**GLOBAL DEVELOPMENT NETWORK**

# REDUCING SOCIAL EXCLUSION THROUGH THE MECHANISM OF SOCIAL ASSISTANCE

## *ALBANIA*

**NATIONAL ALBANIAN CENTER FOR SOCIAL STUDIES**

**January 2002 – June 2003**

**This research was supported by a grant from the CERGE-EL Foundation under a program of the Global Development Network.**

**This research was conducted by a team composed of:**

**Professor Jon Eivind Kolberg**
**Professor Suzana Pani**
**Professor Predrag Bejakovic**
**Dr.Arlinda Ymeraj**
**Dr. Mimoza Kasimati**

## Table of Contents:

## Executive summary

Even from its first days of independence in 1912, Albania was plagued by a host of ills: pervasive poverty, overwhelming illiteracy, blood feuds, epidemics of disease, and gross subjugation of women. Stitched into the ever-convulsive Balkans, Albania was kept Europe's most isolated and deprived country overwhelmed by instability and poverty. After long-term communist government that lasted from the end of the Second World War till the 1991 (when the first multiparty elections were held since the 1920s and predestined the end of communist rule), Albania entered a turbulent period of political and economic change. The notions of capitalism and democracy that have surfaced since are a crude mix of gangsterism and clan politics. Almost a decade after democracy and privatisation were supposed to deliver undreamed-of advances, life in today's Albania is marked by massive unemployment and disillusionment. So it is not surprising that disappointment and low expectations pervade conversations with many men and women.

At the beginning of transition, a legal framework was established to provide for the possibilities of structural changes and state property privatisation. However, the legal framework itself, wasn't sufficient to respond to the fast political and economic changes that were brought about by the re-emergence of the private sector and capitalism in Albania.

The term 'social security' is hardly ever used either in the Albanian literature on social protection or in the relevant legislation. This is mainly due to the absence of any social right to social security, guaranteed by the Albanian constitution as well as to the predominant socio-political objectives that relate the scope of the social protection to the coverage of working people and needy persons and not to the coverage of the whole population.

The Albanian social protection system can be described as a recently established system that follows the traditional distinction between social insurance and social assistance. Social insurance as developed in relevant legislative texts, corresponds to the coverage of working persons in the case of specific risks that reduce their income from employment or increase their subsistence costs. On the other hand, social assistance is concerned with the protection of needy persons who are not able to guarantee a decent standard of living through their own means. The Albanian system is based on three principles: subsidiary (insured persons are excluded from coverage), maintenance of living standards and provision of non-contribution benefits.

According to the last poverty survey (LSMS 2)[1], **one quarter of the Albanian population live in poverty**. Little extreme poverty – as defined by a food poverty line – exists, with less than 5per cent of the population unable to meet basic food requirements. Studding available information on poverty versus results of social protection mechanism in Albania, some questions come to mind. What is the macro level- effectiveness of the social protection scheme, does the current social protection system target the funds to the poorest areas and to the poorest households? What is the micro level -effectiveness of the scheme, is the actual scheme addressing the most critical social economic needs of the households? What is the relevance of the current

[1] Living Standard Measurement Survey, 2002, Draft, INSTAT and World Bank.

social protection approach vis-à-vis the new objectives of poverty eradication strategy- social protection and re-integration.

Analysing the principles of social protection mechanism and the way in which they have been implemented, it is observed that:

The recipients of social assistance are the most vulnerable to social exclusion. They suffer from multiple social disadvantages because they lack access to basic standards of housing, education, health, human relationships and protection. Beyond straight forward economic poverty, the use of term social exclusion recognizes that the human rights of the individuals can be further threatened by the forced passivity of welfare, the inability to fulfil their basic potential and to build the kind of human relationships that lead to active citizenship.

The social protection mechanism while providing benefits fails in promoting people to be socially integrated. The policy of social protection, defined as the policy of 'alleviation of social inequalities' is not sufficient to promote the social development of Albanian society.

As a result, the question of transformation of the current system into a 'social protection, integration and development mechanism' is of utmost importance. This paper contains five sections including the introduction. The section 'Statement of research problem' intends to review two important issues in the light of social exclusion: poverty and the role of social protection. The main focus of the paper is developed in the section 'research design' explaining empirical conditions that characterize application of social protection system in Albania, analytical framework in which this system takes place and correlation among selected indicators. Under the section 'findings' there is a review which highlights research results. The paper looks at the conditions of the most excluded strata of society. The paper reviews social policy in Albania and demonstrates a close connection between practical observations of the system and evidence collected. It concludes with a review of the implications for policy design.

## 1. Introduction

Unlike in other former Socialist countries, such as Poland, Hungary, Czechoslovakia, etc., where private entrepreneurship was not completely restricted during the period of Communism, in Albania there was little such experience as private enterprise did not formally exist. The radical changes that Albania's economy experienced following the fall of Communism are reflected not only in change in the structure of the production of goods, but also in the make up of the structure of the producers, as well as in the prices of those goods. There have also been changes in the forms of ownership and the organization of production resources. Following economic decentralization, the allocation of resources has begun to be determined by market forces, and retail prices have been liberalized. However, with the collapse of a centralized economic system, many economic sectors also failed, thus generating greater unemployment than previously seen in Albania.

During the last twelve years of 'transition', the level of unemployment here has been higher than in other countries in transition. The level is officially given as 11-14 per cent, but it is likely to be as high as 28 per cent. As unemployment (especially long-term) is a certain 'entrance ticket' to poverty, not surprisingly there has been an increase in the level of poverty and a worsening position for disadvantaged social groups. This situation has been exacerbated by uncontrolled migration from rural to urban areas, especially to Tirana, in what has been one of the main phenomena of the transition. As a result a new labour force has emerged, which, due to its low levels of culture and professionalism, could find employment only in the informal sector with no opportunity of finding legal work or an adequate salary.

All the above-mentioned phenomena have been accompanied by a poorly functioning governmental structure in charge of reform implementation. Paramount among the negative features of this structure are a lack of clearness in fulfilling functions, huge politicisation, lack of competitiveness among experts and specialists in each level of public administration and a feeling of job insecurity. As a result, governmental structures have become apathetic and irresponsible in implementing their duties. Therefore, the public welfare system, which was not especially developed beforehand, has almost collapsed.

There is no doubt that given the present economic climate (restructuring processes, transition policies, spontaneous privatisation and financial crises), social factors (low living standards, high level of unemployment, distinct regional development differences) and low level of institutional development (particularly the judicial system) not even a much more able, capable and experienced government than that at present would be able to resolve all the problems and limitations.

This poor situation has been partially mitigated by a widespread and relatively strong informal sector and by remittances sent from abroad by relatives living and working in Western Europe. It is estimated that the informal economy produces more than 50 per cent of Albania's GDP[2] (The existence of the informal sector, very often a lifeboat

[2] Bank of Albania, 1999; Gërxhani, 2001

for many and a means of income and livelihood for much of the population, is a result of the radical changes experienced in the economy, a huge modification of the labour force, changes in incomes, vacuums present in the legal structure, lack of implementation of the laws by governmental structures and a confused, very costly tax policy. Most people do not regard this labour market as a proper alternative as it provides neither a steady income nor social insurance.

Private transfers, especially remittances from abroad, are a critical source of income for urban households. Households benefiting from such income are more likely to be non-poor, if not affluent. The informality surrounding this area of finance is also very high. The Albanian economy is bolstered by remittances sent from abroad to the tune of $400-$600 million annually, mostly from Greece and Italy. These remittances form an important part of investors' initial capital, so much so that that 30 per cent of firms have secured their initial capital in this way. The remittances are thoroughly uncontrolled and not properly channelled in the financial system.

Although the standard of living has improved in Albania since the collapse of the Communist system, the gap between rich and poor continues to grow. While living conditions for most Albanians have improved and consumer goods and services are available now more than they were under Communism, poverty is still extensive. The newly rich are mostly entrepreneurs who have taken advantage of growth opportunities, while the newly poor are those who were dependent on the state welfare system and who, in its absence, are suffering. Homelessness and hunger are now higher than under the Communists.

In Albania, as in the other countries of Eastern Europe, the stress of sudden poverty has led to psychological problems, with many people suffering from psychological ill-health. Poverty has forced families to reduce their consumption dramatically: to eat cheaper food, to cut what they spend on health care and to rely increasingly on home and traditional remedies. People very often are unable to follow prevalent social norms, making them feel depressed and worthless[3].
Unemployment and loss of security are the main problems for all marginalized social groups. Due to the relatively low levels of market experience and knowledge, there is a general need for a greater understanding of how markets work and for a shift in the mindset that underpins entrepreneurship. To move forward, the state must provide a far more supportive environment for the private sector: the economy must produce stable growth, laws must be clear and enforced, and taxes must be affordable. Poor entrepreneurs and agricultural producers identify as the major bottlenecks the unpredictability of markets, as well as a lack of information and financial services, and in rural areas, the inaccessibility of markets.

Corruption in Albania remains a serious problem for the development of private firms. Bribes are included in the product or service costs. Albania is, according to Transparency International, on the Corruption Perceptions Index 2002, rated as 81st among 101 countries, with a CPI of 2.5. As in every other country, corruption in Albania continues to deny the poor, the marginalized and the least educated members of society the social, economic and political benefits that should properly accrue to

[3] WHO and World Bank, 2002

them, benefits that are taken for granted in societies that have managed to shake off the yoke of corruption. The programme of the anti-corruption measures has assumed a regional and European dimension in the context of commitments to the Stability Pact (SPAI) and Stabilization and Association Agreement (SAA). The government is stepping up its commitment in the fight against corruption, trafficking and organized crime, in partnership with the relevant regional and European organizations. Anti-corruption units have been established in the Ministries of Public Order, Finance and Justice, as well as in the Prosecutor's Office, with mixed results. In June 2002, the government drafted an anti-corruption bill that will lead to the creation of a special overseeing body tasked with investigating the property holdings of some 5,000 high- and medium-ranking officials. Members of the body, who will be elected by parliament, will enjoy broad jurisdiction and have access to data from banks and private enterprises. Officials found to have lied about their property holdings will be subject to prosecution[4] .

Over the last five years, Albania has made substantial progress in achieving macroeconomic and financial stability, and has implemented many structural and institutional reforms required for the establishment of a functioning market economy. Despite relatively high growth of GDP in the period from 1990 to 2000, of 3.3 per cent[5], even though GDP declined by 7 per cent in 1997 as a result of the crisis caused by the collapse of the pyramid schemes, and estimated real growth rate of GDP of 7.3 per cent in 2001 [6], or 6.5 per centa, Albania continues to have one of the lowest levels of *per capita* income in Europe. However, this situation could soon change. Due to the above-mentioned progress and expected further economic development and increasing real GDP (doubling or tripling within the next 10-15 years[7]; with adequate economic and social policy, Albania might be able to resolve its current problems and reduce poverty. Most fundamentally, it will be important to ensure that the benefits of any economic growth are delivered equitably; there can be no real progress on poverty reduction, or improvement in health outcomes, unless economic and social inequities are tackled. In Albania, poverty reduction implies raising the level of development for the entire country[8]. The Poverty Reduction Strategy should aim to identify incentives for inclusive and sustainable economic development in order to ensure that all sections of Albanian society benefit from growth, with increased income and employment opportunities for both the rural and urban poor. Specifically, the government aims to increase access to, and improve the quality of, basic services (e.g. water, sewerage) for the entire population.

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 level of caution. As relatively little is known in Albania about the mechanism of social protection and the possibilities it offers to reduce social exclusion, this Project will provide insights for welfare policy-makers working in a very important field of social policy. A number of valuable lessons have emerged from the present study, which we will attempt to comment on, starting with a *Statement of Research Problem*.

[4] Jovic, 2003
[5] World Bank, 2002
[6] The World Bank Factbook, 2002
[7] Republic of Albania; Council of Ministers, 2001
[8] (Government of Albania and World Bank, 2001

## 2. Statement of research problem

The new economic and social situation that followed the collapse of the communist regime has exposed the problem of poverty, which requires manifest and urgent treatment. In addition to the fact that social problems can finally be treated explicitly and barriers to research removed, several important changes have occurred in the economic life and material well-being of the Albanian population. These are changes that have often led to a considerable lowering of household incomes and their purchasing power.

One of the negative costs of transition has been an increase in the number of poor people. There is a widespread idea that in the past poverty did not exist in the former Socialist countries. But in fact, only officially did poverty not exist. *People with few skills or low motivation face incentives to acquire skills and to work harder. That said, one of the major costs of the reforms is rising unemployment and increasing poverty*.[9].

Literature of the mid-1990's argues for the necessity of social protection systems in the newly emerging market economies. The literature that describes some of the models of social assistance systems in Eastern European countries also describes the main goal of the transitional reforms in these countries. Despite the important steps taken by respective governments to transform social relationships, the key objective was considered to be 'maintaining the macroeconomic balance', meaning 'there is a need for policies to contain costs'[10]. If policymakers should prioritise, they obviously would chose a macroeconomic balance instead of generosity of social welfare. That is why, in most of the countries of the region, a mixed policy of type A[11] and B was implemented. As a result, the social protection was focused more on keeping down social unrest than promoting people to shift actively from their situation. It was argued by the necessity to protect quantitatively the people, because of the spread of poverty in these countries. Given the peculiarities of the first stage of the transition, the models worked well.

A decade after the fall of the Berlin wall, the earliest model of social protection that was applied is no longer relevant, most importantly because in these countries the real definition of poverty has changed. The new strategy of poverty reduction is based on the new concept of multidimensionality of poverty, which implies the importance of measuring indicators such as health, nutrition and education, and also vulnerability, voicelessness and powerlessness. The question raised here is whether this should be reflected in a new theory of social protection and how to implement it in the very specific framework of countries in transition.

Careful analysis of the main principles of the current social protection system in Albania and the way in which they have been implemented could highlight the main

[9] Labour market and social policy in Central and Eastern Europe, Nicholas Barr; The forces driving change, page 77.
[10] Labour market and social policy in Central and Eastern Europe, S. Sipos, Income transfers: family support and poverty relief, page 242.
[11] The definition of policy type A and B is given in S. Sipos, page 227.

problems of the existing system and its relevance. Two crucial policy issues stand out as the most important:

**Social exclusion**

> *Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school, not knowing how to read, not being able to speak properly. Poverty is not having a job, is fear for the future, living one day at time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom*.[12]

A clear message emerges from this statement: Poverty itself means being also socially excluded.

Perfect targeting of social protection benefits is considered to be the most important objective of the related research work People in need of protection are socially excluded, because the legislation does not consider their basic economic and social needs. The current programme needs to adopt some policy actions. A stratification of beneficiary families would reduce inclusion and exclusion errors. The proposed policy is based on stratification of beneficiary families, which means providing different levels of benefits to different 'social groups'[13] by assessing their social and economic needs in the first case and then prioritising these needs.

