultural growth will continue to be the driving force behind rural development, but increasingly off-farm income-earning opportunities will be key. Although the coastal lowlands and the eastern plateau are particularly fertile and water abundant, Albania has limited arable land. Rapid population growth has put tremendous pressure on the land. Moreover, agriculture is supporting a greater part of the labor force than hitherto (65 percent in 1995 compared to 22 percent in 1990). Following the land reform of the early 1990s, one-fifth of the rural population has a farm that is smaller than half a hectare; two-fifths of the rural population live on farms of less than one hectare. Even the smallest farms are divided into three parcels, often some distance apart.

4.9 At a minimum, consolidation of parcels needs to take place to facilitate more efficient use of land and time, and for farmers to have greater security over crops and livestock. Beyond this, consolidation of very small plots into larger plots is a likely development once the land market begins to operate. *To facilitate this, greater administrative effort is needed to finalize the titling of land in order for land sales to occur.*

4.10 In the more immediate future, widespread ownership of small plots, critical to short-term political and social stability, household food security and equity goals, can *probably* be consistent with continuing growth in the agricultural sector. Thus far, output growth has occurred across all farm sizes, in the main largely due to a switch in production, out of wheat into higher value crops and livestock.⁶ Although the bulk of agricultural production remains for own consumption, trend analysis suggests that

⁶ A large part of the micro-credit program of the Albanian Development Fund has financed livestock.

more produce, especially livestock and dairy, is making its way to market, thereby giving farmers much needed cash incomes. At some point in time, because of their very small hectareage, many farms will reach the outer bounds of their growth potential, and subsequent growth in the sector is likely to be concentrated among the larger (> 1.5 hectares) holdings in the coastal area and plains, where advanced technologies and cropping patterns can be introduced. Only part the population (i.e., the 35 percent that currently occupies these holdings) will benefit directly from this phase of growth. Yet international experience demonstrates the positive impact of a dynamic agricultural sector on the rest of the rural economy: growth in demand for farm labor, up-stream and down-stream farm-related services, and for products of the rural non-farm sector is all to the benefit of the rural population at large. In particular, poor farmers with very small plots of land will have the opportunity to supplement their farm income with income from other rural activities.

4.11 ***Public policy should also be aimed at providing adequate conditions for high levels of private investment in support services in the areas with greatest growth potential for the domestic market and for export, i.e. the coastal plain.*** To this effect, a number of measures could be considered. First, credit, vital for production and investment, is severely constrained by the insufficiently developed financial system. The rehabilitation of the Rural Commercial Bank and the development of other avenues for rural credit beyond those provided under the ADF, should be a first priority. Bureaucratic and regulatory impediments to the growth of employment intensive businesses should be removed. The public investment program should give appropriate weight to the requirements of rural and agricultural infrastructure, especially those elements that are likely to foster private investment in agriculture. These themes will be taken up in the agriculture sector strategy part of the forthcoming CEM.

4.12 Non-farm income is already a critical source of income for many farming households, and its importance can only increase in the future. As discussed above, for much of the rural population (those families with less than one hectare of farm land), land and farming can at best be one prong of an income-generating strategy. Progress with poverty reduction will depend on access to alternative employment and business opportunities either in-country or abroad. But for some -- the elderly, the sick, and women with young children⁷ -- taking on extra work and/or migrating to town is not an option. For these people, social transfers will be critical (See below).

Urban Development

4.13 Albania is currently the least urbanized country in Europe with only 40 percent of the population living in cities and towns. Rural-urban migration has already swelled the ranks of the urban population and this trend can only gather momentum as the rural sector sheds people. ***A major concern for those who have migrated to the towns is the absence of secure land tenure. To address this problem the government should consider*** (a) adopting a relatively low-cost and rapid means for clarifying land ownership and registering properties, and (b) providing temporary registration that ensures that migrant households have access to schools and health facilities, and can obtain business licenses. Rural-urban migration is putting tremendous pressure on urban infrastructure and services, already poor and inadequate due to decades of under-investment. The pressure on jobs, small business opportunities as well as housing, infrastructure and urban services is mounting. Thus far, people are finding new sources of income (other than public sector wage employment) which can be employment abroad, starting a small business or selling on the street, or having two or more jobs, but other less-welcomed coping

⁷ The ADF's rural infrastructure program was launched with a public works philosophy as well as responding to the need for rural infrastructure. It soon emerged that as a public works program, it would have little success since (a) there was a strong coincidence with the seasonality of agricultural labor demand, (b) surplus young male labor migrated out, and (c) the poorest households had no able-bodied labor to supply to the program. The modus operandi of the program switched to one of hiring contractors to undertake the work.

strategies, such as consuming less food, including bread, and switching to cheaper foods, selling assets, dis-saving and borrowing, and as a last resort withdrawing children from school to help earn money, are also evident.

4.14 Albania lost around 350,000 jobs in the years 1990-95, half of all jobs outside agriculture, a large proportion of which were urban based. Despite some recent growth in employment, stemming from self-employment and small business development, urban *registered* unemployment is still around 30 percent of the labor force. In some towns, e.g. Elbasan, it is close to 40 percent. While over-stating the true situation due to informal employment and illegal activities, urban unemployment and withdrawal from the labor force (discouraged workers) is of immense proportion. The average family now has only one wage earner as compared to two in the past. There is a strong association between unemployment and urban poverty. Employment promotion, including self-employment and small business opportunities, is, therefore, the essential precondition to a reduction in urban poverty.

4.15 Promoting self-employment and private small and medium-enterprise development in the urban areas would be well-served by ensuring that the necessary legal, regulatory and institutional framework is conducive to small business growth (to be further discussed in the forthcoming CEM), by expanding the scope of small business advice (especially), quality assurance and marketing, and providing small-scale urban credit and other financial sector reforms. The latter would complement remittance income which for the past several years has had a significant impact on the rise of small business activity in the urban areas. The recently approved IDA credit in support of ADF micro-enterprise activities in urban areas represents an important start in this respect, but like the rural program, a credit scheme catering for slightly larger enterprises is also needed. Progress with the privatization of public utilities, especially electricity, in so far as it improves the regularity of power supplies to small businesses is essential, but this must be predicated on full cost recovery principles.

4.16 Urban environmental problems are threatening Albania's cities, and as the urban population grows, the negative health and environmental effects normally associated with poor sanitation and waste management will undoubtedly get worse unless the necessary urban services are upgraded. While major investments in water supply and sanitation are under consideration in Elbasan, Fier, and Lezha, attention also should focus on additional urban services such as solid waste management and drainage. *In designing these improvements in infrastructure and services, efforts should focus on standards of service and cost recovery that are appropriate to Albania's income level*, together with funded provisions to provide life-line access to electricity, water and sanitation for the poorer urban households. Although the infrastructure and urban service requirements of the emerging peri-urban areas are easily apparent, the needs of the more established inner-cities should not be disregarded.

Public Expenditure and Investment

4.17 Unlike many former centrally planned countries, the role of the state has been reduced rapidly in Albania. Agriculture, accounting for 56 percent of GDP, is almost entirely in the hands of the private sector. Construction, transport, trade and services, heavily financed by remittances from abroad are also largely within the domain of the private sector. Even industry, though not yet substantially privatized, is increasingly dominated by emerging small private sector companies.

4.18 In 1995, between 25 and 30 percent of GDP passed through the budget. About a third of expenditure was on personnel, another third on transfer payments (e.g. pensions, unemployment benefit, and social assistance), and the balance was spent on operations and maintenance, interest payments and subsidies (minor). The capital budget, approximately 10 percent of GDP in 1995, is primarily foreign donor financed. In the past two years it was dominated by investments in agriculture, water supply, health and education, and housing.

4.19 The demands on the public budget for infrastructure, public utilities, social services, transfer payments and the civil service will continue to be vast, yet the revenue base of the country is unlikely to provide the resources for all these competing demands. Some growth in revenues as a share of GDP is foreseen over the next 2-3 years, primarily resulting from the recently introduced VAT system, and donor support is likely to continue, but these will only satisfy some of the country's needs. The Albanian Government, therefore, will need to keep public expenditures broadly in line with revenues (running a modest fiscal deficit), and will have to be necessarily selective in the areas it finances, including the use of donor financing, and stress expenditure efficiency to maximize the benefit of public investment. Policies that encourage private investment, both domestically financed and foreign financed, can play an important complementary role.

