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Abstract

This paper provides an overview of household welfare, labor markets, and social programs in Albania, outside of its capital, in 1996. In that year, Albania was on a cross roads from a period of phenomenal growth to a series of economic crisis, but still ranked as the poorest country in the Central and Eastern European (CEE) Region. The main findings are that the majority of the poor are rural, self-employed in agriculture, a result of Albania’s large rural population that is mainly employed in subsistence agriculture. These households also have the highest incidence of poverty, followed by out of labor force individuals and the unemployed. Poverty is highest in the rural north. This is not surprising. At the time of the study the farmers in the north were the poorest, requiring subsidized wheat and cash transfers to survive difficult winters. Interestingly, migration is a major coping strategy in Albania. Household with no migrants were poorer than those where a family member had returned or was currently working abroad.

In urban areas, high rate and long duration of unemployment is a key problem, particularly for those with basic and secondary education, for youth and women. The concentration of unemployment among secondary earners, reduces its impact on poverty.

The main non-agricultural employer is the public sector; the private sector is quite small. As in other CEE countries, it pays higher and more dispersed wages. Private sector employment is much more flexible than in the public sector—average tenure is short and contracts are verbal. This is consistent with lack of law enforcement and the prevalence of an informal market in the country. Interestingly education has a payoff in Albania; and university educated earn much more than primary school leavers.

The study raises concern about the education system and the safety net. It finds considerable drop outs in basic and secondary education among the poor. It finds that education spending is biased against the poor, except in basic education. It also finds that health outcomes (infectious diseases) are particularly worse among the poor—signaling the poor quality of water, sanitation and immunization services in the country. The study notes that outside of pensions, Albania’s social protection system (pensions, social assistance) appears is moderately well targeted to the poor. However, high tax rates, and the limited wage base, make a contribution based social protection system questionable.

The results show that key challenges ahead for Albania, include fostering the growth of a formal private non-agricultural labor market; ensuring investment in human capital of the poor; moving from social Insurance to safety nets based system for protecting the poor. Finally, the paucity of data on Albania, highlights the need to develop effective information and monitoring systems to inform public policy.
Foreword

Pivotal to World Bank policy on human development and poverty alleviation are investments in health and education, to create a healthy and productive labor force, and safety nets to protect the most vulnerable population groups in a country.

This paper provides a first in-depth look at poverty in Albania, outside the capital Tirana. The project grew out of a need to inform the World Bank and Albanian policy makers about the impact of social sector programs aimed at developing human capital and protecting the poor.

While the paper is based on 1996 Household Survey Data, we believe that since it represents the only available set of data on poverty and human development, its findings remain relevant for shaping human development policy in Albania. It should also provide a useful benchmark for future studies on household welfare, labor markets and social programs in Albania.

Annette Dixon
Sector Manager
Human Development Unit
Europe and Central Asia Region
I. EXECUTIVE SUMMARY

A. Introduction

This paper outlines household welfare in Albania, outside the Tirana region, in 1996. The main thrust of the report is to evaluate household welfare, describe the labor market and assess the equity and efficiency of public expenditures on cash benefits and education. The report has several limitations. First, many changes have occurred in Albania since 1996. The collapse of the pyramid schemes (1997) followed by political turmoil (1998) and the Kosovo crisis (1999) may have changed the profile of household welfare in the country. Second, as the report is based on household survey for Albania outside the Tirana region, it is not nationally representative. While Albania is a largely rural country—with nearly 60 percent of the population residing in rural areas—excluding Tirana eliminates a sizeable population from the analysis.

Despite these shortcomings, the report serves a useful purpose in providing a benchmark against which future welfare developments of the population can be measured. While poverty is likely to have increased and deepened since 1996, the basic correlates and determinants of poverty found by this report—agricultural self-employment, unemployment, low levels of education—are unlikely to have significantly changed over time. The report confirms the basic conclusions of the 1996 Poverty Report on Albania\(^1\) which were based on largely qualitative and some survey data. However, the richer household data available to this report allows a much deeper probe into the causes and determinants of household welfare and the effectiveness of public programs than earlier possible.

The paper is organized as follows. The next or second section describes household welfare in Albania and the characteristics of Albanian households; The third section looks at labor market developments in Albania, while the fourth and final chapter evaluate the effectiveness and efficiency of public education and transfer programs. A Statistical Annex is attached to the paper.

B. An Overview: 1990-1996

Since 1996, as noted above, a series of repeated crisis have cast a shadow over Albania’s transition to a market economy. But, in 1996, the year of analysis for this report, Albania could look back on a four year period of phenomenal growth. During this period output grew by 9 percent per annum in real terms. Major structural reforms, which privatized almost all small state enterprises and all agricultural land, liberalized prices and the trade regime, dismantled many of the controls of the previous regime, accounted for this achievement.

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\(^1\) Allison et. al, Growing Out of Poverty, The World Bank, 1996