**Promotional role of social assistance scheme**

The social protection system should transform into a mechanism that helps institutions, networks and associations interact in a common attempt to alleviate inequalities in assets. *The new social policy still could be focused on poverty gaps instead of prevention because those are conditioned by financial situation*.[14] Nonetheless, some policy changes should take place, providing services in kind, implementing an active policy of poverty reduction, following an integration approach, harmonizing different social programmes, conducting in-depth studies and uncovering social capital and the ways in which it can be developed.

The social assistance mechanism can be used to encourage local communities to develop, participate in the decision-making process and join local initiatives. It could be a lever attracting the community to participate, speeding up the process of decentralization, supporting education, vocational and professional training, and thus generating social capital. It necessarily should be a tool in strengthening collaboration among government and non-government institutions and community, promoting self-responsibility of local communities, encouraging a feeling of social responsibility for local communities, integrating vulnerable groups in a normal environment and decreasing social exclusion.

This paper deals with the role of a social protection mechanism in reducing social exclusion, and does so by advancing two main arguments:

---

[12] World Development Report 2000/1 – Attacking poverty, Draft.

[13] For the purpose of this paper, the term 'social group' includes 'households whose economic and social living standard is the same'.

[14] 'Labour Markets and Social Policy in Central and Eastern Europe'; S. Sipos: Income transfers: family support and poverty relief; page 234.

Firstly, it is necessary to measure the effectiveness of the current protection schemes, not only from the economic point of view, but also from the social point of view. The critical issues of transition in Eastern European countries and the re-occurrence of profound crises have demonstrated clearly the inaccuracy and insufficiency of the effects of social protection in these countries. The key dimension highlighted in the present paper is the relationship between the objectives of a social protection mechanism (to protect, integrate and develop people) and the concrete result (reduction of social exclusion).

Secondly, for an effective poverty reduction strategy to be designed, multidimensionality of poverty should be placed in a broader institutional and policy context. Only within such a context and in which social protection policy plays a role can it transform into a mechanism that helps institutions, networks and associations to interact.

The present paper emphasizes both the theoretical and practical approaches. Using the collected data and observations, it demonstrates how a system of social protection can both alleviate social exclusion and effectively utilize financial resources. The paper proposes a simple analytical framework in which 'designing social protection policy to alleviate social exclusion' is the ultimate goal.

## 3. Review of state of knowledge

Albania began along its road of reform in late 1991. Initial positive progress was severely hampered by the severe socio-economic crisis of 1997, which led to the collapse of institutional order and gave a serious set back to the reform process. The continued difficult regional situation, particularly the Kosovo crisis in 1999, which provoked a huge inflow of refugees (almost 500,000 people) into Albania, and the extremely divisive political scene and weak state institutions, prevented Albania from achieving a greater degree of reform and development during the last twelve years. Despite its small size (28,748 $km^2$), a population size of 3.3 million and a wealth of natural resources, Albania was and remains the poorest country in Europe, with a GDP per capita of around $1,100.[15]

### Poverty in Albania

The beginning of the economic transition in all post-communist countries saw the emergence of a number of social problems. Firstly, price liberalization led to a general decrease in the purchasing power of incomes and thus made an increasing part of the population vulnerable to poverty. Secondly, the reduced size of state monopoly and the start of privatisation of big enterprises resulted in unemployment, virtually unheard of in these countries until this time. In addition to the 'old poverty' which endangered especially single-headed or large families and the oldest pensioners, a 'new poverty' emerged, one that stemmed from unemployment or the low adaptability of some households to the new conditions. Economically unstable households are the ones that are the least able to take advantage of new possibilities and to mobilize alternative economic resources (e.g., transferring to the expanding segments of the

[15] LSMS 2 (2002) draft report.

labour market, utilizing secondary incomes, making use of old or newly acquired real estate, etc)[16]

There has been a tendency in various studies to view the social relationships under the socialist system as one of its strongest advantages. Considering only the physical and human capital, these countries, even the small ones, are included among modern societies. Today, increase in urban population size and the spread of literacy, modern communications and information characterize most of these countries. However, both state and market remain under the influence of past ideology and in some countries are affected by the legacy of their whole historical development.

There has been another tendency in Western literature, and one that might be true, to consider income distribution in communist countries as an advantage of that system, since it ensured a levelling of the whole society. A factor that supported this view was the absence of reliable information from former communist countries. Hence, following the 'transformation began in 1989, economic reform started to re-design earnings distribution towards a greater inequality in all Central European countries'[17].

In fact, discussion of poverty in Socialist Albania was taboo. Officially, there was no poverty at all thanks to a system of social security that covered the whole population from the late 1960s. However, the very reason for the small incidence of relative poverty was the low income inequality itself. The narrow range of income distribution created a situation in which the bottom sector of the population was not too far from the average. Previous data gathering for the measurement of poverty and inequality in Albania has been sporadic, inconsistent and hardly comparable over time. One of the early attempts to measure poverty in Albania was a study carried out by the World Bank in 1996 using data from a Household Budget Survey carried out in Tirana in 1993 and 1994 with financial assistance from UNDP and technical assistance from the National Institute of Statistics and Economic Studies of France (INSEE). However, it is important to emphasize that that survey only covered the urban area of Tirana, and was not intended to be representative of the country.

That study was followed by LSMS-1996, which was conducted across the whole country, excluding Tirana and sampling about 1,500 households. Results from the survey suggest that poverty in 1996 was a rural phenomenon, with almost 90 per cent of the poor residing in rural areas and 60 per cent of the heads of poor households being self-employed in agriculture. Prior to 2002, the most recent available information on poverty and living standards comes from the Living Conditions Survey (LCS) conducted by INSTAT in 1998 as part of the PHARE programme. It was conducted in the autumn of 1998 and based upon a representative sample of 11,523 households, from both urban and rural areas.

[16] Jiri Vecernik "Changes in the rate and types of poverty", 1993
[17] 'Incomes in Central Europe', Jiri Vecernik; page 4.

**Income poverty**

According to LSMS-2002[18], one quarter of the Albanian population live in poverty, though little extreme poverty (as defined by a food poverty line) exists, with less than 5 per cent of the population unable to meet basic food requirements. Poverty is higher in rural areas, with a headcount 66 per cent higher than in Tirana and 50 per cent higher than in other urban areas. Per capita consumption in rural areas is about four-fifths of that in urban areas.

Consumption-based inequality is moderate and in line with many other countries in the region, with a national Gini coefficient of 0.28. No significant differences in inequality exist across locations, except for slightly above average inequality levels in Tirana. Analysis seems to suggest that there exists a large number of households clustered around the poverty line. Consequently, both a negative welfare shock and a windfall would produce more than proportional changes in poverty level.

An international comparison of poverty levels of $2 per day and $4 per day in 1996 PPP places Albania behind countries such as Bulgaria and Romania, which are in the next wave of EU accession countries, and ahead of, or on a par with, Caucasus countries such as Georgia and Azerbaijan.

**Poverty profile**

Poor individuals live in larger and younger households than the mean (see Table 1). The average household size among the poor is 5.7, with two household members below the age of 15, compared with a household size of 4 and one youth among non-poor households. The dependency ratio is consistently higher among the poor, irrespective of location, and is highest among poor rural households, at 1.16.

**Table 1. Main household (hh) characteristics of poor and non-poor**

| Characteristic | Non-poor | | | | Poor | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Tirana | Urban | Rural | Mean | Tirana | Urban | Rural | Mean | Tirana | Urban | Rural | Mean |
| Mean hh size | 3.6 | 3.7 | 4.2 | 4.0 | 5.3 | 5.4 | 5.8 | 5.7 | 3.8 | 4.0 | 4.6 | 4.3 |
| % ≥ 60 | 19.4 | 19.5 | 19.9 | 19.7 | 13.2 | 9.7 | 10.0 | 10.2 | 18.6 | 18.1 | 17.6 | 17.8 |
| No. members < 15 | 0.8 | 0.9 | 1.2 | 1.0 | 1.8 | 1.9 | 2.2 | 2.1 | 0.9 | 1.1 | 1.4 | 1.2 |
| Dependency ratio† | 0.66 | 0.73 | 0.83 | 0.77 | 1.04 | 1.06 | 1.16 | 1.12 | 0.71 | 0.78 | 0.91 | 0.84 |
| % female-headed hh | 18.0 | 13.5 | 11.6 | 13.1 | 10.5 | 12.1 | 8.1 | 9.3 | 17.0 | 13.3 | 10.7 | 12.4 |
| Age hh head | 53.4 | 51.7 | 51.4 | 51.8 | 49.1 | 49.0 | 47.8 | 48.2 | 52.8 | 51.3 | 50.1 | 51.1 |
| Years of schooling hh head‡ | 10.1 | 8.6 | 6.9 | 7.9 | 6.8 | 6.7 | 6.0 | 6.2 | 9.5 | 8.3 | 6.6 | 7.4 |
| Mean no. workers / hh# | 1.1 | 1.1 | 2.0 | 1.6 | 1.0 | 1.0 | 2.3 | 1.9 | 1.1 | 1.1 | 2.1 | 1.6 |

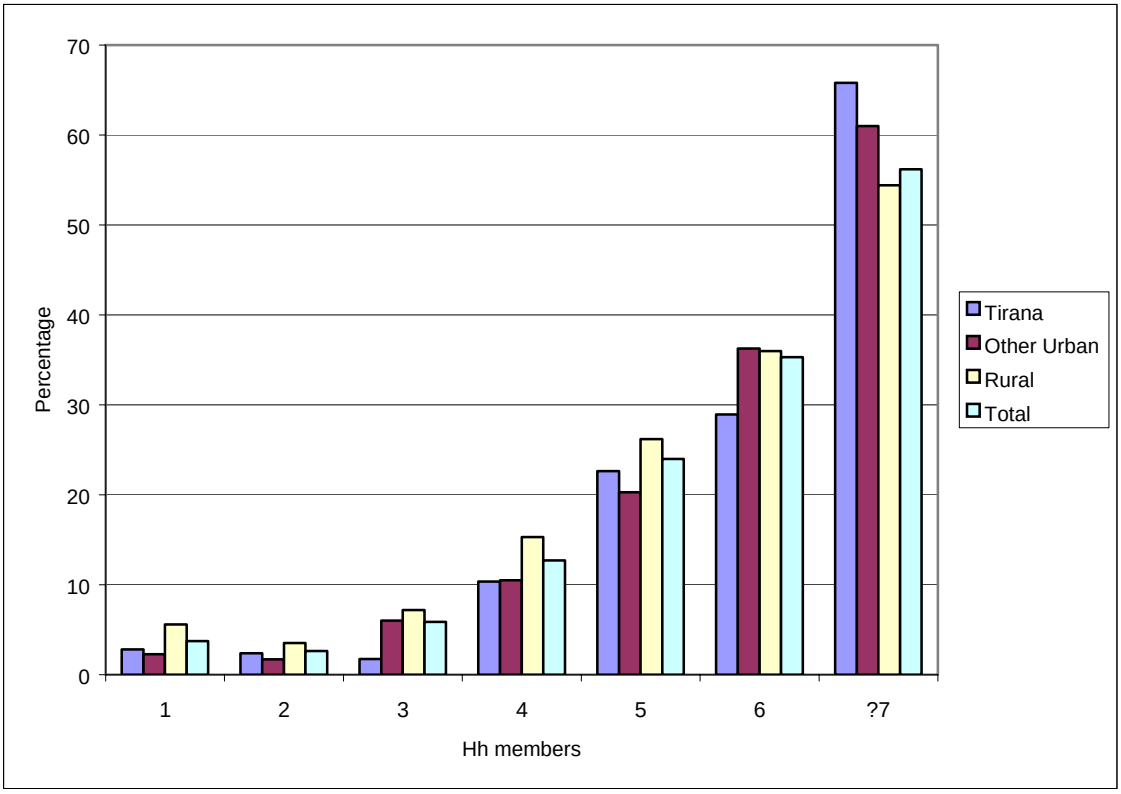
†, Dependency ratio (no. of children aged 0-14 + no. of elders aged ≥ 60) / no. of hh members aged 15-59.

‡, Mean no. of years of schooling of hh head assumes that maximum no. years possible completed at second highest level of schooling.

#, Mean no. of workers includes only people aged ≥ 15.

[18] The first Albanian attempt to fill the current knowledge gap by collecting all the necessary information for a full consumption-based money metric at the national level.

**Figure 1. Poverty rates by household size and location**




## Non-income poverty

Analysis of non-income dimensions of poverty revealed a distressing scenario in relation to people's access to basic public services and to their living conditions in general (Table 2). Rural and the more remote areas in the North East of the country fared the worst.

**Table 2. Poverty, living conditions and access to services**

| | Non-poor | | | Poor | | | Total |
|---|---|---|---|---|---|---|---|
| | Urban | Rural | Total | Urban | Rural | Total | |
| **Water** | | | | | | | |
| Running water inside | 90.3 | 27.4 | 55.7 | 73.6 | 13.4 | 32.7 | 49.8 |
| Running water outside | 5.1 | 21.2 | 14.0 | 11.4 | 30.3 | 24.2 | 16.5 |
| No running water | 4.7 | 51.5 | 30.4 | 15.1 | 56.4 | 43.1 | 33.6 |
| **Sanitation** | | | | | | | |
| WC inside | 92.0 | 48.3 | 68.0 | 80.7 | 22.9 | 41.4 | 61.2 |
| WC outside, with piping | 5.6 | 13.1 | 9.7 | 10.4 | 14.4 | 13.1 | 10.6 |
| WC outside, without piping | 2.2 | 38.4 | 22.1 | 8.6 | 62.4 | 45.2 | 28.0 |
| **Access to telephone** | | | | | | | |
| Both fixed and mobile | 24.5 | 1.4 | 11.8 | 3.9 | 0.4 | 1.6 | 9.2 |
| Fixed line only | 27.6 | 1.7 | 13.4 | 17.1 | 0.0 | 5.5 | 11.3 |
| Mobile only | 25.1 | 43.3 | 35.1 | 22.3 | 10.6 | 14.3 | 29.8 |
| No telephone | 22.8 | 53.6 | 39.7 | 56.7 | 89.0 | 78.6 | 46.6 |
| **Electricity (no. hrs interrupted / day)** | | | | | | | |
| Never | 20.5 | 7.1 | 13.1 | 36.3 | 5.9 | 15.6 | 13.8 |
| 1-5 hours | 34.6 | 19.0 | 26.0 | 29.7 | 19.4 | 22.7 | 25.2 |
| 6-12 hours | 37.8 | 57.0 | 48.3 | 27.5 | 54.2 | 45.6 | 47.7 |
| More than 12 hours | 7.1 | 17.0 | 12.5 | 6.6 | 20.5 | 16.1 | 13.4 |
| **Crowding** (persons per room) | | | | | | | |
| Less than 1 | 8.1 | 6.1 | 7.0 | 0.8 | 0.5 | 0.6 | 5.4 |
| 1 to 3 | 76.2 | 69.9 | 72.6 | 51.0 | 50.7 | 50.8 | 67.2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 3 and over | 15.7 | 24.0 | 20.3 | 48.2 | 48.7 | 48.6 | 27.5 |
| **Distance from health centre** | | | | | | | |
| 10 minutes or less | 60.5 | 44.0 | 51.4 | 49.0 | 29.7 | 35.8 | 47.4 |
| 11-29 minutes | 36.2 | 36.8 | 36.6 | 48.6 | 39.7 | 42.5 | 38.1 |
| 30-59 minutes | 1.9 | 7.0 | 4.7 | 1.5 | 9.6 | 7.0 | 5.3 |
| One hour or more | 1.4 | 12.2 | 7.4 | 1.0 | 21.1 | 14.7 | 9.2 |

The strong relation between income and non-income dimensions of poverty is evident in Table 2. Even after controlling for urban-rural differences, the poor benefit less from access to public and private services. Poor individuals are twice as likely than their better-off counterparts to have no access to adequate sanitary facilities, and they also have significantly less access to running water. They also live in more crowded dwellings: the difference in the crowding index between poor and non-poor is staggering, with almost half of the poor sharing a room with two or more household members, versus only 20 per cent among the non-poor. Power supply shortages, on the other hand, cut across economic lines, affecting almost equally poor and non-poor individuals. Among the poor, eight individuals in ten have no access to a private telephone, reaching nine in ten in rural areas. Also when comparing a composite index of Unmet Basic Needs (UBN) poverty, rural areas fare far worse than urban areas; UBN poverty is about three times greater in rural areas than in urban areas. The difference in levels of extreme UBN poverty is even more pronounced, with a six-fold gap between Tirana and rural areas.