4.20 There will remain, of course, a number of functions and areas of responsibility that are legitimately and appropriately the role of the state. From the perspective of poverty alleviation, there are a number of areas that call out for public expenditure (investment). The most important ones are the following: education and training, urban infrastructure and services (water, sanitation, and solid waste, along the lines discussed above), roads and agricultural support services in *the high potential agricultural areas*, health, and small business services and credit programs. The 1996-98 public investment program (PIP) may have to be revisited to ensure that these priorities, especially education, are accorded an appropriate weight.⁸

4.21 ***Education and Training.*** One of Albania's key resources is its people. As discussed above, the export of labor to neighboring countries in the post-communist period has been one of the principal engines of economic growth, and labor emigration is likely to continue to be a critical feature of Albania's development path for years to come, as the pressure on the land and domestic job market will be unabating. In addition, a low wage and well-educated labor force could prove central to foreign investment coming to Albania. The centrality of the labor force in bringing prosperity to Albania and to the Albanian people calls for a concerted effort to upgrade and update the skills of those workers who would benefit most from education and training, and who can respond to new economic opportunities. Likewise, the next generation of workers warrants attention to ensure that they are equipped to succeed in the open and competitive world labor market. In the post-1990 period, there has been some deterioration in school enrollments, and there are growing concerns over the quality and relevance of education. Although in large part a reflection of the general economic environment, some of the deterioration can be traced to declining coverage and quality of school. This, in turn, can be related to falling public expenditure on education. ***Urgent measures are needed to ensure an increase in public spending on education and training.***

4.22 ***Health.*** Falling public expenditure on health, and rising direct costs associated with seeking health care are also of concern as they begin to have serious health status consequences. There has been some deterioration in the health status of the Albanian population -- for example, infant mortality and adult morbidity due to infectious diseases have increased. Although a large part of Albania's health problems stem from over-crowding and poor water and sanitation, difficult access to health facilities, and poor health services often fail to arrest health problem once they emerge. Improvement in the overall standard of living of the population and further improvements in health care infrastructure, hence, will undoubtedly bring progress in the health status of the population. But these are medium and long-term goals. In the meanwhile, other short-term strategies can be adopted that would be effective in reducing the infant mortality rate and the incidence of infectious diseases with particular attention to low income

⁸ The PIP accords high priority to transport, infrastructure (water and sewerage), energy and agriculture, adding up to two-thirds of all investments (compared to around half in the past two years). In comparison, planned investment in education is 6 percent of the investment budget, compared to 10 percent in 1994 and 1995, and health drops to 7 percent from 9 percent.

families (in the rural areas) and rural-urban migrant population groups. These are presented in Annex 4. A particular problem relates to the direct costs associated with seeking health care, which are keeping some poor urban families, and particularly elderly women, from seeking health care. Improved working conditions and real increases in wage levels of medical personnel, as part of an overall public service reform program, would go some way to eliminating under-the-table co-payments, but other measures may be necessary to ensure that inability-to-pay does not prevent poor, elderly and sick people gaining access to health care.

4.23 Public expenditure on pensions, unemployment benefit and social assistance all remain central to poverty prevention and alleviation (see below), but caution needs to be exercised to ensure that the appropriate incentive systems remain in tact, that a dependency on the state does not develop, and that employment is not over-taxed to fund these transfers. (Private transfers, extended family support systems, and self-help are very much in evidence in present-day Albania and should be encouraged and not undermined by state-funded support systems.)

Mobility and Migration

4.24 Large numbers of Albanians are already leaving the land and migrating to town, responding to both the constraints of the rural areas and the attraction of the towns. Since restrictions on internal migration were lifted, there has been substantial de-population of the mountainous north and north-east, areas artificially over-populated under the communist regime, where land holdings are especially small, off-farm employment opportunities are few, and the poorest part of the country. (Districts bordering Greece have also lost population.) People are moving primarily to Tirana, Durres, Kruja, Elbasan, Pogradec and Shkodra, locations where income generating opportunities are perceived to be better, and where access to social services is a little easier. Notwithstanding the pressure that migration is putting on urban infrastructure and services, population movement from areas of low economic potential to areas of higher economic potential leads to an increase in economic well-being, for the individuals concerned and the nation as a whole. *Policies that support population mobility should be encouraged.* Removing administrative and legal barriers to farm land sales (discussed above), thereby giving would-be migrants some capital, and easing the mechanism for securing land in urban locations for home construction, would be well complemented by investments in education and training to provide the migrants, and their children, with the skills necessary to be effective in a rapidly modernizing urban environment.

4.25 Emigration to Italy and Greece in search of work opportunities has been a critical part of the betterment strategy for many Albanian families in the post-communist era. Remittances from Albanian migrants have been the main source of savings for financing domestic investment, with much of the investment going into housing and small business development. The prospects for emigration and remittances have important implications for the future, especially for poverty reduction. In this regard, policies that increase the chance of successful emigration for work and encourage investment of remittances are to be supported. In this regard too, education and training, are critical. However, emigration is a sensitive issue for recipient countries and for the EU as a whole, and the continued support for Albanian emigrants cannot be guaranteed. The forthcoming CEM will analyze the present situation in some details, and examine prospects for further emigration from the perspective of receiving countries.

Reaching Out to the Poor

4.26 The growth policies discussed in the preceding paragraphs should benefit the bulk of the Albanian population, who will enjoy rising disposable incomes and improved welfare. However, there will be segments of the population -- the elderly, the sick and less able-bodied, those with little or no education, and those in disadvantaged parts of the country -- who may not participate in the growth-generating activities, and find themselves peripheral to the income and welfare gains. For these people,

additional policies that target them and their particular circumstances are needed. The household data suggest that rural poverty is more pervasive yet shallower (but with some notable regional variations) compared to urban poverty which is less widespread but more severe. These observations have important implications for policy design.

4.27 Focused poverty-reducing policies and programs should be targeted at four population groups, two rural and two urban:

- **transitional rural poor:** those whose land holding is of an insufficient size to generate a sufficient income to sustain a family, who need some *transitional* income support (e.g. social assistance) until they are able to supplement their income from other activities. These people might need additional programs to launch them into other income-generating activities, such as credit provided by the ADF, education and training;
- **permanent rural poor:** those rural people who will never be able to sustain themselves from farming and other income-earning opportunities -- the elderly, the sick and those living in the poorest rural areas. These people will need *long-term* income support (social assistance, pensions and, possibly, feeding schemes);
- **transitional urban poor:** the urban unemployed, who need income maintenance (unemployment benefit followed by social assistance) until they are re-employed, or become self-employed. In order to regain employment/self-employment, certain *active-labor market programs* might play a role. In the event of income insufficiency from low-wage employment, an income supplement (partial social assistance) may still be necessary, and the objective should be for the family to be better-off in employment than entirely dependent on social assistance; and
- **permanent urban poor:** the urban elderly and sick who are unable to participate in the labor market, and who will need long-term income support (pensions and social assistance).

4.28 For all these four groups, income supplements (cash social transfers) and programs that encourage re-employment need to be complemented by health, nutrition and education services that reach out to the poor, and their children, to enable them to participate in an active life.

Social Assistance -- Ndhime Ekonomike

4.29 Since its inception in 1993, this program has played a critical role in both the rural and the urban areas. For small-scale farmers, especially in the north and north-east, and the long-term unemployed it has been the difference between survival and starvation. At its peak close to 20 percent of families were receiving assistance, at a cost to the budget in excess of 2 percent of GDP. In parts of rural Albania, benefit incidence is as high as 50 percent. General rural indicators, such as average farm size, show considerable success with program targeting, but other indicators, such as long-term unemployment figures, show less success. There has been some decline in the number of beneficiaries during the past two years, but the real value of the ndhime budget has fallen more sharply. The effect of this is declining individual payments -- between 1993 and 1995, the value of a full ndhime payment fell by 20 percent in real terms. For families dependent on social assistance this has presented major hardship.

4.30 The analysis of this report has also revealed that some households above the poverty line are receiving social assistance, while some households under the poverty line are not receiving support. This is a particular problem in the urban areas where income can be "hidden" and eligibility is more difficult to assess. Perfect targeting is rarely achieved with such programs, but improvements can generally be made.⁹ Measures adopted over the past year or so (abolition of the minimum payment, part-retention of

⁹ There comes a point, however, where the costs of better targeting outweigh the benefits.

program savings by local authorities, an assessment of living conditions, and the installation of an inspectorate: see para. 4.24) should reduce inclusion and exclusion errors, but by how much remains to be seen. A critical development will be the trend in payment levels to the most needy families for whom an increase in the real value of assistance is desirable. However, given the overall fiscal situation, any increase in payments to the poorest should be counterbalanced by a decrease in payments elsewhere. In the longer run, household surveys should permit closer monitoring of the recipients of Ndhime as well as the closer identification of household characteristics associated with poverty, thus facilitating further fine-tuning of the program.¹⁰

Helping the Unemployed

4.31 Unemployment developed very rapidly in Albania as the economy collapsed, large numbers of state-enterprise jobs were lost, and the introduction of unemployment benefits provided an important component of the social safety net. Nonetheless, unemployment -- especially among household heads -- is the main correlate of urban poverty. At one year entitlement duration and with average benefits being slightly higher than the minimum wage, the scheme could be considered quite generous. (Other transition economies have reduced entitlement periods to 6-9 months, and lowered the replacement rate.) In addition, it is thought that a number of unemployment payment beneficiaries are working in the informal economy. At the same time, the phenomenon of long-term unemployment is developing (that is, people being out of work for more than a year). This is a worrisome development as people begin to lose touch with the world-of-work and find it increasingly difficult to hold down a job as and when one emerges. Experience from other countries shows the association of long-term unemployment, poverty and inter-generational deprivation. In the light of these observations, three recommendations are appropriate: (a) set payment levels such that they are *below* the minimum wage, thereby giving the right incentive to return to work, albeit a low wage job; (b) concentrate more resources on active labor market programs (retraining, small business start-up, public works programs, etc.); and (c) target the long-term unemployed, using a combination of active labor market programs and income support schemes to promote re-employment with an *income gain*. Since many of the long-term unemployed lack schooling, some basic education programs may be necessary before other labor market programs could become effective.

Pensions

4.32 Pension incomes are critical for many urban and rural residents. For urban pensioners, the pension is of a sufficient amount to meet minimum subsistence needs, and they are not found to be among the poorest. However, many households comprise three generations and pensions are often one of the most important sources of income for a family of five or six (figure 3.1). When spread around so many people, the pension is barely adequate, and these families are indeed among the poorest. But it is not the place of the pension to alleviate their poverty -- other interventions should be preferred.

4.33 For rural families, pensions are also an important source of income. Among households with less than half a hectare of land, almost 40 percent rely on pensions as their main source of income. Given the low value of the agricultural pension, 900 lek/month, these households can be thought of as extremely poor. The overall fiscal situation of the pension (social security) fund is such that it is not feasible to recommend any significant general increase in agriculture pensions. However, given the inequities in land holdings, which bear little relationship with any previous contribution to the economy, a case could be made for some incremental payments to elderly rural residents who have very little land. Whether the

¹⁰ The joint research program of the Ministry of Labor and Social Policy and the Bank, scheduled to start this summer, is an important first step to study the effectiveness of social assistance using survey data and appropriate statistical techniques.

pension is the appropriate mechanism, or whether social assistance or another instrument would be better, should be explored further.

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ANNEX 1: THE URBAN SURVEYS

1. Tirana Household Expenditure Survey

The first household survey to be conducted in Albania was administered to 3179 households in Tirana between August and October 1993. The sample was drawn from a list of houses and apartments compiled from the 1989 Census, updated to include post-1989 developments. On the basis of socio-economics variables (demographics, housing, employment, migration, and durable goods), a second questionnaire was administered to a stratified sub-sample of 807 families. The latter was a detailed household expenditure survey. A second survey was carried out between May and July 1994, which involved returning to many of the same households, with both the broader socio-economic survey instrument and the detailed household expenditure questionnaire.¹

Some of the main results from the 1993 survey are:

- annual expenditure was 35,244 lek per capita, or \$29 per month. Of this, 72 percent was spent on food. The *poorest quintile* of persons spent 16, 495 lek p.a. (\$13.50 per month), of which 84 percent was spent on food. Expenditure patterns reflect usual elasticities with respect to income.
- bread dominated the consumption basket of all households, accounting for 10 percent of total expenditure.
- average household size was quite low, 3.6 persons. Two-thirds of families were nuclear in structure.
- educational attainment of the working age (15-60 years) population is high: 11.3 years of averaging schooling, with little variation between age cohorts and gender.
- according to the ILO's definition of unemployment, 16 percent of the labor force was unemployed (compared to 35 percent on a registration basis). Unemployment was heavily concentrated in the 15-24 age group.
- 12 percent of families have members that have emigrated.
- almost half of the families owned their own dwelling, the majority had a television and a fridge, and 60 percent a washing machine -- in the most part purchased since 1991.

2. Survey of Three Towns and Peri-Urban Tirana

Survey Areas

The survey in the three medium-size cities (Elbasan, Fier and Lehza) was undertaken to generate household and individual-level data for the Poverty Assessment and the Medium Size Cities Water Supply and Sanitation Project. Identifying enumeration areas, therefore, had to take into account (a) neighborhoods identified as poor through interviews with key informants in each of the survey sites; and (b) the geographic coverage of the water supply and sanitation project. The total sample size consisted of 471 households, roughly divided evenly among the 3 cities.

The Tirana survey, originally designed as a pre-test for a survey instrument to support the preparation of the Albania Second Housing Project, was expanded in scope to include poverty

¹ Both survey instruments were revised to some extent on the basis of experience gained during the first survey.

issues, especially those related to migrants, in four peri-urban neighborhoods (Mihal Grameno, Old Selita, Kavaja Road, and Yzberish). The selection of survey sites was based on (a) their potential inclusion in the housing project and (b) guidance provided by the Land Management Task Force, which is responsible for project preparation.

Selection of Households

The study team applied a three-stage sampling process in selecting households for the survey. While the sample was not intended to generate nationally representative results, the survey team considered it important to follow a systematic sampling procedure to ensure that a reasonably good cross-section of the population was included in the sample. The sampling procedure involved three basic steps.

Area Mapping. In the absence of an appropriate sample frame or census list, the first stage of sampling required mapping enumeration areas within each city. Using available city maps, the survey team divided each city into four sections. Guided by a local planner or engineer in each city, the survey team then identified neighborhoods within each section. These procedures ensured that adequate geographic representation of the population was achieved in defining the sample. In Tirana, however, the survey areas already were identified by the Land Management Task Force.

Enumeration of blocks. The second step in the sampling process involved enumerating blocks or rows of buildings or houses within neighborhoods. In identifying the blocks to be surveyed in each quarter, the survey's main consideration was to ensure a balanced geographic coverage.

Selection of Households. The third stage involved selecting apartment buildings and houses in each neighborhood. Based on information relating to the proportion of multi-story apartment buildings and single-family houses in the three cities, about two-thirds of the households were selected from occupants of multi-story buildings, and about one-third consisted of households living in single-family homes.

In selecting households within multi-story apartment buildings, households were chosen from each floor level because of the potential differences in water pressure and availability in households on different levels. In the case of two-family homes, moreover, the families were counted as either one or two households depending on whether each family considered itself an independent economic unit.

In Tirana, where the neighborhoods were identified by the Land Management Task Force, the process of selecting households differed slightly from the process applied in the other three cities. In the neighborhoods where the majority of housing units consisted of single-family homes, the interviewers administered a questionnaire in every third household, starting at the beginning of a row or road. Where there was no discernible road and widely dispersed housing units, adequate geographic representation was taken into account in the random selection of households. The total sample size for Tirana consisted of 52 households from the four neighborhoods.

Organization of Survey Team

At the start of the field work, a World Bank social scientist conducted a training session for 20 local staff. The training focused on the purpose of the social assessment and specifically the household survey, and the means by which the interviews should select households and administer the questionnaire. The social scientist also identified supervisors and clarified their role in the survey. The survey team was then organized into 4 teams, each consisting of 4 interviewers and 1 supervisor. Each supervisor was responsible for checking the completed questionnaires at the end of each interview day. After the supervisor checked the questionnaires to ensure that each question was completed correctly, s/he turned them over to two members of the field team responsible for data entry. These data entry staff also received special training. This promoted an interactive process of cross-checking data between the interviewers and the data entry operators, thus ensuring rapid processing and maintenance of data quality.

Table 1: Profile of Land Use, 1994

	Avg Share of Fallow Land	Avg Application of Fertilizer (lek)	Avg Share of Wheat Production	Avg Share of Wheat Marketed	Avg Share of Fodder Production	Avg Share of Fodder Marketed	Avg Share of Potato Production	Avg Share of Potatoes Marketed	Avg Share of Grapes Production	Avg Share of Grapes Marketed
Coastal										
<0.5 ha	22.45	1261	14.8	0	14.1	0	0		14.6	0
0.5-1.0 ha	15.45	2464	11	1.63	29.4	1.85	0.3	8.33	6.8	0
1.0-1.5 ha	14.34	4677	15.3	6	31.3	0.11	0.1	13.33	5.7	0.91
1.5-2.0 ha	13.77	5119	18.6	9.42	31.2	0.85	0.6	12.5	4.4	1.32
>2.0 ha	15.46	8615	18.6	7.86	33.8	3.11	0.4	6	5.2	0.1
Total	15.17	5499	16.3	6.73	31.0	1.58	0.3	9.06	5.9	0.52
Foothills										
<0.5 ha	11.43	338	6.6	22.5	15.5	0	0.3	0	5.7	0
0.5-1.0 ha	12.03	4070	15	8	9.8	5.48	0.4	12.5	8.2	0
1.0-1.5 ha	5.92	5842	20.7	2.12	3.9	0	0.4	16.67	9	8.84
1.5-2.0 ha	9.88	4247	23.2	3.26	8.7	0	0.4	0	5.8	4.02
>2.0 ha	6.74	5854	24.5	3.88	10.1	0.88	0.7	8.67	4.2	1.64
Total	8.91	4461	19.2	4.55	8.9	1.3	0.5	6.35	6.7	3.51
Upland										
<0.5 ha	4.74	2046	6.1	0.9	4.2	0	3.4	16.23	10.7	0.53
0.5-1.0 ha	8.85	4803	17.2	0	7.5	0	3.6	14.78	5.6	0
1.0-1.5 ha	12.33	6741	23.3	1.41	8.5	1.92	0.6	0	6.2	0
1.5-2.0 ha	11	5812	22.2	0	9.9	0	2.1	7.75	5.2	0
>2.0 ha	19.17	6786	21.5	2.65	7.9	0	1.4	12.78	4.1	3.85
Total	9.51	4643	16.0	0.83	7.0	0.37	2.6	10.44	7.1	0.49
Mountain										
<0.5 ha	6.12	1105	0.9	0	10.6	0	2.8	0	7.1	0
0.5-1.0 ha	38.05	2089	3.1	25	5.7	0	4.7	0	8.3	0
1.0-1.5 ha	18.66	3538	12	0	9.5	0	9.1	0	4.9	0
1.5-2.0 ha	22.84	2022	19.6	0	8.6	0	2.4	0	12.4	0
>2.0 ha	42.86	6486	43.2	0	0		1.7	0	2.7	0
Total	17.9	20001	6.9	3.57	8.6	0	3.8	0	7.2	0
All areas										
<0.5 ha	7.35	1545	5.5	2.47	7.9	0	2.6	10.37	9.5	0.3
0.5-1.0 ha	13.83	3811	13.9	2.77	13.4	1.54	2.3	11.92	6.7	0
1.0-1.5 ha	12.14	5523	18.8	3.31	17.2	0.61	0.8	4.6	6.5	2.39
1.5-2.0 ha	12.46	4932	20.8	4.84	18.5	0.4	1.1	6.38	5.4	1.66
>2.0 ha	15.22	7639	21.2	5.83	23.1	2.21	0.7	8.1	4.7	1.02
All	12.18	4645	15.8	4.12	15.8	1	1.5	8.41	6.6	1.08