### Poverty and education

The strong link between poverty and low educational levels is well established and is supported by the data accessed in this study. Primary school enrolment levels are lower among the poor than the non-poor and are lowest among the extremely poor (Table 3). The pattern is much more pronounced for enrolment levels in secondary school. Among the poor, only about two children in ten enrol in secondary school, compared with five in ten non-poor children.

**Table 3. Net enrolment by economic status**

| | Non-poor | Poor | Extremely poor | Total |
|---|---|---|---|---|
| Net enrolment | | | | |
| Primary | 94.1 | 91.6 | 88.6 | 93.3 |
| Secondary | 46.7 | 19.4 | 19.8 | 38.7 |
| Gross enrolment | | | | |
| Primary | 101.1! | 97.1 | 90.9 | 99.8 |
| Secondary | 53.1 | 21.6 | 21.0 | 43.9 |

### Poverty and health

Use of general health services is somewhat more widespread among the non-poor: 15.3 per cent of them visited a public health centre in the four weeks prior to the survey compared to 11.6 per cent of the poor, while 16.7 per cent of the non-poor had bought medicines and 21.2 per cent had visited a dentist compared with 12.9 per cent and 17.5 per cent, respectively, of the poor. Malnutrition is also found to be somewhat more common among poor children under the age of five, than among non-poor. The differences were, however, not found to be large (Table 4).

The difference in the levels of health of poor and non-poor are reflected in the percentages of child malnutrition reported in Table 4.

**Table 4. Poverty and child malnutrition**

| | Stunted | | Wasted | | Underweight | |
|---|---|---|---|---|---|---|
| | Moderate | Severe | Moderate | Severe | Moderate | Severe |
| Poor | 36.0 | 17.2 | 11.4 | 3.3 | 17.6 | 2.5 |
| Non-poor | 32.5 | 19.9 | 10.3 | 1.8 | 12.2 | 0.7 |

## Poverty and employment

The poor exhibit substantially higher levels of unemployment than the non-poor (Table 5). The level among the poor is almost double that among the non-poor, while among the extreme poor the level is virtually triple that of the non-poor. Moreover, among the working poor, a substantial proportion only hold marginal jobs. The incidence and severity of poverty are much higher in households where the head is unemployed. In rural areas, there is a stronger link between poverty and under-employment, as the standard definition of unemployment does not properly capture the under-utilization of human capital, mainly in family farming.

**Table 5. Percentage labour force participation (age > 14)**

| Level of employment | Non-poor | Poor | Extremely poor | Total |
|---|---|---|---|---|
| Total Working | 54.3 | 52.5 | 43.1 | 53.9 |
| Full Time* | 34.3 | 28.9 | 20.0 | 33.1 |
| Part Time | 20.0 | 23.6 | 23.0 | 20.8 |
| Unemployed | 5.0 | 8.7 | 13.4 | 5.9 |
| Discouraged, seasonal and laid off workers | 3.6 | 5.3 | 6.4 | 4.0 |
| Unemployment Rate | 8.5 | 14.2 | 23.7 | 9.8 |
| Unemployment Rate 2† | 13.7 | 20.9 | 31.5 | 15.4 |
| Unemployment Rate 3‡ | 17.7 | 24.0 | 33.1 | 19.1 |

* Individuals who work an average of 35 hrs or more per week are considered to be full time workers.

†, Unemployment Rate 2 includes discouraged/seasonal/laid off workers as unemployed.

‡, Unemployment Rate 3 counts individuals who work less than 15 hours per week in agriculture as Unemployed.

## Poverty and income sources

The different composition of the income of poor and non-poor families is reported in Table 6. For the poor farmer, the main source of income is agricultural business (37 per cent), followed by waged employment (27 per cent). For non-poor households dependent work is the single most important source (35 per cent), followed by agricultural (25 per cent) and non-agricultural business activities (13 per cent). Non-agricultural business provides only 5 per cent of the income of poor families, less than transfers (8 per cent) and Social Assistance (Ndihma Ekonomika; 7 per cent). For both groups, pensions are the third main source of income, providing between 14 and 15 per cent of the total. Similarly, there is little difference by status in the share of income provided by transfers from individuals or organizations (8 to 9 per cent), unemployment benefit, maternity, social care and other minor public transfers (p.t.) and other sources (each of which provide one per cent of income or less).

**Table 6. Income share by poverty status (per cent)**

| | Dependent work | Agricultural business | Non-agricultural business | Transfers | Ndihma Ekonomika | Pension | Unemployment benefit | Maternity, social care, other p.t. | Other |
|---|---|---|---|---|---|---|---|---|---|
| Non-Poor | 35.5 | 24.6 | 12.7 | 9.3 | 2.0 | 14.2 | 0.4 | 1.0 | 0.3 |
| Poor | 26.9 | 36.8 | 4.8 | 8.0 | 7.4 | 14.6 | 0.5 | 0.6 | 0.3 |
| Total | 33.3 | 27.7 | 10.7 | 9.0 | 3.4 | 14.3 | 0.4 | 0.9 | 0.3 |

**Table 7. Incidence of poverty by main source of income (at least 50 per cent)**

| Source of Income | Urban | | Rural | | Total | |
|---|---|---|---|---|---|---|
| | N. Obs. | Headcount Poverty Index | N. Obs. | Headcount Poverty Index | N. Obs. | Headcount Poverty Index |
| Dependent work | 1028 | 19.2 | 341 | 23.6 | 1369 | 20.7 |
| Agricultural business | 25 | --n/a-- | 696 | 34.2 | 721 | 33.7 |
| Non-agricultural business | 269 | 11.4 | 76 | 14.2 | 345 | 12.3 |
| Transfers | 134 | 21.2 | 167 | 14.8 | 301 | 16.8 |
| Pensions | 337 | 21.8 | 178 | 31.9 | 515 | 26.5 |
| Social assistance: Ndihma ekonomika, unemployment, maternity, social care, other | 77 | 48.4 | 56 | 41.5 | 133 | 44.8 |
| Other | 9 | --n/a-- | 2 | --n/a-- | 11 | --n/a-- |

## Consumption patterns

Not surprisingly, the poor allocate a higher than average share of their budget to food (67 per cent) and lower than average to non-food items (17 per cent; Table 8). Although the budget share is slightly higher, the poor also allocate less, in absolute terms, to utility payments and education. The food share is quite high even among better-off Albanians.

The analysis by income decile reveals a virtually monotonic relation for both food (downward) and non-food (upward) items, with individuals in the top decile allocating about 10 percentage points less to food and 12 percentage points more to non-food compared with poor people in the bottom decile.

**Table 8. Main budget share by consumption decile**

| | Decile | | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | |
| Food | 67.1 | 66.3 | 67.3 | 65.1 | 64.2 | 64.8 | 61.8 | 60.9 | 59.5 | 57.5 | 62.8 |
| Non-food | 16.4 | 18.0 | 17.3 | 19.7 | 20.7 | 20.7 | 23.3 | 24.2 | 25.6 | 28.9 | 22.6 |
| Utilities | 13.8 | 13.3 | 13.4 | 13.0 | 12.9 | 12.3 | 12.3 | 12.7 | 13.0 | 11.3 | 12.3 |
| Education | 2.7 | 2.4 | 2.0 | 2.2 | 2.3 | 2.2 | 2.6 | 2.1 | 1.8 | 2.4 | 2.3 |

A closer look at food consumption patterns reveals surprisingly similar dietary habits irrespective of location (!data not reported). The only sizable difference relates to the higher share allocated to flour and cereals in rural areas, partly offset by a higher consumption of bread and pastries in urban areas. As expected, households in urban areas spend more of their monthly food budget on eating out. Finally, expenditure on fruit in urban areas is double that of rural areas, probably reflecting the higher costs of perishables in urban areas.

## Summary

Multivariate analysis confirms many of the previous results and emphasizes interesting policy-relevant areas for poverty reduction. Although no causal relation can be inferred from the results, the importance of factors such as improved education, particularly at post-primary levels, and non-farm employment opportunities, particularly in rural areas, are evident. In addition, a number of highly significant correlates confirm, in a multivariate context, the multidimensional nature of poverty: households with limited access to physical and human capital, both at the household and community level, are most likely to suffer from income deprivation, and vice-versa.

**Social protection mechanism in Albania (Poverty alleviation programme)**

The social protection system in Albania was initiated to alleviate the shock of transition from a central to a market economy. The system provides cash benefits to poor families, whose total income lies under the poverty line. The poverty alleviation programme is implemented through the establishing from scratch and functioning of a social protection scheme. Law no. 7710 dt. 18.05.1993 on 'Social assistance and welfare' is the main legal act that forms the basis of the system. This law determines the system of social assistance and welfare that offers support to the Albanian family household and citizens that are totally without, or have insufficient, income or means of support. Where necessary and possible, public social welfare services are provided rather than social assistance benefit, or as a supplement.

Prior to the drafting of this law, a dramatic rise, from August up until December 1993, in the number of unemployed people was expected due to the termination of unemployment benefit (Table 9), as a consequence of which, a considerable number of families were to have no, or insufficient, income.

**Table 9. Number of unemployed persons whose unemployment benefit was to expire in 1993 and the expected impact on the social assistance scheme**

| Unemployed persons per month of year 1993 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| January | February | March | April | May | June | July | August | September | October | November | December |
| 9,771 | 16,629 | 26,678 | 34,032 | 36,867 | 40,674 | 116,968 | 180,612 | 200,000 | 210,000 | 225,000 | 240,000 |
| **Projected inflow into social assistance scheme (1 : 3)** | | | | | | | | | | | |
| 3,257 | 5,543 | 8,893 | 11,344 | 12,289 | 13,558 | 38,989 | 60,204 | 66,667 | 70,000 | 75,000 | 80,000 |

There were no programmes or policies to support these people, and a new social policy was urgently needed to respond to their new economic and social conditions. The drafting of the law on social assistance emerged as a necessity.

According to the legislation, the social assistance system provides social assistance benefit in cash, with food aid and lump-sum payments for special cases. Social assistance benefit is a means-tested cash benefit granted on a family-by-family basis. Family households of Albanian citizens that have no income and means of support from economic activity, social insurance or other social security schemes or assets, are awarded full or partial social assistance benefit. Legislation enacted with effect from the beginning of July 1993 introduced a programme of social assistance known as 'Ndihma Ekonomike'. The programme 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 per cent and 100 per cent of the income of a family with two unemployed persons in receipt of unemployment benefit, adjusted for family size[19]. Payments can be made at the full amount in the absence of income, or at a partial amount if other incomes do exist, but are inadequate. The latter is particularly important for farming families with very small income from tiny plots of land.

[19]The level of subsistence has since changed in relation to the economic and social changes, as well as to the relative poverty level.

The principles of the new legislation were widely discussed, and the most critical issues on which a decision would be made were:

*a) Who should be protected – the household or individual?*

Given the specific conditions that exist in Albania (limited state budget, strong informal economy, tradition of living with parents, limited possibilities of Albanian institutions to exchange information and monitor the scheme), the protection of the household rather than the individual was decided upon.

*b) On what basis – absolute or relative poverty?*

From the scientific point of view, the minimal standard of living could serve as the *absolute* poverty line. But, given the opportunities for gaining a higher income in the private market than in the state market and given the impossibility of estimating incomes accurately, it was agreed upon to define a *relative* poverty level to be used as an acceptable subsistence minimum. This was based upon family income in the worst situation (two household members under the unemployment benefit scheme). However, in the process of deciding upon eligible households, total income from all economic sources, both formal and informal, were taken into account.

*c) Who should manage the scheme – local or central government?*

In general, management of such a scheme from the centre increases state and institutional responsibility. However, this requires a qualified administration and a high level of professionalism and information networks, which did not exist at the time in Albania. On the contrary, management of the scheme by elected bodies such as councils of local government would increase their responsibility and reputation among the people. Possessing greater competencies, they would perform better their tasks, but could also apply social justice and reduce inequalities, as they knew the real economic and social situation of households. Despite the risk of abuses of power, it was decided that local government would be in charge of management, while central government would be responsible for legislation, monitoring, evaluation and overall social policy.

Thus, the programme is administered through the network of local governments (communes in the countryside and municipalities in the towns). These bodies decide upon the allocation per household based upon monthly requests and information. These councils are responsible to the Council of Ministers for utilization of funds, providing lists of recipients of social assistance, amount of benefit and applying fines accordingly.

*d) How would the scheme be financed – locally or centrally?*

Having no opportunity to finance the scheme through local taxation (the law on financial decentralisation had not yet been approved) the programme is fully funded by the central budget. Local authorities receive their social assistance benefit budget as a lump sum.

The public social assistance scheme is financed by the state budget through the block grant allocation mechanism. The amount of the block grant is decided upon taking into account the structure of the population; the structure and level of employment, self-employment and unemployment; family income structure, including incomes from all available sources; assets including private property; land ownership and animal, husbandry and other sources of agricultural income; and finally, data on under-nourishment. The local administrative units (municipalities and communes) are obliged to provide information on all the above indicators. The size of the social assistance fund and the way it has changed over the last decade is reported in Table 10.