Table 2: Sources of Farm Income, 1994

Holding Size	Gross Agricultural Income	Net Agricultural Income	Crop Sales	Livestock Sales	Dairy Sales	Own Consumption of Crops	Own Consumption of Livestock	Own Consumption of Dairy	Production Costs
Coastal									
<0.5 ha	100.00%	73.04%	0	5.92%	6.56%	46.00%	2.97%	38.55%	26.96%
	55849.7	40794	0	3305	3663	25693	1659	21530	15056
0.5-1.0 ha	100.00%	65.53%	0.93%	7.22%	7.46%	56.93%	3.21%	24.25%	34.47%
	116307	76219	1087	8398	8681	66212	3730	28200	40088
1.0-1.5 ha	100.00%	59.24%	2.19%	4.48%	7.96%	61.02%	4.10%	20.25%	40.76%
	125418	74302	2752	5622	9979	76526	5137	25402	51116
1.5-2.0 ha	100.00%	57.92%	2.81%	4.82%	7.50%	61.39%	3.29%	20.18%	42.08%
	165069	95610	4645	7962	12379	101341	5424	33317	69459
>2.0 ha	100.00%	54.02%	2.15%	4.20%	6.65%	65.15%	2.99%	18.86%	45.98%
	216863	117156	4667	9119	14419	141279	6481	40898	99707
Total	100.00%	57.66%	2.12%	4.79%	7.20%	62.16%	3.31%	20.43%	42.34%
Foothills									
<0.5 ha	100.00%	80.00%	3.53%	9.88%	0	36.05%	14.17%	36.36%	20.00%
	54508.2	43604	1924	5388	0	19648	7726	19821	10904
0.5-1.0 ha	100.00%	79.39%	5.33%	18.66%	3.59%	38.72%	8.30%	25.39%	20.61%
	84209.1	66854	4490	15714	3027	32607	6988	21382	17355
1.0-1.5 ha	100.00%	83.18%	9.14%	9.65%	1.15%	51.34%	6.14%	22.57%	16.82%
	87783.1	73018	8025	8472	1008	45072	5391	19815	14765
1.5-2.0 ha	100.00%	79.33%	2.17%	9.46%	1.28%	49.61%	6.16%	31.32%	20.67%
	99570.7	78994	2165	9417	1277	49401	6130	31181	20576
>2.0 ha	100.00%	77.26%	3.71%	6.57%	0.89%	53.73%	5.48%	29.61%	22.74%
	140789	108780	5220	9253	1260	75646	7715	41695	32009
Total	100.00%	79.59%	4.81%	10.33%	1.47%	48.35%	6.87%	28.17%	20.41%
Upland									
<0.5 ha	100.00%	90.08%	4.99%	5.15%	0.52%	41.65%	12.23%	35.46%	9.92%
	56675.8	51052	2828	2920	295	23606	6929	20098	5624
0.5-1.0 ha	100.00%	80.08%	3.88%	5.81%	0	54.21%	9.89%	26.20%	19.92%
	72020	57677	2796	4185	0	39044	7123	18872	14343
1.0-1.5 ha	100.00%	75.72%	1.53%	5.13%	1.23%	57.65%	7.26%	27.20%	24.28%
	81428.8	61662	1244	4178	1003	46942	5910	22152	19767
1.5-2.0 ha	100.00%	75.53%	1.41%	6.44%	0	63.12%	10.41%	18.62%	24.47%
	91977.6	69473	1297	5926	0	58053	9578	17124	22505
>2.0 ha	100.00%	75.97%	2.23%	5.33%	0.20%	55.51%	7.79%	28.94%	24.03%
	109124	82897	2430	5820	221	60579	8497	31577	26226
Total	100.00%	80.22%	3.04%	5.55%	0.40%	53.57%	9.67%	27.77%	19.78%
Mountains									
<0.5 ha	100.00%	84.27%	0	2.84%	0	45.56%	20.12%	31.49%	15.73%
	51663.5	43539	0	1466	0	23535	10393	16270	8124
0.5-1.0 ha	100.00%	94.21%	0.66%	45.76%	2.59%	23.04%	7.02%	20.92%	5.79%
	126197	118894	839	57745	3273	29075	8861	26404	7303
1.0-1.5 ha	100.00%	80.59%	0	10.15%	0	55.95%	10.60%	23.30%	19.41%
	76847.8	61934	0	7800	0	43000	8142	17906	14914
1.5-2.0 ha	100.00%	79.38%	0	8.23%	0	59.35%	11.26%	21.15%	20.62%
	83529.4	66307	0	6878	0	49575	9406	17670	17222
>2.0 ha	100.00%	52.01%	0	0	0	67.49%	22.21%	10.30%	47.99%
	31509.7	16387	0	0	0	21267	6997	3246	15123
Total	100.00%	86.02%	0.24%	19.71%	0.94%	40.64%	13.42%	25.06%	13.98%
All									
<0.5 ha	100.00%	86.09%	3.19%	5.18%	0.86%	42.35%	13.56%	34.86%	13.91%
	55066	47405	1755	2852	471	23323	7468	19197	7661
0.5-1.0 ha	100.00%	76.94%	2.74%	13.59%	3.43%	48.48%	7.03%	24.74%	23.06%
	90739.8	69812	2484	12331	3110	43989	6378	22447	20928
1.0-1.5 ha	100.00%	68.67%	3.21%	5.81%	4.68%	58.19%	5.53%	22.58%	31.33%
	101016	69372	3239	5870	4725	58780	5589	22813	31643
1.5-2.0 ha	100.00%	66.60%	2.31%	6.22%	4.46%	59.25%	5.58%	22.19%	33.40%
	124267	82760	2865	7726	5536	73628	6936	27575	41506
>2.0 ha	100.00%	60.36%	2.41%	4.70%	4.92%	62.17%	4.06%	21.74%	39.64%
	175447	105897	4224	8250	8640	109078	7119	38136	69550
Total	100.00%	69.00%	2.69%	6.91%	4.08%	56.20%	6.19%	23.92%	31.00%

Table 3: Land Productivity by Strata (gross income per hectare)

Strata	Gross Farm Income (lek per annum)	Land Size	Gross Farm Income per hectare
Coastal			
<0.5 ha	55,850	0.31	179,217
0.5-1.0 ha	116,307	0.80	146,099
1.0-1.5 ha	125,418	1.26	99,253
1.5-2.0 ha	165,069	1.75	94,215
>2.0 ha	216,863	2.79	77,846
Foothill			
<0.5 ha	54,508	0.29	187,959
0.5-1.0 ha	84,209	0.78	107,926
1.0-1.5 ha	87,783	1.21	72,576
1.5-2.0 ha	99,571	1.78	55,968
>2.0 ha	140,789	2.71	51,880
Upland			
<0.5 ha	56,676	0.27	211,746
0.5-1.0 ha	72,020	0.75	95,821
1.0-1.5 ha	81,429	1.27	64,243
1.5-2.0 ha	91,978	1.77	52,036
>2.0 ha	109,124	2.72	40,130
Mountain			
<0.5 ha	51,664	0.21	242,740
0.5-1.0 ha	126,197	0.75	168,423
1.0-1.5 ha	76,848	1.12	68,422
1.5-2.0 ha	83,529	1.76	47,349
>2.0 ha	31,510	2.68	11,747
All			
<0.5 ha	55,066	0.26	212,048
0.5-1.0 ha	90,740	0.77	118,119
1.0-1.5 ha	101,016	1.25	81,045
1.5-2.0 ha	124,267	1.76	70,453
>2.0 ha	175,447	2.76	63,675

Table 4: Districts Included in Each Stratum

District	Coastal	Foothill	Upland	Mountain
Berat	28.60%	54.80%	16.70%	
Bulqize			100.00%	
Delvine	64.70%	35.30%		
Devoll	100.00%			
Diber		40.00%	60.00%	
Durres	50.00%	50.00%		
Elbasan	18.50%	27.70%	53.80%	
Fier	75.30%	24.70%		
Gramsh			100.00%	
Gjirokaster	100.00%			
Has			100.00%	
Kavaje	81.40%	18.60%		
Kolonje			100.00%	
Korce	62.20%		13.30%	24.40%
Kruje	42.50%	7.50%	50.00%	
Kucove		100.00%		
Kukes			64.00%	36.00%
Lac	100.00%			
Lezhe	66.70%	16.70%	16.70%	
Librazhd			77.80%	22.20%
Lushnje	78.30%	21.70%		
Malesi e Madhe		100.00%		
Mallakaster		57.10%	42.90%	
Mat			64.30%	35.70%
Mirdite			20.00%	80.00%
Peqin		100.00%		
Permet			100.00%	
Pogrades	26.10%		73.90%	
Puke			57.10%	42.90%
Sarande		54.50%	45.50%	
Skrapar			100.00%	
Shkoder	61.40%	8.60%	30.00%	
Tepelene		9.40%	53.10%	37.50%
Tirane	20.80%	66.70%	12.50%	
Torpoje			62.50%	37.50%
Vlore	34.00%	20.80%	34.00%	11.30%
Total	34.70%	19.20%	36.30%	9.90%

Table 5: Profile of Agricultural Holdings, 1995

Region and Holding Size	Pct of Stratum	Number of Households	Avg. Holding Size (ha)	Number of Parcels	Avg. Parcel Size (ha)	Holding Size per Capita (ha)
Coastal						
< 0.5 ha	6.5	27	0.3	4.2	0.1	0.1
0.5 - 1.0 ha	18.6	77	1.0	4.8	0.2	0.2
1.0 - 1.5 ha	25.9	107	1.3	5.9	0.3	0.3
1.5 - 2.0 ha	21.5	89	1.8	6.7	0.3	0.3
> 2.0 ha	27.4	113	2.8	7.8	0.4	0.5
Total	35.1	413		6.4		
Foothills						
< 0.5 ha	21.0	53	0.2	2.5	0.1	0.1
0.5 - 1.0 ha	12.7	32	0.7	6.4	0.2	0.2
1.0 - 1.5 ha	23.4	59	1.2	8.0	0.2	0.3
1.5 - 2.0 ha	17.9	45	1.8	7.2	0.3	0.3
> 2.0 ha	25.0	63	2.7	8.7	0.4	0.4
Total	21.4	252		7.2		
Upland						
< 0.5 ha	34.4	138	0.3	3.3	0.1	0.1
0.5 - 1.0 ha	29.2	117	0.8	5.5	0.2	0.2
1.0 - 1.5 ha	16.0	64	1.2	6.3	0.2	0.2
1.5 - 2.0 ha	11.7	47	1.7	7.3	0.2	0.3
> 2.0 ha	8.7	35	2.8	7.0	0.4	0.4
Total	34.1	401		5.3		
Mountains						
< 0.5 ha	58.6	65	0.2	3.2	0.1	0.0
0.5 - 1.0 ha	16.2	18	0.8	5.5	0.2	0.2
1.0 - 1.5 ha	10.8	12	1.1	6.8	0.2	0.2
1.5 - 2.0 ha	8.1	9	1.8	6.6	0.4	0.4
> 2.0 ha	6.3	7	2.6	6.6	0.4	0.5
Total	9.4	111		4.9		
All Areas						
< 0.5 ha	24.0	283	0.2	3.3	0.1	0.1
0.5 - 1.0 ha	20.7	244	0.8	5.5	0.2	0.0
1.0 - 1.5 ha	20.6	242	1.2	6.5	0.2	0.3
1.5 - 2.0 ha	16.1	190	1.8	7.0	0.3	0.3
> 2.0 ha	18.5	218	2.8	7.8	0.4	0.5
All	100.0	1,177	1.3	6.0	0.2	0.3

SOURCE: Calculated from the Annual Agricultural Survey for 1995.

Table 6: Comparison of Shares of Marketed Production, 1994 and 1995

Strata	Marketed Output, 1994	Marketed Output, 1995	Marketed Crops, 1994	Marketed Crops, 1995	Marketed Dairy, 1994	Marketed Dairy, 1995	Marketed Livestock, 1994	Marketed Livestock, 1995
coastal								
<0.5 ha	13.0%	28.5%	0.0%	4.0%	6.9%	18.2%	6.1%	6.3%
0.5-1.0 ha	15.3%	30.8%	1.1%	2.3%	7.8%	14.8%	6.4%	13.7%
1.0-1.5 ha	15.2%	28.0%	2.3%	2.8%	8.4%	16.2%	4.5%	8.9%
1.5-2.0 ha	14.7%	24.1%	2.3%	2.8%	7.9%	12.3%	4.5%	9.0%
>2.0 ha	13.0%	21.8%	2.0%	2.6%	6.6%	11.2%	4.5%	8.0%
coastal all	14.1%	24.9%	2.0%	2.7%	7.4%	13.2%	4.8%	9.1%
foothill								
<0.5 ha	11.2%	25.6%	3.8%	1.1%	0.0%	3.1%	7.5%	21.3%
0.5-1.0 ha	28.4%	27.3%	3.2%	4.6%	5.9%	8.8%	19.4%	13.8%
1.0-1.5 ha	19.9%	26.8%	4.3%	7.9%	1.8%	7.4%	13.8%	11.5%
1.5-2.0 ha	13.7%	24.4%	1.8%	6.4%	1.5%	5.1%	10.4%	12.9%
>2.0 ha	11.0%	16.8%	3.1%	6.8%	0.4%	2.0%	7.5%	8.0%
foothill all	15.9%	23.3%	3.0%	6.3%	1.7%	5.2%	11.2%	11.9%
upland								
<0.5 ha	11.6%	11.5%	5.6%	2.8%	0.8%	1.3%	5.2%	7.3%
0.5-1.0 ha	9.9%	14.5%	4.3%	2.1%	0.0%	2.7%	5.6%	9.8%
1.0-1.5 ha	5.9%	17.6%	0.7%	1.3%	0.6%	5.2%	4.5%	11.2%
1.5-2.0 ha	8.5%	11.9%	1.7%	3.2%	0.0%	1.2%	6.8%	7.4%
>2.0 ha	7.2%	26.0%	0.2%	4.4%	0.3%	8.3%	6.7%	13.4%
upland all	9.0%	15.8%	3.0%	2.6%	0.3%	3.5%	5.6%	9.7%
mountain								
<0.5 ha	3.7%	5.4%	0.0%	0.3%	0.0%	0.2%	3.7%	4.9%
0.5-1.0 ha	14.4%	23.1%	0.7%	0.0%	5.6%	8.0%	8.1%	15.2%
1.0-1.5 ha	10.7%	9.8%	0.0%	0.0%	0.0%	0.0%	10.7%	9.8%
1.5-2.0 ha	8.2%	10.2%	0.0%	3.2%	0.0%	0.0%	8.2%	7.0%
>2.0 ha	0.0%	21.4%	0.0%	1.2%	0.0%	8.2%	0.0%	12.0%
mountain all	8.9%	13.3%	0.2%	0.6%	1.7%	3.1%	7.0%	9.6%
TOTAL								
<0.5 ha	10.4%	13.9%	4.0%	2.3%	1.2%	3.5%	5.2%	8.1%
0.5-1.0 ha	14.7%	22.2%	2.6%	2.3%	4.2%	7.8%	7.8%	12.1%
1.0-1.5 ha	13.7%	23.9%	2.2%	3.2%	5.3%	10.7%	6.2%	10.0%
1.5-2.0 ha	13.0%	21.4%	2.0%	3.8%	4.5%	7.9%	6.5%	9.6%
>2.0 ha	12.0%	21.6%	2.0%	3.5%	4.9%	9.2%	5.2%	8.9%
all	12.9%	21.3%	2.3%	3.1%	4.5%	8.3%	6.1%	9.8%

Table 7: Trends in Agricultural Production ('000 tons)

Commodity	1985	1989	1990	1991	1992	1993	1994	1994 (alt)	1995	1995 (alt)
Wheat	603	613	613	297	253	467	420	380	400	301
Maize (human)	274	308	227	129	156	176	193	162	210	172
Potatoes	85	97	80	86	79	101	89	28	90	51
Vegetables/Melons	368	392	393	362	565	580	590	na	600	na
Sugar beet	228	262	169	58	47	27	60	na	70	na
Olives	33	31	10	35	20	25	30	17	35	21
Grapes	80	80	91	58	38	40	44	94	46	na
Milk	375	461	517	527	612	671	923	573	1047	813

SOURCE: Ministry of Agriculture and Food, IMF, Agricultural Surveys for 1994 and 1995.