**Table 10. Social assistance fund statistics**

| Financial Indicators | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Soc. Assist. Fund 000 lek | 1,711 | 3,478 | 3,402 | 3,054 | 3,128 | 4,818 | 4,529 | 4,560 | 4,595 | 5,006 |
| Unem. Ben. Fund 000 lek | 4,191 | 2,186 | 2,504 | 2,163 | 2,204 | 1,621 | 1,450 | 1,919 | 2,100 | 2,100 |
| Disability Ben. 000 lek | 0 | 2,127 | 2,756 | 3,135 | 3,085 | 1,594 | 1,945 | 2,200 | 2,155 | 2,644 |
| Soc. Bud. 000 lek | 5,902 | 7,791 | 8,662 | 8,352 | 8,417 | 8,033 | 7,924 | 8,679 | 8,850 | 9,750 |
| % Soc. Assist. / Soc. Bud. | 29.0 | 44.6 | 39.3 | 36.6 | 37.2 | 60.0 | 57.2 | 52.5 | 51.9 | 51.3 |
| % Unem. Ben. / Soc. Bud. | 71.0 | 28.1 | 28.9 | 25.9 | 26.2 | 20.2 | 18.3 | 22.1 | 23.7 | 21.5 |
| % Disab. Ben. / Soc. Bud. | 0.0 | 27.3 | 31.8 | 37.5 | 36.7 | 19.8 | 24.5 | 25.3 | 24.4 | 27.1 |
| Tot. Exp. 000 lek | 50,678 | 60,984 | 77,134 | 87,596 | 100,730 | 141,628 | 165,692 | 170,621 | 186,050 | 212,000 |
| % Soc. Assist. / Tot. Exp. | 3.38 | 5.70 | 4.41 | 3.49 | 3.11 | 3.40 | 2.73 | 2.67 | 2.47 | 2.36 |
| % Soc. Bud. / Tot. Exp. | 11.65 | 12.78 | 11.23 | 9.53 | 8.36 | 5.67 | 4.78 | 5.09 | 4.76 | 4.60 |
| GDP curr. prices 000 lek | 125,562 | 131,880 | 229,700 | 315,840 | 333,071 | 425,356 | 488,610 | 551,282 | 590,240 | 658,062 |
| % Soc. Assist. / GDP | 1.4 | 2.6 | 1.5 | 1.0 | 0.9 | 1.1 | 0.9 | 0.8 | 0.8 | 0.8 |
| %Soc. Bud. / GDP | 4.7 | 5.9 | 3.8 | 2.6 | 2.5 | 1.9 | 1.6 | 1.6 | 1.5 | 1.5 |

The amount of social assistance benefit provided to families is determined by the Council of Communes and Municipalities in accordance with the decisions of the Council of Minister and the respective regulations. The decision defines only the maximum level of social assistance benefit per family and for each member. The maximal level of social assistance benefit per household cannot be higher than 250 per cent of individual unemployment benefit (Table 11). The head of household receives no more than 95 per cent of one unemployment benefit (Table 12). Another unemployed family member, who is either above the working age or disabled, receives no more than 95 per cent of one unemployment benefit, while a second family member of working age receives no more than 20 per cent of the household head's allowance. A third family member under working age receives 25 per cent of the household head's allowance.

**Table 11. Social Assistance benefit per household according to the legislation**

| Years | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Personal Unem. Ben. lek / month | 1,920 | 2,148 | 2,600 | 2,600 | 2,600 | 3,100 |
| Max Level Soc. Ass. hh lek / month | 4,800 | 5,370 | 6,500 | 6,500 | 6,500 | 7,750 |

**Table 12. Social assistance benefit for household members according to the legislation**

| Years | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Household | 4,800 | 5,370 | 6,500 | 6,500 | 6,500 | 7,750 |
| Head of hh | 1,824 | 2,040 | 2,470 | 2,470 | 2,470 | 2,945 |
| First family member | 1,824 | 2,040 | 2,470 | 2,470 | 2,470 | 2,945 |
| Second family member | 364 | 408 | 494 | 494 | 494 | 589 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Third family member | 456 | 510 | 617 | 617 | 617 | 736 |

Social assistance benefit allowance was awarded to all families who provided documentary evidence that proved they were either without or with insufficient income.

The number of beneficiaries of social assistance peaked at the end of 1993 (Table 13) at around 20 per cent of the population, with rural areas demonstrating a slightly higher incidence of receipt than urban areas. Nevertheless, in terms of total expenditure, urban areas dominate, mostly because urban beneficiaries were drawing full payment on the basis of no other sources of income, while rural beneficiaries were drawing a partial payment to supplement their farm income.

**Table 13. Households in receipt of social assistance from 1993 to 2002**

| Years | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Households | 155,038 | 153,518 | 145,310 | 141,118 | 149,58 | 150,249 | 150,313 | 150,052 | 141,968 | 135,377 |
| % change | 100 | -1 | -5 | -3 | 6 | 0 | 0 | 0 | -5 | -5 |
| Persons | 697,671 | 690,831 | 653,895 | 635,031 | 673,11 | 676,121 | 676,408 | 675,234 | 638,856 | 609,196 |
| Av. pay. / hh | 1,839 | 1,888 | 1,951 | 1,804 | 1,742 | 2,672 | 2,100 | 2,515 | 2,697 | 3,081 |
| % change | 100 | 3 | 3 | -8 | -3 | 53 | -21 | 20 | 7 | 14 |
| Av. pay. / P | 0,409 | 0,419 | 0,433 | 0,401 | 0,387 | 0,594 | 0,467 | 0,559 | 0,599 | 0,685 |
| % change | 100 | 2 | 3 | -7 | -3 | 53 | -21 | 20 | 7 | 14 |

**Summary**

In this section we have shown that poverty indicators and the poverty alleviation programme do not go hand in hand. The latter has not been based on poverty research, primarily due to the lack of relevant studies and, secondly, due to the limited financial and institutional capacities of the state. Being a multidimensional phenomenon, poverty is an outcome of the effects of many factors. The roots of current poverty in Albania lie deep in the past and the systems in place at the time, but they have also been nourished from developments accompanying the transition to a market economy.

The fragility of the Albanian transition reflects, among other things, the fragility of the country's institutions. The administration and state institutions, the legislation and the system of justice administration have often proved themselves, as shown by events in 1997, to be incapable of accomplishing their tasks in this difficult period of transition. As a result, despite well-formulated objectives in the social protection policy, the latter has been unable to alleviate poverty.

In particular, the unemployment benefit programme is aimed at mitigating the economic and social consequences of unemployment, but the programme's contribution has been demonstrated to be very modest, suffering from ineffectiveness and containing loopholes for abuses to be made. The social assistance programme suffers from an inability to take stock of the specific conditions of poor families, an unbalanced regional distribution, a merely passive character, a low level of monitoring, etc. Meanwhile, the social care programme was aimed at supporting and integrating into society disabled individuals, to give protection to orphaned children and the elderly living alone. However, the programme has not been able to cover all of the categories of persons in need of its services, while the network of relevant institutions does not cover all regions of the country.

Therefore, we conclude that the current social protection mechanism is failing to protect or develop people or achieve social integration of disadvantaged groups.

## 4. Research design

The first outcome of the reforms in Albania was the closure of inefficient state enterprises, which led to massive unemployment. Alongside the liberalization of prices, the government decided to pay no longer the wages of thousands of employees of the already closed state enterprises. The transition was alleviated by an 80 per cent redundancy payment for a one-year period. By the time that period expired, the social assistance network had been legislated for to provide targeted income support based upon family earning.

The above-mentioned law 'Social assistance and welfare' determines the conditions for offering support to the Albanian family household and citizens. The programme was designed to provide an income transfer to families that had either insufficient or no income from market or non-market sources, or both, in order to meet minimal subsistence requirements. Currently, the maximum amount of social assistance that families are eligible to receive depends upon the number of people in the family. In any case, the maximum level of assistance cannot be greater than 250 per cent of unemployment benefit.

Programme funds are distributed through GASS[20], which defines the programme's eligibility criteria and monitors its functioning at the local level. Budget for social assistance is distributed to the administrative units (municipalities and communes) as block grants. However, there are no criteria for defining a block grant for each commune, even though that had been discussed The scheme functions under the presumption that local government is able to identify 'the poorest of the poor' and, supported by central government, is able to give money to them based on local conditions.

*In principal decentralization can reduce programme costs of local authorities. That is, if eligibility of a safety net programme is locally determined some of the problems of asymmetric information between administrators and households who have an incentive to conceal data can be circumvented.*[21] Giving local administrators the power to make decisions would reduce the cost of administering the programme and increase its efficiency. However, within the given political, economic and social framework of Albania, decentralization or methods of finance are not seen as the only barriers. Nevertheless, there is space for improvement.

### Analytical framework

After analysing the basic principles of the present social assistance scheme, some critical controversies can be highlighted:

### Controversy of the block grant mechanism

A block grant is a way to allocate state money to local administrative units for a well-defined purpose. In the present case, such a fund is designed to alleviate poverty.

[20] General Administration of Social Services.
[21] Harold Alderman, Decentralization and Targeted Transfers: Social Assistance in Albania.

Central institutions (GASS and MoF[22]) in close cooperation with each other decide on the amount of the fund based upon a set of national and local indicators. Theoretically, such a method would help create a real picture of poverty in Albania. It would support the strengthening of relationships among different institutions and the improvement of the quality of services. However, within the framework of a weak social and institutional legacy inherited from the past, the block grant opens the door for political manipulations.

Although the block grant is applied based on the above-mentioned set of indicators, it can result in a high cost of social expenditure. Given the limited resources of the state budget, especially in such a poor country as Albania, public, especially social, expenditures should be reduced. Regardless of information and indicators, each local budget has to be diminished. Assuming that the information is accurate and reliable, any diminishing of the block grant excludes some applicants from receiving benefits, and also applies dual pressure on local offices; they have to accept a reduction in funding on the one hand, because the central level demands that, while on the other they are supposed to increase benefits because the people are demanding that.

Theoretically speaking, the total fund of social assistance should relate to the rate of increase in GDP. It must be calculated as a fixed percentage (coefficient) of total public expenditures. In periods of depression (when unemployment is high) there is a higher demand placed upon social assistance, and thus the coefficient must increase.
The size of the coefficient (K) depends on the objectives of the government: either to maintain strictly macro-economic balance or to implement a generous system of benefits. If F is the fund of social assistance in a given year, than F can be represented as a percentage of total GDP for that year:

F = K * GDP, where K has (according to data from the last decade) varied from 1.2 to 4.5 per cent .

After calculating the total budget of social assistance (F), the local budget must be calculated, based on a coefficient (K(i)), which is derived according to the size of the local population relative to the total population, the proportion of unemployed people relative to total number, the relative number of pensioners, etc.

Giving the indicators, which indirectly assess the needs for social assistance at the local level, the fund should be a function of selected indicators. If ‘ω‘ represents social economic conditions of a local administrative unit, ranked ‘i’, and F(i) is the local budget, than F(i) is a function of ω, which means that $F(i) = \Psi\omega(i)$, while F should equal the total sum of F(i):

$F = \sum(Fi)$ where $F(i)/F = K(i)$.

K(i) itself is a function of ω. Observing the data on total social assistance funds over recent years and comparing them with the main macro-economic indicators, a

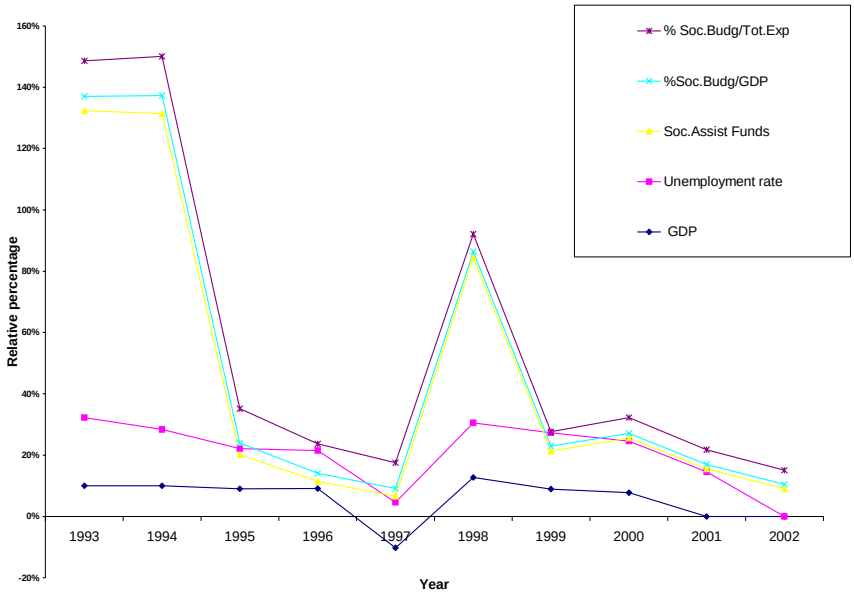
[22] Ministry of Finance.

contradiction is evident[23]. Through a superficial analysis, (table 14 and figure 2) we could observe that there is no correlation among different indicators.

**Table 14. Comparison of different economic indicators (figures in percentages)**

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| GDP | 10 | 10 | 9 | 9 | -10 | 13 | 9 | 8 | | |
| Unemployment rate | 22 | 18 | 13 | 12 | 15 | 18 | 18 | 17 | 15 | |
| Soc. Assist. Funds | 100 | 103 | -2 | -10 | 2 | 54 | -6 | 1 | 1 | 9 |
| % Soc. Bud. / GDP | 4.7 | 5.9 | 3.8 | 2.6 | 2.5 | 1.9 | 1.6 | 1.6 | 1.5 | 1.5 |
| % Soc. Bud. / Tot. Exp. | 12 | 13 | 11 | 10 | 8 | 6 | 5 | 5 | 5 | 5 |

**Figure 2. Relative change in Social Assistance funds, unemployment and GDP from 1993 to 2002**




## Controversy of decentralisation in taking decisions

In the context of decentralization, competencies of local government have accordingly increased. As regards social protection policy, it is a local council's responsibility to identify the poorest of the poor, based upon local criteria and the social economic features of local development. Theoretically speaking, local preferences vary, so that some units may place greater attention on different dimensions of poverty and may use different welfare indicators, targeting well the social assistance benefit. It serves to identify the most critical economic and social needs of households and on this basis, the most vulnerable social groups. On the other hand, local councils, responsible for taking decisions, are elected directly by the local community. The lack of experience and insufficient training create favourable conditions for the mismanagement of financial resources towards an equal distribution to all households in search of social assistance.

[23] The contradiction within the local budget will be developed later, since it has been one of the objectives of the research work

If ‘Z’ is the maximal amount of social assistance available for social group ‘a’ in administrative unit ‘i’, with ‘X’ number of recipients in the given group, ‘Zr’ is the real amount of benefit, ‘N’ number of applicants for social assistance, from the theoretical point of view, the fund of social assistance in the unit (i) must be:

$$F(i) = \sum_{a=1}^{n} [Z(a) * X(a)],$$

where ‘n’ is the number of social groups in the given local administrative unit ‘i’.

The current tendency of local councils in administrative units is to transform the above formula into:

$$F(i) = N * Z(r).$$

Since $N > X(a)$, logically $Z(r) < Z$

As a matter of fact, data on recipients and the average amount of the benefit demonstrates the difference between the ‘benefit by law’ and the ‘benefit de facto’ (Table 15).