Table 1: Mean Per Capita and Adult Equivalent Expenditure for Two Poverty Lines (1996 Survey)

	Expenditure per capita	Expenditure per adult equivalent	No. of households
Poverty Line			
<u>\$1 (2850 lek/m)</u>			
Non-poor	3949.9	5402.8	304
Poor	1375.2	1913.4	167
<u>50% Mean Expenditure (2083 lek/m)</u>			
Non-poor	3487.6	4777.7	387
Poor	961.2	1345.2	84

Table 2: Poverty and Household Income Sources (two poverty lines)

	<u>\$1 (2850 lek/m)</u>		<u>50% Mean Expenditure</u>		<u>Total</u>
	Non-poor	Poor	Non-poor	Poor	
Wages	42.5	32.8	42.6	22.7	39.1
Pension	19.2	26.0	20.1	28.5	21.6
Unemployment benefits	6.0	10.5	6.6	12.4	7.6
Social assistance	9.0	16.6	8.9	24.2	11.6
Remittance (local)	1.0	2.1	1.4	1.5	1.4
Remittance (abroad)	7.5	4.2	7.5	1.3	6.4
Gifts/other donations	1.3	0.6	1.1	1.1	1.1
Business	9.7	3.9	8.4	4.4	7.7
Agriculture	1.0	0.3	0.9	0.1	0.8
Other sources	2.7	3.0	2.6	3.9	2.8
All sources	100.0	100.0	100.0	100.0	100.0

Table 3: Poverty Incidence and Poverty Gap by Age Group (Using Lowest Poverty Line^a)

	Poverty Incidence (% Poor)	Share in Total Population
Age Group		
0-5	23.0	8.5
6-9	26.1	6.2
10-14	20.1	9.9
15-21	18.0	13.1
22-29	22.3	14.5
30-44	19.9	23.0
45-59	14.1	14.1
60 and above	17.7	10.7
All		
Children	22.6	24.6
Adults	18.6	75.4
All persons	19.6	100.0

NOTE: a. Half of mean expenditure poverty line.

Table 4: Poverty Incidence and Poverty Gap by Gender of Household Head

	\$1 (2850 lek/m)	50% Mean Expenditure
Poverty Incidence (%)		
Male Household Head	33.0	17.1
Female Household Head	68.8	28.1
Total	35.5	17.8
Poverty Gap (%)		
Male Household Head	33.0	34.7
Female Household Head	32.1	41.8
Total	32.9	35.4

Table 6: Education and Economic Status of Household Heads

	None	<u>Education of Household Head (%)</u>				Share of Total Population (%)
		Primary	Secondary*	Vocational	University	
Public sector employee	4.7	21.5	32.7	7.5	33.6	22.7
Private sector employee	3.4	37.5	40.9	9.1	9.1	18.7
Self-employed	0.0	30.0	50.0	0.0	20.0	4.2
Not working, unemployed	7.3	39.0	32.5	8.9	12.2	26.3
Not working, pensioner	16.9	38.5	23.8	0.8	20.0	27.8
Not working, child caregiver	0.0	100.0	0.0	0.0	0.0	0.2

* includes those with some years of secondary education

**Table 7: Characteristics of Water Supply in Elbasan, Fier and Lehza
by Poor and Non-poor**

	<u>50% Mean Expenditure</u>		
	Non-poor	Poor	All
Main source drinking water (%)			
Indoor tap	83.2	78.3	82.3
Outdoor tap	12.9	19.3	14.1
Other *	3.8	2.4	3.6
Have water everyday (%)			
Yes	78.7	80.5	79
No	21.3	19.5	21
If no, days/month piped water is not available	10.5	11.1	10.6
Hours/day piped water is available	11.9	11.7	11.8
Do you store water (%)?			
Yes	66.9	57.1	65.2
No	33.1	42.9	34.8
If yes, how much spent on storage facility (lek/?)	1301	581.6	1195.5

*Other primary source includes water from indoor or outdoor tap of neighbor

ANNEX 4: DEVELOPMENTS IN HEALTH

Health Status

The health profile of the Albanian population shows a peculiar pattern in international comparison: on the one hand, some indicators such as life expectancy are on par with more developed countries of higher income and on the other hand, other indicators such as infant mortality and the incidence of infectious diseases are more typical for low income developing countries. This unusual health profile has evolved from a mixture of factors including demography, life-styles, socio-economic conditions, and the characteristics of the health services delivery system atypical both for developed and less developed countries.

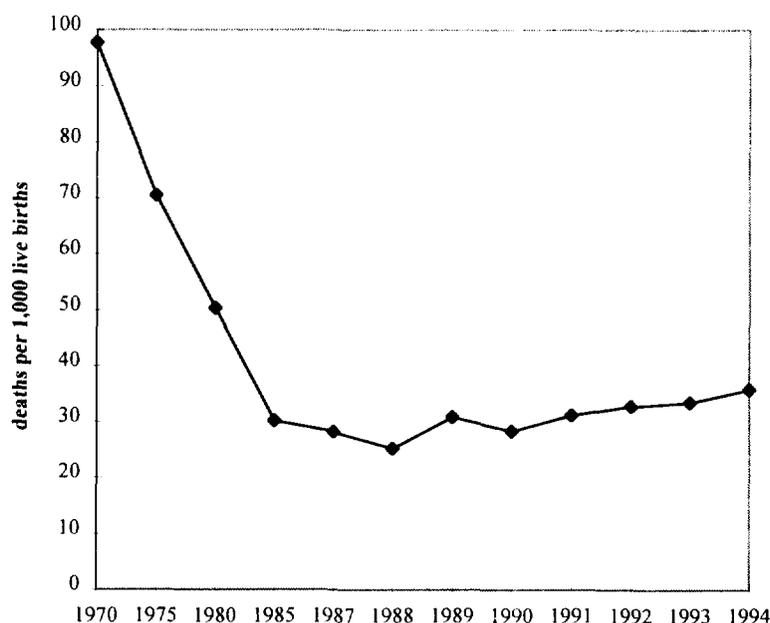
The health status of the Albanian population shows wide regional variation. The remote areas of the north appear to have health status indicators significantly worse than the more open and prosperous districts of the south. The mountainous remote areas of the northeast (Has, Puka, Kukes, Dibra, Mirdite, Mat and Bulquize) and the districts of the south bordering Greece (Vlore, Tepelena, Grijokaster, Delvine, Devoll and Sarande) stand out at the two extreme ends of the comparison. The number of births illustrate clear differentiation between the two regions: whereas there were 277 births per 10,000 inhabitants in the northeast in 1993, there were only 147 in the south while the national figure amounts to 209 per 10,000 inhabitants. The main discrepancies regarding health status indicators appear in infant mortality, the incidence of respiratory diseases in children, induced non-therapeutic abortions, and nutritional status. Although little numerical evidence exists, it is generally acknowledged that population groups living in crowded urban centers without access to proper hygiene - water and sanitation - face significant health hazard especially that of infectious disease transmission as illustrated by the increased incidence of most communicable diseases over the last few years. This is a particular concern as the pace of rural-urban migration gathers.

Infant mortality. The infant mortality rate (IMR) in Albania was 36 per 1,000 live births in 1994 according to the figures of the Ministry of Health.¹ The IMR in Albania is significantly lower than that of other developing countries of the same income level but higher relative to other countries of Central and Eastern Europe. During the past 20 years, Albanian health policy was successful in bringing infant mortality down from 98 per 1,000 live births in 1970 to 25 per 1,000 live births in 1988. This is a considerable achievement for a country at this stage of development. Further improvements in the infant mortality rate have been interrupted by the turmoil of the transition period which has resulted in an increase of the IMR. This increase can be attributed entirely to an increase in post-neonatal IMR (7-365 days) which increased from 18.3 in 1988 to 27.5 in 1993 while neo-natal IMR (0-7 days) slightly decreased. It can be inferred from these figures that capacity reductions and drug shortages during the transition period did not impact on the survival chances of new borns for the first 7 days of their lives when they are under constant medical supervision. The substantial increase in post-neonatal mortality, however, indicates that once infants leave the health institutions in which they were born, their chances for survival become lower. This is most likely because seeking health services and treatment is more difficult and limited, and domestic environmental conditions are not good.

¹ Independent sources have been questioning the validity of the official infant mortality data arguing that significant omission in the number of neo-natal deaths occurred especially for infants less than one day old. (Hendrik Van Der Pol: "Some Aspects of Infant Mortality in Albania", 1992.) The argumentation is based on the analysis of census data of 1989 based on the number of births a woman has had and the number of children still alive. The conclusion of the analysis is that official data underestimates the infant mortality rate by one third. This report, nevertheless, will use data obtained from official sources.

The territorial pattern of infant mortality is indicative that the (relatively) more prosperous districts, with better access to health services, and less isolation have lower IMR. The mountainous northeast districts of Has, Puke, Kukes, Dibes, Mirdite, Mat, and Bulquize have an average IMR of 45 per 1,000 live births which compares poorly with the southern districts (IMR= 19) or even the national average. The main cause of infant mortality is acute respiratory infections (ARI) which is the leading cause of death among children in the developing world. The infant mortality rate due to respiratory diseases in the northeast is double the rate of the south.²

Figure 4.1: Infant Mortality Rate in Albania, 1970-1994



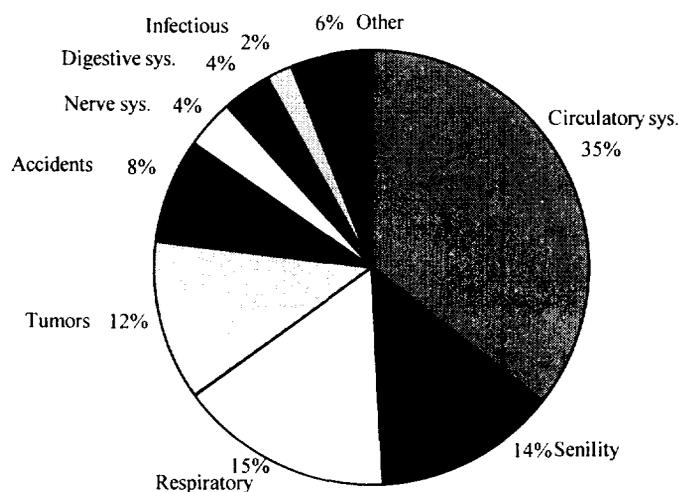
Adult mortality. Life expectancy at birth in Albania was 72.2 years in 1993 - 75.5 years for women and 69.3 years for men - which is significantly higher than that of developing countries with similar income level and even exceeds that of other former communist countries with significantly higher income. This health status indicator has been mostly attributed to life style factors such as healthy fiber rich diet, low fat consumption and walking in the absence of transportation vehicles.

The main cause of mortality in Albania is cardiovascular diseases, which is responsible for 36 percent of all deaths. The next most frequent causes of mortality include chronic respiratory diseases (15.8 percent) and tumors (11.7 percent). Mortality due to infectious diseases - which is the leading cause of death in the majority of all developing countries - is low, 1.8 percent in 1993. Regional variation of mortality is not observable.

² It has been widely recognized that higher incidence and case fatality of ARI can be associated with low socio-economic status of families which is indicative of other risk factors such as crowding, low educational status of parents, poor nutrition, low birth weight, reduced access to health services, and certain beliefs with regard to child care practices. Although all of these risk factors exist in Albania, in households of low socio-economic status and/or in households living in remote areas or temporary dwellings for migrants, several of these factors are likely to coexist at the same time thereby multiplying the probability of death from ARI. See Van Der Pol: "Some Aspects of Infant Mortality in Albania", 1992.

Adult morbidity. The adult morbidity pattern of Albania is similar to that found in other low income developing countries as indicated by high incidence of diseases of infectious origin including respiratory diseases, diarrheal diseases, hepatitis. Diseases of infectious origin constitute 28 percent of all hospital admissions of which respiratory diseases make up 20 percent and other non-respiratory diseases 7.4 percent. The incidence of infectious diseases has increased in the case of most categories during the transition. This means that on the one hand, the prevalence of risk factors influencing the incidence of infectious diseases must have increased, and on the other hand, the disruption in the provision of health services has reduced the ability of the system to prevent and cope with the spread of infections. The other main causes of adult illness include the diseases of the digestive system, complications of child birth and pregnancy, and accidents/injuries.

Figure 4.2: Causes of Death in Albania, 1993



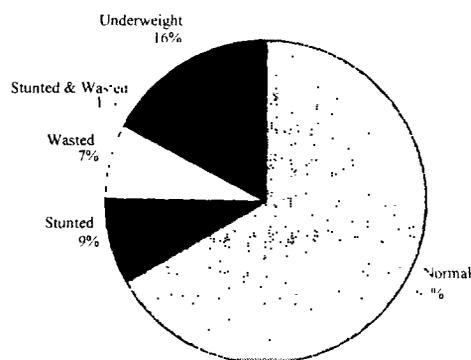
Reproductive health. The fertility rate has declined from 3.6 in 1980 to 3.1 in 1994. This is considerably higher than in other Central and East European countries but lower than in other developing countries. The fertility rate shows significant regional variation within Albania. In the less prosperous northern districts, the number of births per 10,000 inhabitants is about 70 percent higher than in the south. Eighteen percent of all births in the northern districts are carried out at home as opposed to only 7 percent in the south. The large differential in the abortion rate also contributes to the north-south fertility gap. While the rate of spontaneous abortions is the same in the two regions, the number of induced non-therapeutic abortions is twice as high in the south of Albania. The overall abortion figure for Albania compares poorly with other countries of the region, indicating that the availability of modern contraceptive methods and family planning education are lacking. Maternal mortality from abortion has been showing a steady decline, however, from 21 in 1988 to 3 in 1993 (and up to 6 in 1994).

Table 4.1. Regional Differentials in Morbidity, Mortality, and Facility Utilization

DISTRICT	live births per 10,000 inhabitants	% of at home deliveries	IMR	abortions per 1000 live births	incidence of hepatitis per 10,000 inhabitants	infectious diseases as % of total hospital discharge	respiratory diseases as % of total hospital discharge	visit to PHC per 10,000 inhabitants	visit of children (0-14) to PHC per 10,000
Bulquize	349	1.4	56.2	16	11	2.5	26.4	5351	2048
Dibra	300	22.9	40.6	79	16	14.3	22.6	3205	603
Has	138	0.0	57.8	0	0	0.0	48.8	3950	2630
Kukes	287	49.6	39.8	197	18	11.6	12.7	9768	3851
Mat	260	17.0	48.0	295	16	5.4	25.8	12483	4878
Mirdite	246	23.0	41.6	12	24	14.3	21.5	10361	4369
Puka	266	23.3	47.7	2	9	16.4	25.8	4790	1430
North total	277	23.9	45.2	115	15	10.3	22.4	7447	2802
Delvine	137	0.0	9.0	4	1	0.4	32.8	4209	1498
Devoll	176	49.9	22.9	0	1	0.5	39.6	14885	5703
Gjirokaster	143	9.4	15.8	330	16	11.2	15.1	12037	3543
Sarande	142	1.9	19.1	151	9	6.4	13.2	4640	1998
Tepelena	189	3.3	11.2	87	22	10.5	23.8	7315	2911
Vlore	170	8.9	22.1	672	14	12.5	27.0	13904	1645
South total	147	10.8	18.7	377	12	10.3	22.3	10962	2485
Tirana	155	1.4	24.7	127	19	10.2	13.9	32644	9132
National Avg.	209	11.2	33.4	345	17	8.9	19.9	16930	4969

Nutritional status. Although no recent nation-wide survey on nutrition is available, several organizations have carried out smaller scale surveys. The most revealing information regarding the nutritional status of children has been provided by an Italian GO - Comunite di S. Egiolio - working with the Institute of Public Health who has been collecting nutritional information in the northern districts of the country. Their analysis is based on a sample of close to 3,000 children.³ They have

Figure 4.3: Prevalence of Low Anthropometric Measurement in Northern Albania



observed that 16 percent of the children were underweight, and almost 20 percent were stunted, wasted or both. Although the prevalence of moderate malnutrition is similar both in rural and urban areas, severe malnutrition appears more dominantly in rural areas: while 13 percent of children from urban areas are severely malnourished, 22 percent of children from rural areas appear to be in the same condition. The prevalence of malnutrition has considerably decreased since 1993 in the observed districts of northern Albania. This can be attributed to wider land ownership and consumption of animal (especially dairy) products. The highest prevalence of malnutrition exists in children in the

³ The original sample might be biased as it includes children who visited the participating health centers with some kind of a symptom. Correction factors have been used.

age of 10-15 months when mothers stop breastfeeding. This is a common pattern throughout the developing world.

Access to Health Services

The transition period has had a negative impact on health services. The destruction of health facilities in 1992, the shortage of essential drugs and vaccines, and subsequent lack of adequate funds to finance the health care system has caused a severe disruption in the health care delivery system. The rural areas have been worst affected since in addition to the previously mentioned factors, medical personnel have migrated to urban locations where they can generate more under-the-table payments. But recent migrants to urban locations and poor urban dwellers are also facing severe problems. (Box 4.1)

Financial access. Prior to 1995, access to health services was not limited by *ability-to-pay* barriers as the health care delivery system was fully financed from the state budget. Now pharmaceutical co-payments, under-the-table gratuities, and health insurance contributions are the order of the day. Together these amount to around 1,850 lek/per person p.a. -- that is close to 9 percent of average per capita gross farm income and 4 percent of average per capita expenditure in the urban areas. These figures do not include the cost of transport to a health facility, which can be as high as 2,000 lek per journey in the remoter rural areas.