**Table 15.**

| | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** |
|---|---|---|---|---|---|---|---|
| Max. Level Soc. Ass. hh lek / month | 4,800 | 5,370 | 6,500 | 6,500 | 6,500 | 7,750 | 7,750 |
| Av. Pay. / hh | 1,804 | 1,742 | 2,672 | 2,100 | 2,515 | 2,697 | 3,081 |
| % Benefit *de facto* | 38 | 32 | 41 | 32 | 39 | 35 | 40 |

**Controversy of poverty definition**

Despite the lack of information on poverty, the current legislation of social assistance accepts a ‘poverty definition’ that is applied in the system operations. Based on that, the monthly family level of household income equal to two unemployment benefits is considered the poverty line. This implies that every household whose incomes are lower than this level is eligible to apply for economic support.

Theoretically speaking, the provision of social assistance based on the above mentioned poverty definition alleviates inequalities in income distribution and reduces gaps in poverty. However, the reduction in inequalities is taken into consideration only when referring to the level of incomes, not to the level of services provided by these incomes, allowing deprivation of some social groups. Although the legislation encourages well-targeting of the money to the poorest of the poor, it does not address the most critical economic and social needs of the household. As a matter of fact, there is little space for improvements within the given framework of social assistance scheme operation and limitations. Addressing the most critical economic and social needs might result in a household level of consumption much greater than the average income from employment. Thus, if:

$$F(i) = \sum_{a=1}^{n} [Z(a) * X(a)]$$

then the national fund of social assistance must equal the sum of funds distributed to each of local administrative units. This means that:

$$F = \sum_{i=1}^{m} F(i)$$

where $0 < i \leq m$ and $F(i) = \Psi\omega(i)$[24],

while the practical operation of the scheme applies on:

$$F = \sum_{i=1}^{m} F(i)$$

where $0 < i \leq m$ and $F(i) = N * Z(r)$, where $Z(r) < Z$

Table 16 reports the numbers of people in social group over the previous decade, and here the contradiction of poverty definition is evident. Although the number of employees decreased after 1994, the size of the economically active population and the number unemployed have also decreased, reinforcing the conclusion that, in practice, benefits are delivered based upon $F(i) = N * Z(r)$.

**Table 16. Numbers per social group from 1993 to 2001**

| Indicator | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| 1 Population | 3,167,500 | 3,202,000 | 3,248,800 | 3,283,000 | 3,324,000 | 3,354,300 | 3,373,000 | 3,401,000 | 3,069,000 |
| 1.1 Working age | 1,763,000 | 1,786,000 | 1,820,000 | 1,850,000 | 1,861,000 | 1,888,000 | 1,911,000 | 1,939,000 | 1,767,000 |
| 1.1.1 Economically active | 1,347,000 | 1,423,000 | 1,309,000 | 1,274,000 | 1,301,000 | 1,320,000 | 1,305,000 | 1,283,000 | 1,244,000 |
| 1.1.1A Employment | 1,046,000 | 1,161,000 | 1,138,000 | 1,116,000 | 1,107,000 | 1,085,000 | 1,065,000 | 1,068,000 | 1,063,000 |
| 1.1.1B Unemployment | 301,000 | 262,000 | 171,000 | 158,000 | 194,000 | 235,000 | 240,000 | 215,000 | 181,000 |
| B.1 Unemployment benefit | 213,067 | 73,813 | 59,975 | 39,901 | 30,937 | 26,532 | 22,486 | 21,894 | 14,322 |
| B.2 Social assistance | 697,671 | 690,831 | 563,895 | 635,031 | 673,110 | 676,121 | 671,490 | 663,736 | 645,448 |
| 1.1.2 Non-active | 416,000 | 363,000 | 511,000 | 576,000 | 560,000 | 568,000 | 606,000 | 656,000 | 517,000 |
| 1.1.2A Disabled | | 8,400 | 16,919 | 19,159 | 18,703 | 25,647 | 30,692 | 37,632 | 40,282 |
| 1.1.2B Other | 416,000 | 363,000 | 474,261 | 556,841 | 541,297 | 542,353 | 575,308 | 618,368 | 476,718 |
| 1.2 Not of working age | 1,404,000 | 1,416,000 | 1,428,800 | 1,433,000 | 1,463,000 | 1,466,300 | 1,462,000 | 1,462,000 | 1,302,000 |
| 1.2.1 Children | 1,041,500 | 1,040,000 | 1,044,800 | 1,040,000 | 1,047,000 | 1,060,300 | 1,045,000 | 1,035,000 | 865,000 |
| 1.2.2 Pensioners | 363,000 | 376,000 | 384,000 | 393,000 | 416,000 | 406,000 | 417,000 | 427,000 | 437,000 |

**Sample design**

The sample survey was designed to provide estimates of various indicators at the local level, for urban and rural areas. Households in Albania, organized into 372 clusters (61 in municipalities and 311 in communes), provided a total sample size of 1,200 households systematically selected with a step equal to represent each local government unit. The size of the cluster in each administrative unit was defined by two criteria: a) weight of social assistance recipients relative to total size of population, and b) weight of local population relative to total population of Albania.

[24] 'm' represents the number of administrative units, which in total is 372 (61 municipalities and 311 communes)

In each of the local government units, households were selected randomly. The selection of households within each local government unit was based on the nominal lists of the families living there according to the 2001 census.

As a secondary source of information, the statistical and non-statistical data from official sources of INSTAT, National Employment Service and General Administration of Social Services were used. Reports and assessments of different international organizations and local ones were of particular use.

**Research Objectives**

The research work had as its primary objectives:

i) Assessing the social assistance policies implemented from 1992 in Albania, with special focus on their effectiveness;

ii) Assessing the possibilities to transform the current social assistance scheme, with special attention being paid to the cost and effectiveness.[25]

**Questionnaires**

A household questionnaire was administered in each household and from which various information on household members, including sex, age, education, health, income and employment, was collected. Of particular interest was the part of the questionnaire that provides information on social services, participation, exclusion and opportunities for social and economic integration. More specifically, the questionnaire contained the following modules:

Household
Employment
Disability
Social assistance benefit
Family income and consumption
Social services available
Social and economic integration

The design of the Individual Questionnaire (Household Questionnaire) was based on 43 questions closed with a code. For more flexibility in answering the questions, the questionnaire used the 'other' option.

**Sample characteristics and data quality response rates**

Of the 1,200 households selected for the survey sample, 1,172 were found to be occupied (Table 1, Annex). Of these, 1,141 were successfully interviewed, giving a household response rate of 95 per cent. The response rate was higher in rural areas due to the larger number of households selected there. Rapid demographic changes on one hand and difficulties in registering the people have caused a gap.

**Characteristics of the household population**

Information on the characteristics of the household population and the survey respondents was provided to assist in the interpretation of the survey findings and to serve as a basic check on sample implementation.

[25] Effectiveness means the 'impact on the reintegration of the people'

Table 2 in the Annex reports the per cent distribution of households in the sample by background characteristics. About 40 per cent of households (485 households) are urban and 60 per cent (656 households) are rural. Most of the households are composed of between three and five members. Thirty-four per cent of the total members of the households are children under 16 years old.

Most of the inhabitants (Table 2 Annex ) over 6 years old have graduated from high school (51 per cent) and 36 per cent from basic 8th grade education. More detailed analysis shows that of the members of these households, 12 per cent have graduated from university (16 per cent in urban areas and 9 per cent in rural areas), while 17 per cent have completed only primary education (11 per cent in urban areas and 21 per cent in rural areas), while 2 per cent are illiterate.

The same table provides information on disability within the selected households. Eleven per cent of selected household have at least one disabled member, with a figure of 14 per cent for rural households.

Table 4 (Annex) provides information on employment. There are currently 1727 individuals, who comprise 57 per cent of active population. However, 19.2 per cent of them are not working. The main reason stands for the lack of jobs. About 22 per cent of interviewed households are discouraged workers.

**Methodology**

From the household survey, extensive information was collected on social assistance benefits. This information shows the period of involvement in the social assistance scheme, the average amount of benefit and the way in which social assistance has been spent. It also provides information on why a household might have remained under the protection of the scheme, opinions on future prospects and the genuine possibilities for change in a given household's situation. In addition, data were collected on family composition, level of education, specific health conditions and overall features of a household's social economic situation.

As the principal objective of the research was to identify the most unfulfilled needs of the household, particular attention was paid on constructing a block of questions that addressed the above-mentioned issues. Respondents were asked to give their opinion on the listed unfulfilled needs, prioritising them, their particular social economic situations the way they cope with the situation and the possibilities for later reintegration into society. Particular attention was paid to the opinion of the householder about the role and possibility of the implemented social services, by whom and how. In addition, they were asked to give opinions on the role of local government, NGOs and the community.

The information collected was analysed by a combination of two methods: i) From the macro point of view, it analysis the data collected from public administration survey and the government institutions. It put special emphasis on discovering correlations and variables concerning fund distribution to discover lost social capital and assess the indicators of social exclusion. ii) From the micro point of view, it analysed data collected from the household survey. The method stresses the importance of addressing the most critical social economic needs to implement a new and more effective model of social assistance.

## 5. Results and analysis

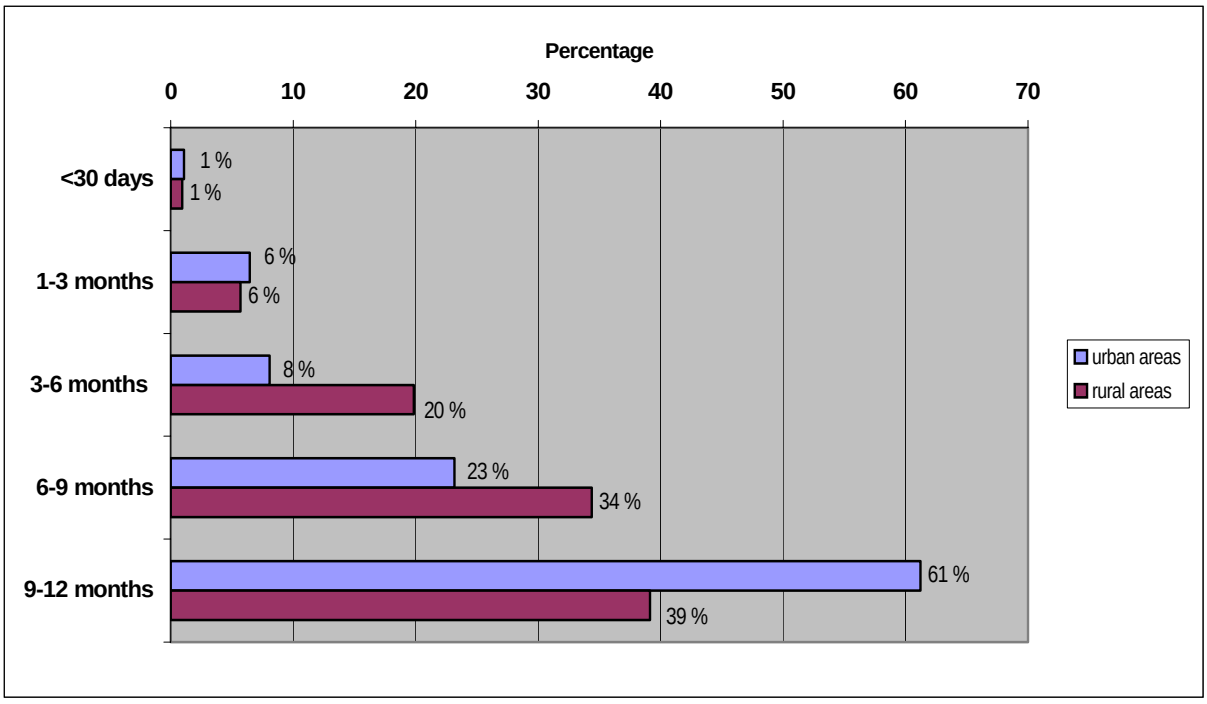
As described above, data were received from two sources, and results obtained by combining both sets of information. The main findings of the household interviews are presented below, and then, in the context of *Statement of research problem*, the results and analysis are presented.

***a) Employment and unemployment***

A strong correlation exists in Albania between poverty and unemployment. Official statistics determined by the numbers registered for the year 2001 report an unemployment level of 14.5 per cent. However, the Population and Housing Census for that same year show a level in the region of 22 per cent. This discrepancy reflects differences in definitions, data sources and population statistics. However, the present survey does not aim to analysis in depth or uncover correlations between poverty and unemployment. It is more concerned with employment and unemployment for specific reasons determined prior to the survey, as explained previously.

The survey found that 82 per cent of people interviewed had held a job during the year prior to the survey (Table 3 - Annex). Of those, one half had worked for less than nine months (Figure 3), a level reflected in the low value of employment indicator, of 0.68. The data showed that in rural areas the situation is more critical: 60 per cent had worked for less than nine months, with an employment indicator of 0.64.

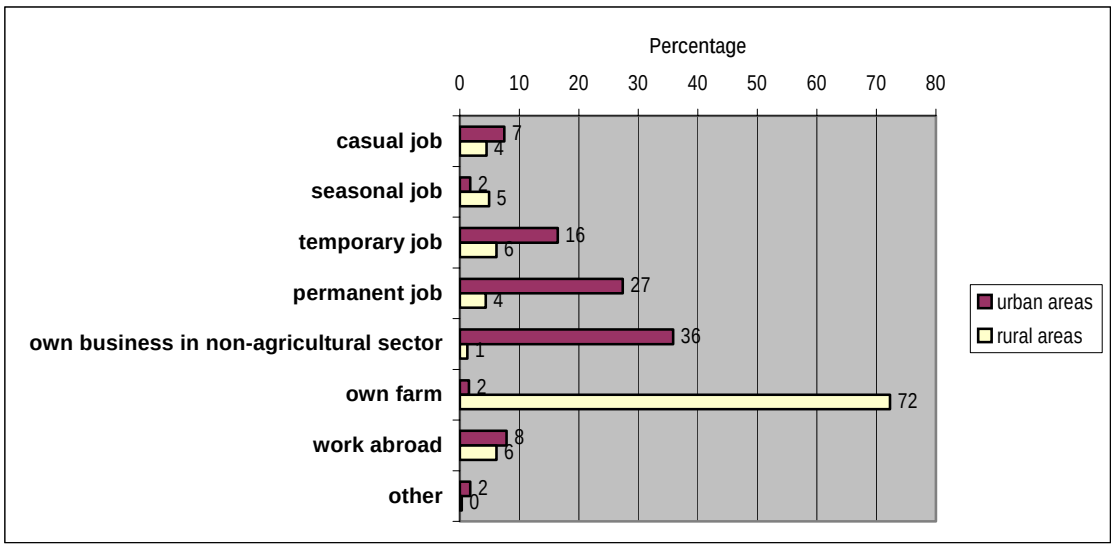
**Figure 3. Length of employment prior to survey**




The survey also found that only 13 percent of individuals 15 years of age and older reported holding a full-time job (Table 3 - Annex), while another 20 per cent reported having done some work on a part-time basis; 48 per cent were engaged on their own farm, and another 14 per cent worked for their own businesses in the non-agricultural

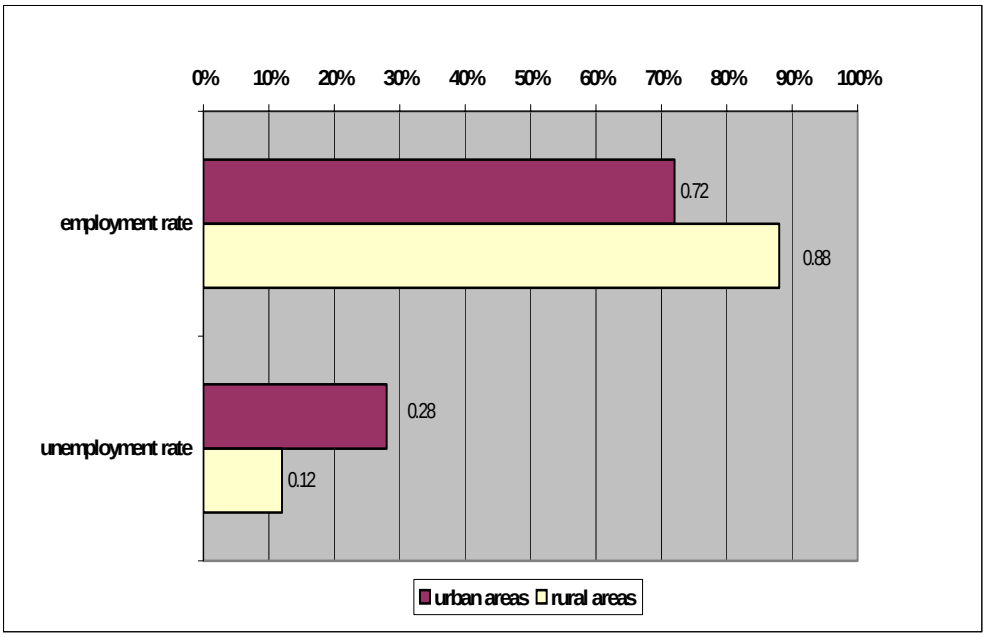
sector. As mentioned previously, and as observed elsewhere in many developing and transition economies, under-employment is widespread, particularly in rural areas, reflecting the lack of adequate employment opportunities. About 20 per cent of rural workers work only part-time, while most of the rest work on their own farms. Only 4 per cent work in full time jobs (Figure 4).

**Figure 4. Types of employment by living area**




We observed that 54 per cent of people were not working at the moment of interview (Table 4 - Annex), with 18 per cent giving as a reason a lack of jobs. Of those interviewed, 19.2 percent are included on the register of unemployed (Figure 5).

**Figure 5. Employment and unemployment rate**



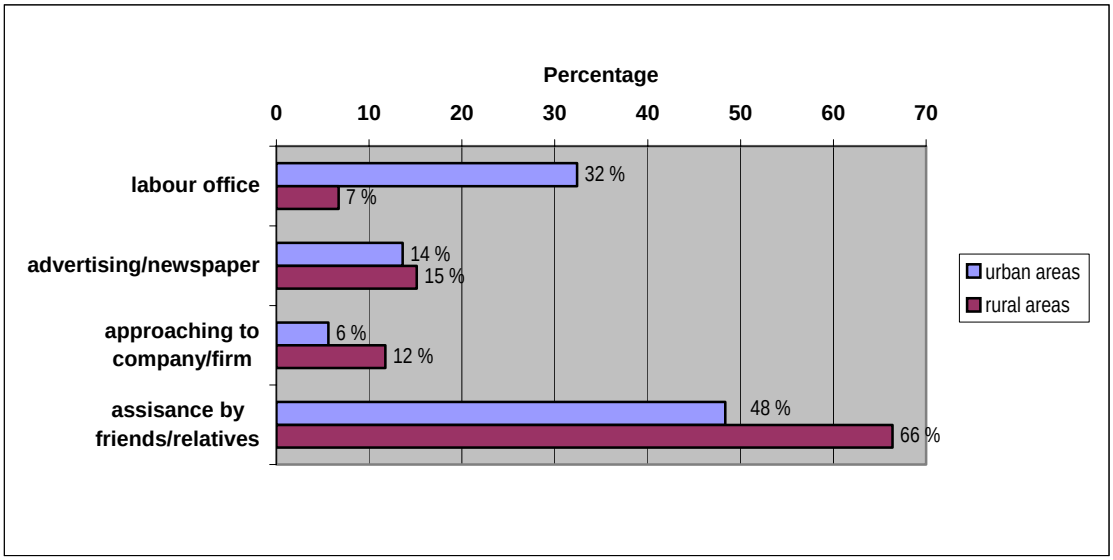

According to the survey, 42 per cent of the active population is currently looking for work (Table 5 - Annex), the highest proportion of which (58 per cent) live in urban areas. However, only 12 per cent use the services provided by the labour offices. In

rural areas, this figure is extremely low, only 4 per cent. The reason is self-evident: these services are totally absent from rural areas. Only people in peri-urban areas have access to labour offices. The majority of job seekers (64 per cent, with 71 per cent in rural areas) prefer to find work through relatives and friends, using personal contacts.

Similar results are found for unemployed people (Table 5 - Annex). Only 46 per cent are looking for a job, again mainly using their personal contacts (65 per cent in rural areas). Only 23 per cent (7 per cent in rural areas) approach the labour services.

Many unemployed people (22 per cent) are discouraged due to loss of confidence. Based on the indicators provided in Table 5.1, the ratio of the numbers unemployed to those receiving social assistance is 3:1, meaning that for every three persons losing a job, one family must be added to social assistance scheme.

**Figure 6. Searching for a job**




***b) Disability***

The survey found that 11 per cent of families have at least one disabled member of the household (Table 6 – Annex; Figure 7), the number being greater among rural households. Of disabled persons 64 per cent needed care (Figure 8), which is provided by the members of the households. From this group, 52 per cent need continuous care, though this figure is higher in rural areas (61 per cent). Their disability reduces their ability to perform daily tasks (about 93 per cent) and has reduced their capacity to work (92 per cent).

**Figure 7. Households with disabled members**

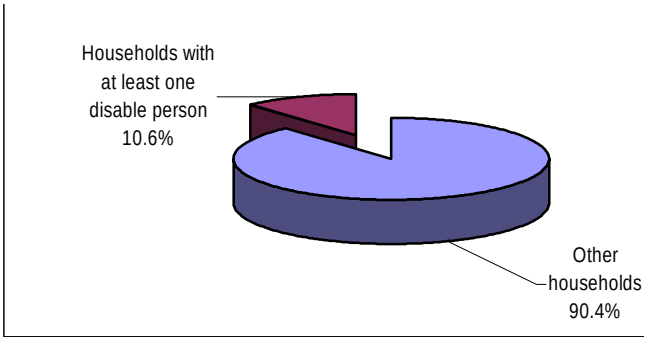
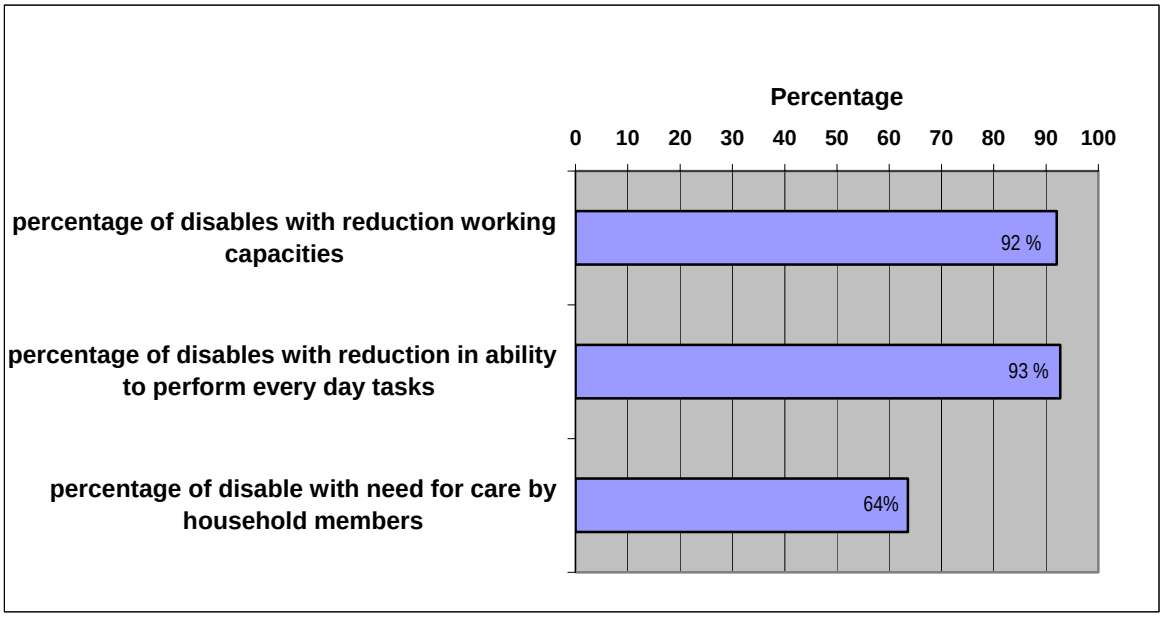
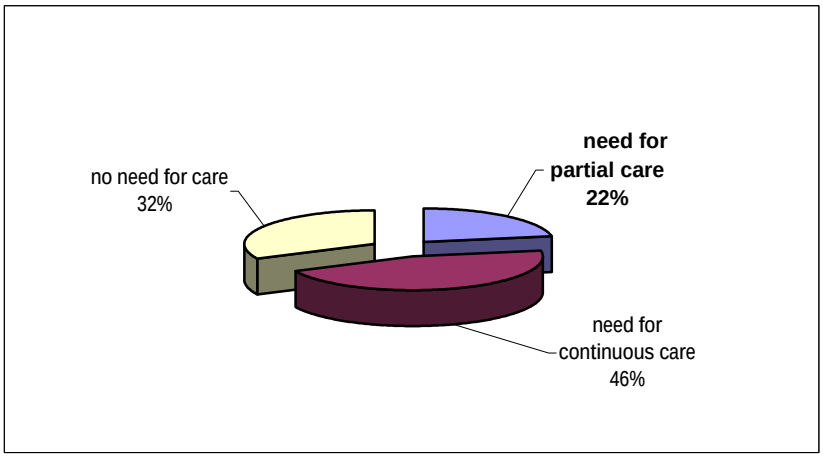


**Figure 8. Outcomes of disability**




Most importantly for this category of people, the survey found that, despite receiving care from members of their household, only 2 per cent actually received the care they need (Table 7 – Annex and figure 9). This is explained by the fact that members of the household at the same time have to go to work. The survey found that (Table 7 - Annex) the coefficient of dependency of a care-giver to a care-receiver is 1.5:1, though in this calculation the quality of service provided is not taken into account.

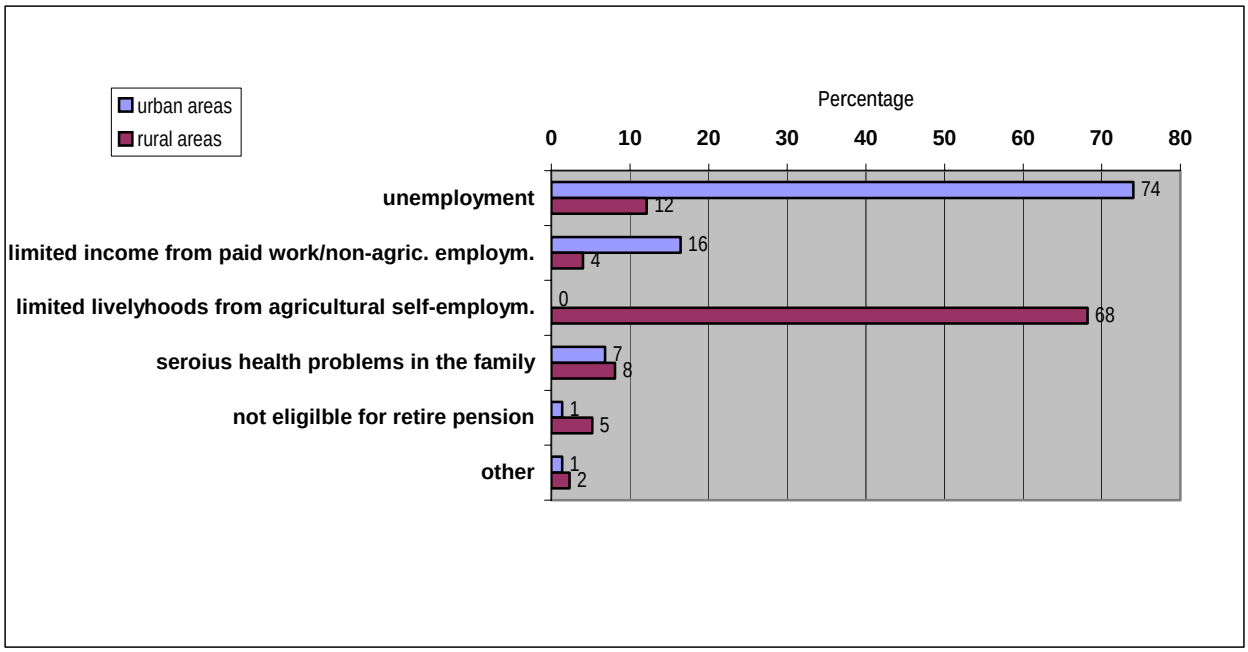
**Figure 9. Need for care**




***c) Social assistance to poor households***

According to the data gathered, unemployment is the main reason for inclusion in the social assistance scheme, especially in urban areas. 74 per cent of people interviewed in urban areas confirmed that they have to apply for social assistance benefit because of insufficient income from their work (Table 8 - Annex). Of the number of social assistance beneficiaries in rural areas 68 per cent give as the main reason limited livelihood support from farming (Figure 10).