A switch to a national health insurance scheme occurred in 1995. Health Insurance contributions are collected from active population groups at differential rates according to their employment status.⁴ According to the preliminary assessment of the Health Insurance Institute (HII), the introduction of this scheme put a substantial burden on farmers since most of them have little cash income. (Chapter 2) In addition, they were not entitled to get a health card as long as they had outstanding arrears to the social security institute for pension and unemployment contributions.⁵ In principle, GPs were not allowed to treat anyone without a health card proving contributions. In practice, however, enforcement of this regulation remained weak as GPs did not turn patients away for lack of a health card.

In addition to their health insurance contributions, individuals are required to partially pay for their drugs. The HII pays up to two-thirds of the total drug bill on average and patients' co-payment covers the remaining one third. In 1995, the amount covered by patients is expected to amount to around 60 Leks per person. This, in itself, is not a substantial burden on households especially as children under 1, cancer and tuberculosis patients, and hospitalized patients receive drugs free of charge.

Under-the-table payments are implicitly expected from patients upon outpatient consultation and inpatient care. Although gratuities have become more and more significant over the past few years, no substantial evidence has been found to demonstrate that demands for private payments have become explicit on the part of doctors or that treatment is denied in case of non-payment. Similar to other East European countries, physicians have strong incentives to complement their meager salaries (5000 Leks/month) by accepting gratuity payments. Independent sources have estimated gratuities at 100-200 Leks per consultation.⁶

⁴ Employees contribute 1.7 percent of their salary (110 lek monthly), and employers contribute an additional 1.7 percent on behalf of their staff, self-employed contribute 7 percent of the minimum wage (230 lek per month), farmers contribute 3 percent of the minimum wage (100 lek per month), and the state budget contributes on behalf of exempted population groups such as pensioners.

⁵ This requirement has subsequently been dropped.

⁶ National Health Insurance Institute, Albania.

Box 4.1: Health Care and the Urban Poor

Public health care for both legal residents and illegal migrants in Albania's cities is increasingly available only to those who can pay (under-the-table payments). While most urban residents will seek treatment when they are ill, the non-poor are more likely to seek treatment than the poor. The two most important reasons for not seeking treatment are that it is either too expensive or family members are treated at home. Among the urban poor 54 percent said that they do not seek treatment at a clinic because it is too expensive. According to one legally registered employed woman in Tirana, it was necessary to pay both doctors and nurses to get any attention for her father who had just undergone major surgery. Even when her father literally collapsed on the floor, she could not get any help until her husband was able to get to the hospital bringing not only money, but their own instrument for measuring blood pressure. Another employed woman in Lezha experienced similar treatment when she underwent surgery. While in the hospital, she had to administer her own oxygen. Both women confirmed that they had to pay hundreds of dollars to obtain help that they should have received at no charge. When asked how the poor can afford to obtain hospital care, the woman from Lezha remarked that "they do not get help; the poor are left to die."

For those who may not be legally entitled to public health services, the situation can be worse. Families do not even have the right to request treatment at the local clinics. Some families dealt with this by paying several dollars under the table for each examination. In some cases, their children received vaccinations, but in a few cases, young children had not received the necessary vaccinations because they were not on the district list of children. Migrants cannot even be legally buried unless they pay a bribe. According to several respondents, there was a recent death of a young man in Bathore whose family had to pay a \$70 bribe for permission to bury him.

Geographical access. The number of **primary care access points**, including polyclinics, health centers, and health posts, has significantly decreased since 1989. While there were 3,283 access points in 1989 which amounted to 1 per 975 inhabitants, 873 of them had been closed down by 1993 which corresponds to 1 access point per 1410 inhabitants. Although there is wide regional variation among districts (from 66 per 10,000 population to 3 per 10,000), there is no regular pattern. The number of access points per 10,000 population is roughly the same in the remote northern districts as in the southern districts, and the number of total visits to primary care facilities shows that the lowest utilization in the country can be observed *both* in northern and southern districts.

Unlike in the case of primary care access points, the variation in the number of **hospital beds** demonstrates a clear regional pattern with the northern region having 30 beds per 10,000 inhabitants as opposed to the southern region with 36 beds per 10,000, or the national average 35 beds per 10,000. The availability of hospital beds has decreased during the transition. On the other hand, the number of **physicians** has not changed significantly since the onset of transition. There were about 4,400 physicians in 1993, which gives 1 physician per 773 inhabitants. This ratio is worse than that in neighboring countries (e.g. Bulgaria) but significantly better than in other developing countries of the same income level (e.g. Pakistan). Although during the communist era health personnel were quite evenly distributed across the country by administrative means, the transition lifted all political control over the location of employment. In addition, public employment regulations did not allow for differential wage policy to allocate higher wages to those working among more difficult conditions prior to the introduction of the health insurance scheme. As a result, migration of health personnel has been taking place from sparsely populated rural areas to urban centers where working conditions are more favorable and the opportunity to collect under-the-table gratuities are better. This has left villages and small towns with intermittent and/or inadequate health care.

Policy implications

Falling public expenditure on health, and rising direct costs associated with seeking health care are also of concern as they begin to have serious health status consequences. There has been some deterioration in the health status of the Albanian population -- for example, infant mortality and adult

morbidity due to infectious diseases have increased. Although a large part of Albania's health problems stem from over-crowding and poor water and sanitation, difficult access to health facilities, and poor health services often fail to arrest health problem once they emerge. Improvement in the overall standard of living of the population and further improvements in health care infrastructure, hence, will undoubtedly bring progress in the health status of the population. But these are medium and long-term goals. In the meanwhile, other short-term strategies can be adopted that would be effective in reducing the infant mortality rate and the incidence of infectious diseases with particular attention to low income families (in the rural areas) and rural-urban migrant population groups. These are presented in Table 4.2 below. A particular problem relates to the direct costs associated with seeking health care, which are keeping some poor urban families, and particularly elderly women, from seeking health care. Improved working conditions and real increases in wage levels of medical personnel, as part of an overall public service reform program, would go some way to eliminating under-the-table co-payments, but other measures may be necessary to ensure that inability-to-pay does not prevent poor, elderly and sick people gaining access to health care.

Maternal health. The fertility rate has declined from 3.6 in 1980 to 3.1 in 1994, but it is still high by Central and Eastern European standards, as well as West European standards. The fertility rate shows considerable variation within Albania, with northern districts having a rate almost twice that of the south. In part this is explained by the higher incidence of induced non-therapeutic abortions, the main form of birth control, in the south. General economic development as well as the opening up of the country will lower the fertility rate in time -- a well documented trend from international experience. The high level of literacy among the population, especially women, can also act as a catalyst to a falling birth rate. But what is critically missing at present is family planning, both information about child spacing and possible ways to control conception, as well as the availability of modern contraceptives. These should be introduced as part of a primary health care program, and made available at all primary care access points throughout the country.

Table 4.2: Health Interventions to Combat Most Common Illnesses

Health issue	Prevention and Domestic Case Management	Comments
ARI	<ul style="list-style-type: none"> • monitor infants with low birth weight • promote breastfeeding • provide vitamin A supplements • educate mothers of the symptoms and possible domestic interventions • reducing crowding as possible and increasing air circulation • separating sick individuals from the rest of the family 	
Tuberculosis	<ul style="list-style-type: none"> • detection and isolation of infectious sources at health institutions • continue BCG vaccination with special attention to migrants 	<ul style="list-style-type: none"> • screening of the whole population is costly, large target groups could be considered: military recruits, health center visitors • BCG vaccination is proven to be effective up to 15 years
Diarrheal diseases	<ul style="list-style-type: none"> • increased use of soap • improved food hygienic • proper waste disposal • promotion of breast feeding • oral rehydration therapy (ORT) • continued feeding 	<ul style="list-style-type: none"> • use of oral rehydration substantially reduces the need for later IV rehydration • UNICEF provides ORS packages at very low cost • continued feeding helps to prevent the diarrhea-malnutrition cycle
Hepatitis	<ul style="list-style-type: none"> • immunization against hepatitis B with special attention to migrants • increased efforts to sterilize needles • test of blood donors and/or donated blood • screening of pregnant women and treatment of infants born to carrier mothers • promotion of personal hygiene in kindergartens to reduce transmission hepatitis A 	<ul style="list-style-type: none"> •
Nutrition	<ul style="list-style-type: none"> • proper nutrition of mothers to avoid low birth weight • promotion of breast feeding • food supplement targeted to pre-school children with special focus to disadvantaged remote areas • nutrition education • fortification of iodine in salt • iodine supplement to pregnant women • vitamin A supplements to children 	<ul style="list-style-type: none"> • adding iodine to salt is a particularly cost-effective method: it cost USD 0.04 per person per year in India in 1987.
Reproductive health	<ul style="list-style-type: none"> • promotion of birth control methods with special attention to more remote areas with higher fertility rate 	

IMAGING

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