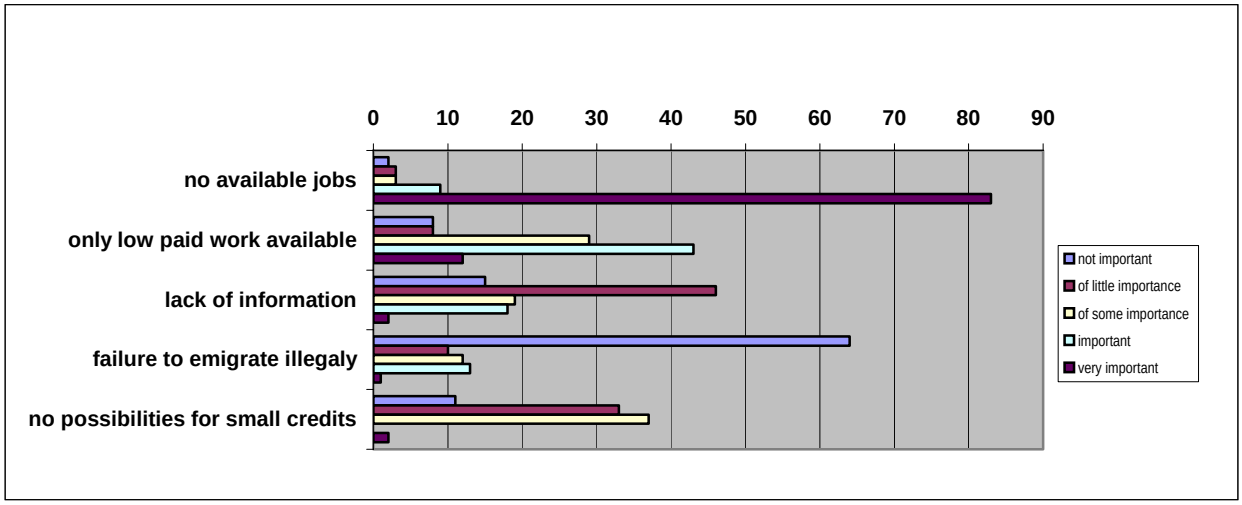
**Figure 10. Reasons for requesting social assistance benefit**




Of the number of households under the social assistance scheme (Table 8 - Annex), 71.5 per cent try to escape poverty, with one half searching intensively for work and the rest trying other opportunities. However, only 15 per cent succeeded.

The reasons given by the responders for failure to escape poverty is reported in Table 9 (Annex). Thus, 83 per cent gave as the reason no work available as the most important reason for failure (Figure 11).

**Figure 11. Reasons for failure**




Of beneficiaries, 24 per cent (Table 8 - annex) have experienced interruption of social assistance from various reasons. An important finding is the fact that 41 per cent of applicants for social assistance lose the right to benefit due to failure in preparing all necessary documents.

After careful analysis of the data, it emerged that 21.6 percent of beneficiaries of social assistance are regarded as permanent beneficiaries (Table 8 - Annex), while 4.5 percent comprise the 'outflows' from the scheme.

**Figure 12. Outflows from social assistance scheme**

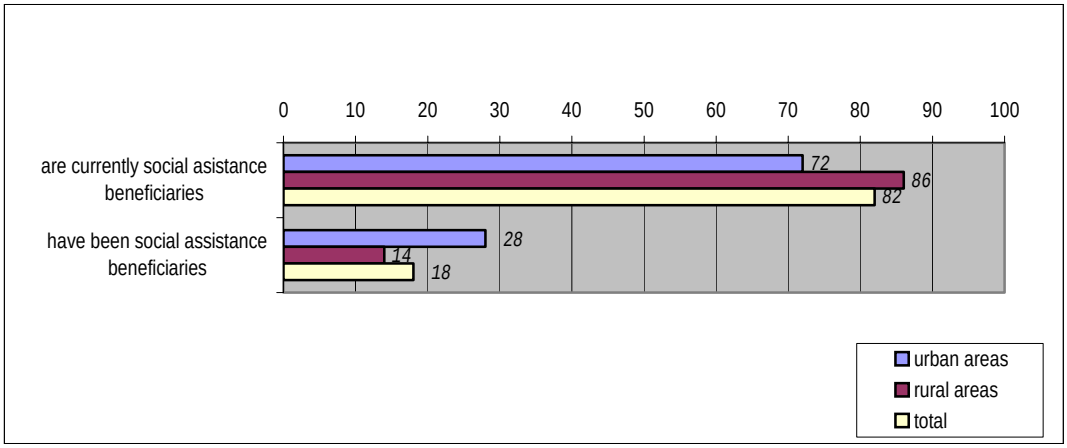
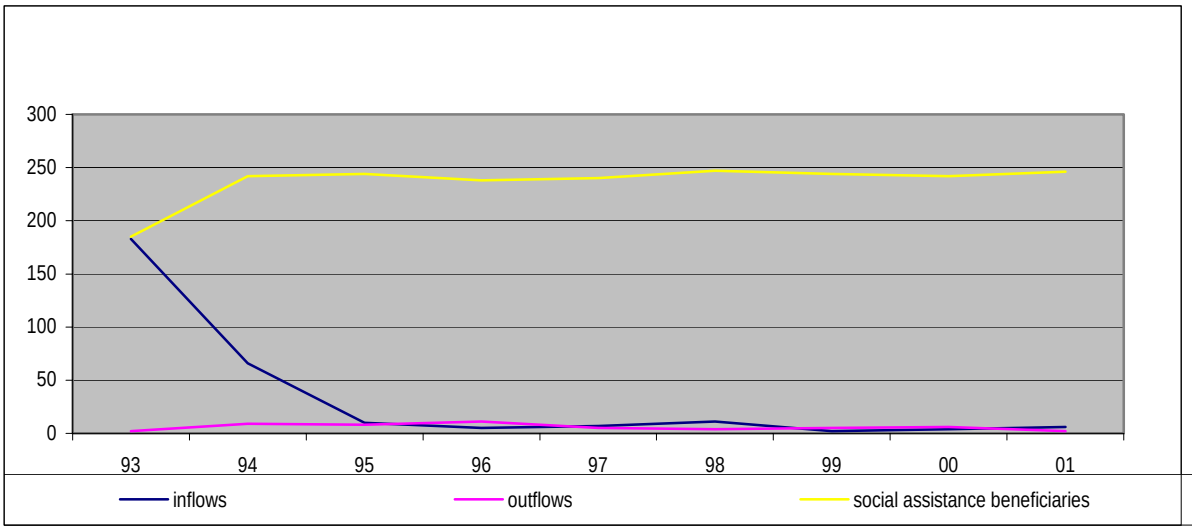



**Figure 13. Inflows and outflows from social assistance scheme**




Recipients of social assistance in Albania cannot satisfy most of their needs, and this is due to the low level of social assistance benefit. The survey showed that almost all households do not met their social cultural needs, needs for training and education, housing, furniture, maintenance, etc. (respectively, 98, 81 and 76 per cent), while 80 per cent cannot cover their basic needs for food and beverage.

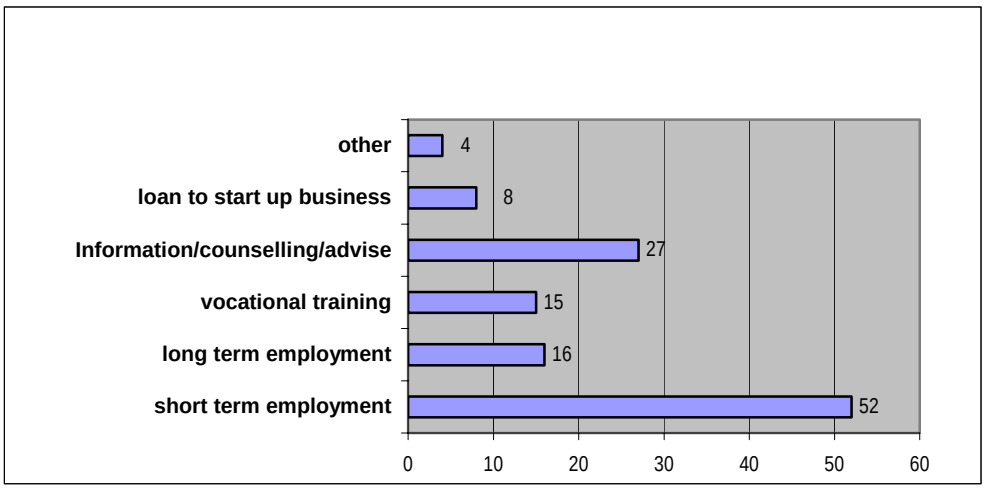
Tables 10 and 11 (annex) provide detailed information about the un-met needs of households, who are recipients of social assistance benefit. Almost all of them can not even think about social and cultural needs, 81 percent can not fulfil the needs for education of children, daily food is another critical need etc. However, the answer to the question of " how do they survive" remains unclear. The answer might be related to the existence of additional sources from informal labour market.

The recipients of social assistance face critical economic and social situation. Most of them (94 percent) experience critical economic situation, 71 percent of them have lost interpersonal connections due to poverty, whereas 63 percent face difficulties in children's education.

***d) Social services***

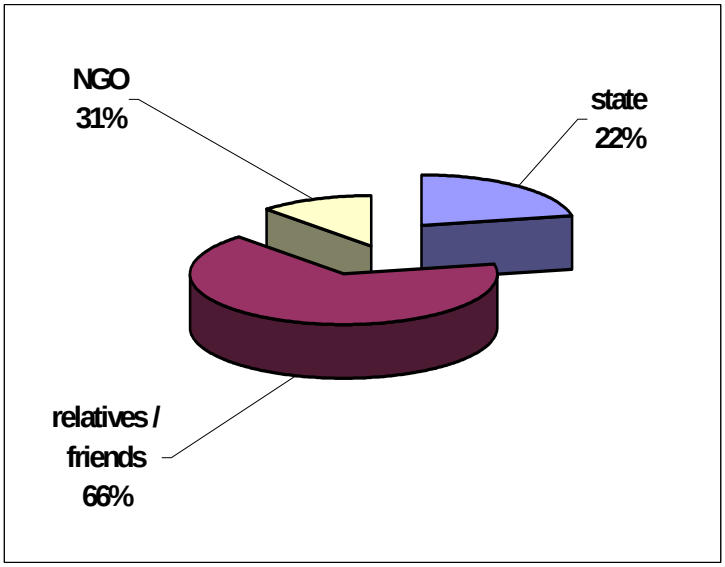
Table 12 (Annex) relates to the use of social services. The concept of social services used here includes health care services, education services, social care and employment services. Of those interviewed, 71 per cent had received support, mostly from their relatives (69 per cent).

**Figure 14. Provision of employment services**



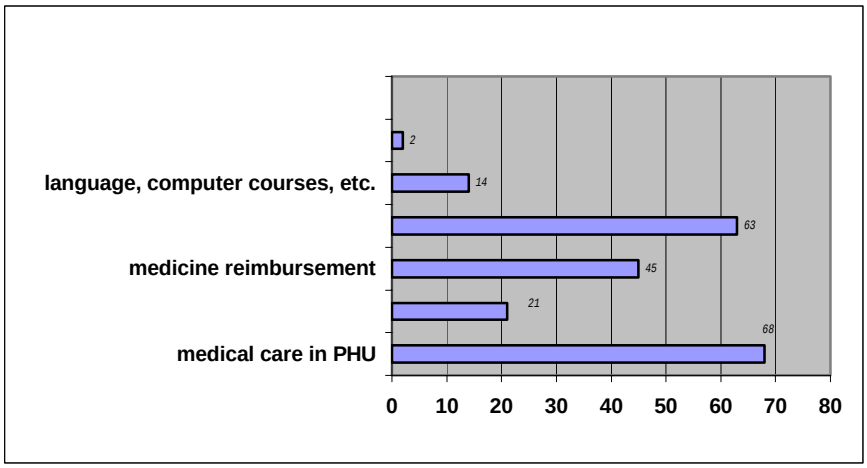

Support for short term employment is regarded as the service most required in the context of employment services, but this has mostly been provided through relatives, friends or family members (Figure 15; 66 per cent). This phenomenon is more visible in rural areas, accounting 75 per cent of such cases; the beneficiary has found support thanks to personal connections.

**Figure 15. Employment services according to the provider**



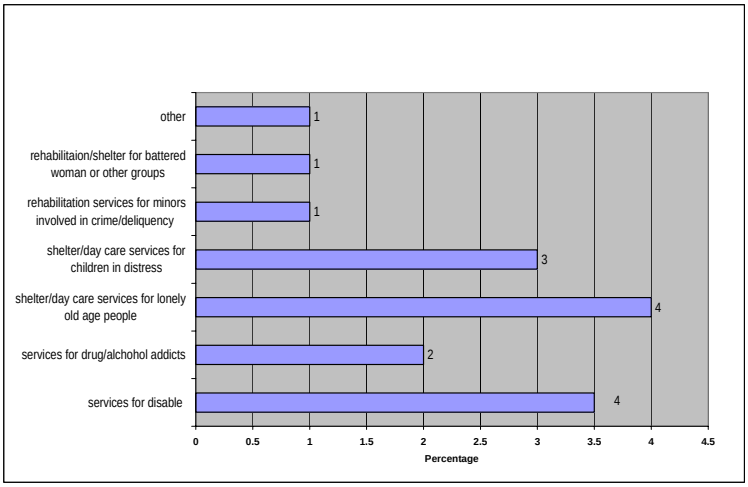
In contrast, the strongest provider of health care and education services is the state (90 per cent of cases). This is a very reasonable result because, firstly, traditionally these services have been provided free of charge and, secondly, they are expensive public services. Of those interviewed, 68 per cent have access to basic health care services from primary health care centres, while 63 per cent have access to basic education. The data showed that the number of people who can access specialized services (such as vocational and professional training) is limited, partly due to financial possibilities and partly due to the availability of such services (!table). From these data (!where?), the average number of services requested by people has been calculated, taking into account the total number of services required (1,739) and total number of households that have received support when they asked for it (810). The average number of services per household is 2, which means that households have asked for more than one service.

**Figure 16. Health and education services received (!needs completing)**



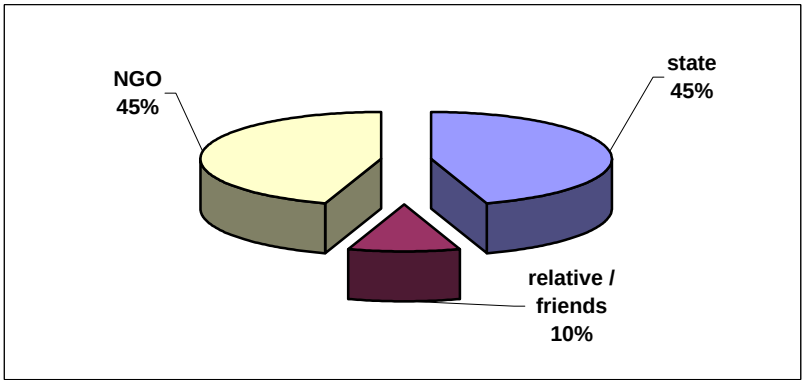

The least requested service is social care, mainly due to the lack of provision of professional social care services and the limited access to institutional social care services. The average number of such services per household is 0.15. However, among services required in this group, the highest percentage is for institutional services such as shelter for lonely old aged people and the disabled. This confirms that either people do not know that there is the possibility for other non-residential services or they are not interested.

**Figure 17. Social care services received**



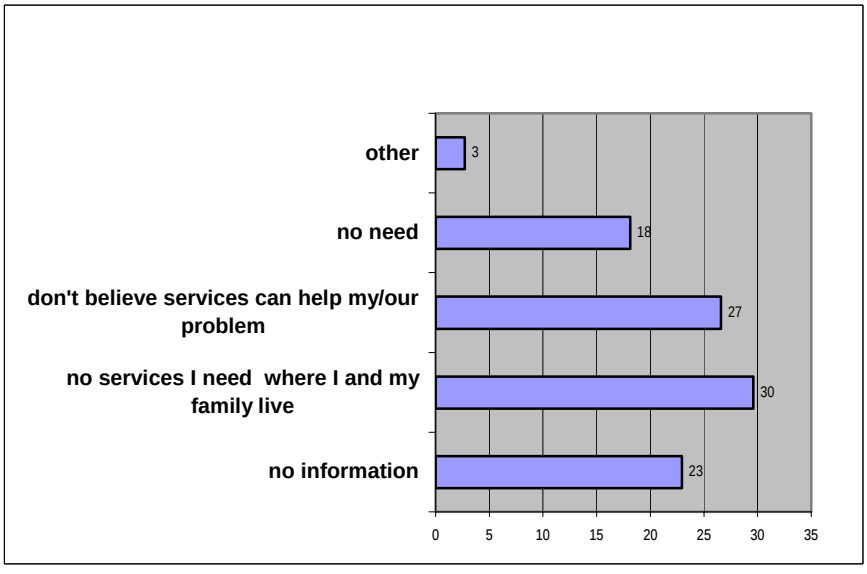

With respect to the provider of social care services, the distribution is more interesting than for education or health or employment. It shows that state and non-state institutions are equally important. Thus, people are aware of non-residential services but they cannot easily access them due to the limited availability across the country.

**Figure 18. Social care services according to provider**




According to the information presented in Table 12 (Annex), 30 per cent of persons in need do not access any type of services due to the lack of such services, 23 per cent lack relevant information, and 27 per cent are not confident in their effectiveness.

**Figure 19. Reasons for not using social services**



The data in Table 13 (Annex) show that the number and frequency of social services use by social assistance beneficiaries is low, mostly as a result of the limited financial possibilities to afford even access to such services, which are free of charge.

Table 17 summarizes the results of "average number of services per household", compared to the average number of services provided to households-recipients of social assistance. This table shows the exclusion of recipients from some basic social services, due to poverty.

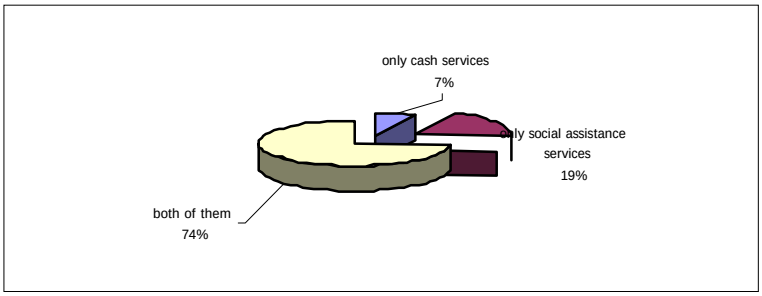
**Table 17 Average number of services per household**

| | No. people interviewed | Soc. Assis. beneficiaries |
|---|---|---|
| Households that received help when needed | 810 | 213 |
| Number of services received for employment | 991 | 141 |
| Number of health care and education services | 1,739 | 383 |
| Number of social care services | 125 | 53 |
| Average number of services per household | | |
| for employment | 1.2 | 0.7 |
| for health and education | 2 | 1.8 |
| for social care services | 0.15 | 0.25 |

### e) Social and economic integration

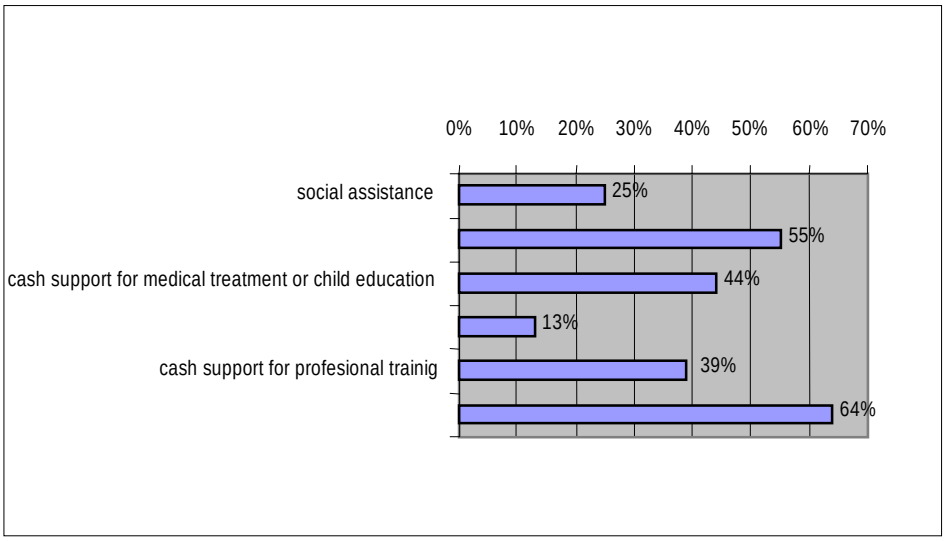
Table 14 in annex provides information about opportunities for social and economic integration. A small proportion of households consider only cash support as important for their re-integration. However, according to the information, 74 percent considers the combination of services in cash and in kind as crucial for their re-integration into social environment.

**Figure 20** Opinions regarding services that sustain economic and social integration



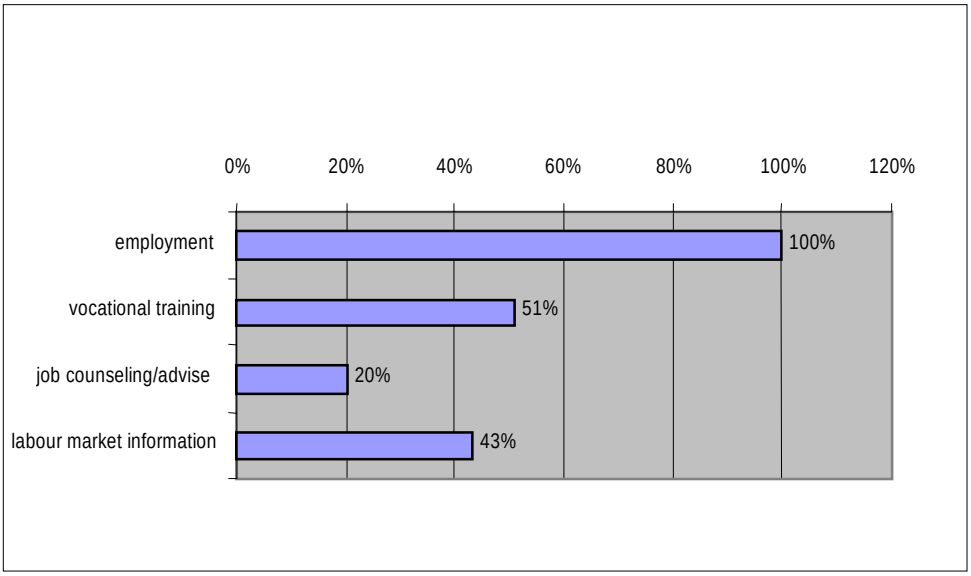

Among services in cash, they pay particular attention to support through micro credits, social insurance and support to education and training.

**Figure 21** Opinions about integration through support in cash



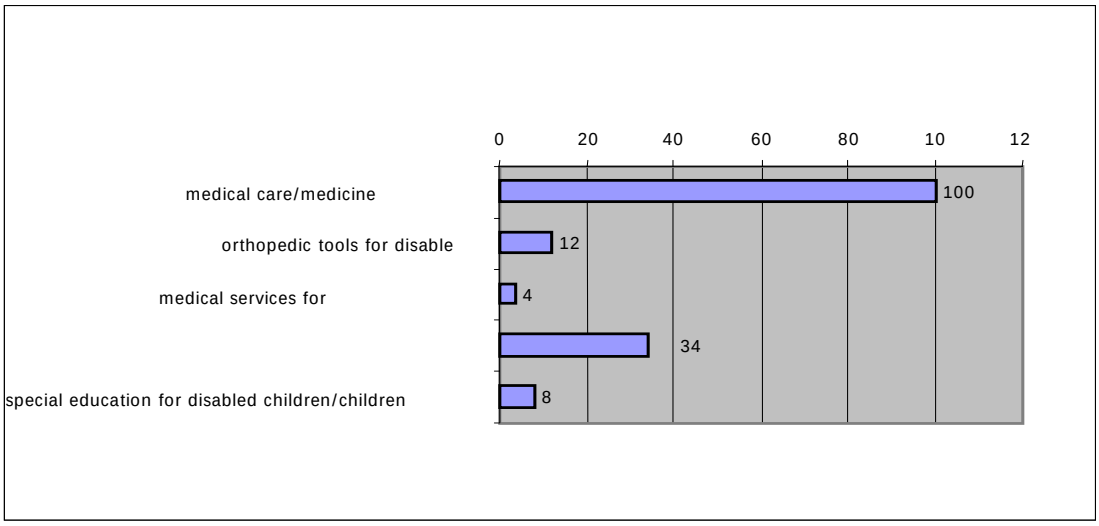

They all confirm that they would appreciate the provision of employment services. Nevertheless, only 58 percent consider the public institutions as the strongest provider. It emphasizes the idea that they are not satisfied with the quality of current services provided by the public institutions.

**Figure 22** Integration through employment



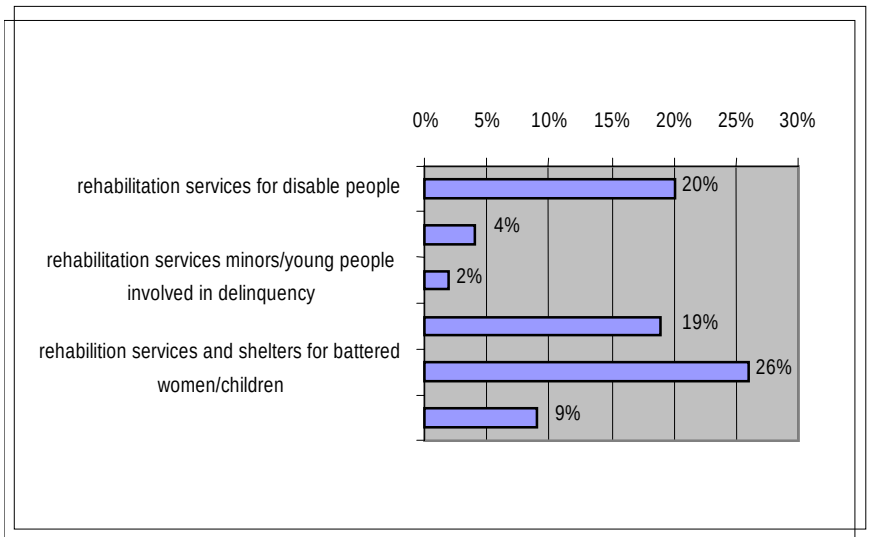

78 percent mention the importance health care and education have in their economic and social re-integration. From those services, they distinct the reimbursement of medicaments. 34 percent would consider the role that education play in their re-integration, while 12 percent mention the necessity to financially support households in buying orthopedic tools for disabled.

**Figure 23** Integration through health care




An interesting result is the interest that households pay to social care services for women and disabled in general. 26 percent think of the necessity of provision of shelter for abused and violated women, while 20 percent prefer social care services for disabled. It is impressive the fact that 65 percent of responders want a stronger state in terms of provision of this type of services.

**Figure 24** Integration through social care services




Based upon what has been described up to now, we can try to answer to the following questions:

*Does the current system of social assistance target funds to the poorest areas?*

Given the mixed composition and relatively high number of local administrative units, theses units are stratified into groups. Criteria of selection are population and the main economic resources of the administrative unit. Thus, the total number of 372 local

administrative units, 61 municipalities and 311 communes is divided into three groups, two of which are in clusters. The first group includes the biggest administrative units, in the urban areas. The second group includes the rest of the municipalities and the last group includes only the communes, in rural areas[26] (!footnote number). Since the second and third groups have a mixed composition of administrative units, they are divided into clusters based on the fund used for social assistance. Each group comprises a different number of clusters depending on the variation of funds availabe inside the group. The second group is divided into five clusters (with up to 5,000 leks per month; 5 to 15,000 leks per month; 15 to 25,000 leks per month; 25 to 35,000 leks per month and above 35,000 leks per month). The third group is also divided into five clusters, starting from zero and ending at 25,000 leks per month, as this is the maximum value of funds in the communes.

**Table 18. Distribution of social assistance funds according to employment per capita**

| | Group 1 | Group 2 | Group 3 | Total | Percentage |
|---|---|---|---|---|---|
| Level 1 | | | | | |
| Less than needs | 3 | 20 | 32 | 55 | 14.78 |
| According to needs | 0 | 0 | 74 | 74 | 19.89 |
| More than needs | 1 | 0 | 49 | 50 | 13.44 |
| Level 2 | | | | | |
| Less than needs | 2 | 0 | 126 | 128 | 34.41 |
| According to needs | 1 | 0 | 0 | 1 | 0.27 |
| More than needs | 0 | 21 | 0 | 21 | 5.65 |
| Level 3 | | | | | |
| Less than needs | 0 | 0 | 30 | 30 | 8.06 |
| According to needs | 1 | 0 | 0 | 1 | 0.27 |
| More than needs | 2 | 10 | 0 | 12 | 3.23 |
| Total | 10 | 51 | 311 | 372 | 100 |

**Table 19 Summary according to the levels**

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % | No. | % |
| Less than needs | 55 | 25.82 | 128 | 60.09 | 30 | 14.08 | 213 | 57.26 |
| According to the needs | 74 | 97.37 | 1 | 1.32 | 1 | 1.32 | 76 | 20.43 |
| More than needs | 50 | 60.24 | 21 | 25.30 | 12 | 14.46 | 83 | 22.31 |
| Total | 179 | | 150 | | 43 | | 372 | 100 |

**Table 20. Group 1: comparison of indicators**

| City | Employees | Recipients | Funds per | Population |
|---|---|---|---|---|

[26] According to the law on local government, municipality is defined as a local administrative unit in an urban area and commune is a local administrative unit in a rural area.

| | per capita | per capita | capita | size |
|---|---|---|---|---|
| Tirana | 0.42 | 0.09 | 1.16 | 422,863 |
| Kavaja | 0.11 | 0.12 | 3.63 | 33,234 |
| Berat | 0.12 | 0.52 | 2.81 | 63,242 |
| Fier | 0.69 | 0.23 | 3.13 | 32,057 |
| Lushnja | 0.30 | 0.42 | 4.57 | 25,000 |
| Elbasan | 0.19 | 0.21 | 2.34 | 114,195 |
| Korca | 0.17 | 0.16 | 1.83 | 78,131 |
| Shkodra | 0.14 | 0.37 | 3.69 | 102,729 |
| Vlora | 0.12 | 0.19 | 2.05 | 100,901 |
| Durres | 0.21 | 0.06 | 0.86 | 137,890 |

**Figure 25. Group 1: Comparison of indicators**

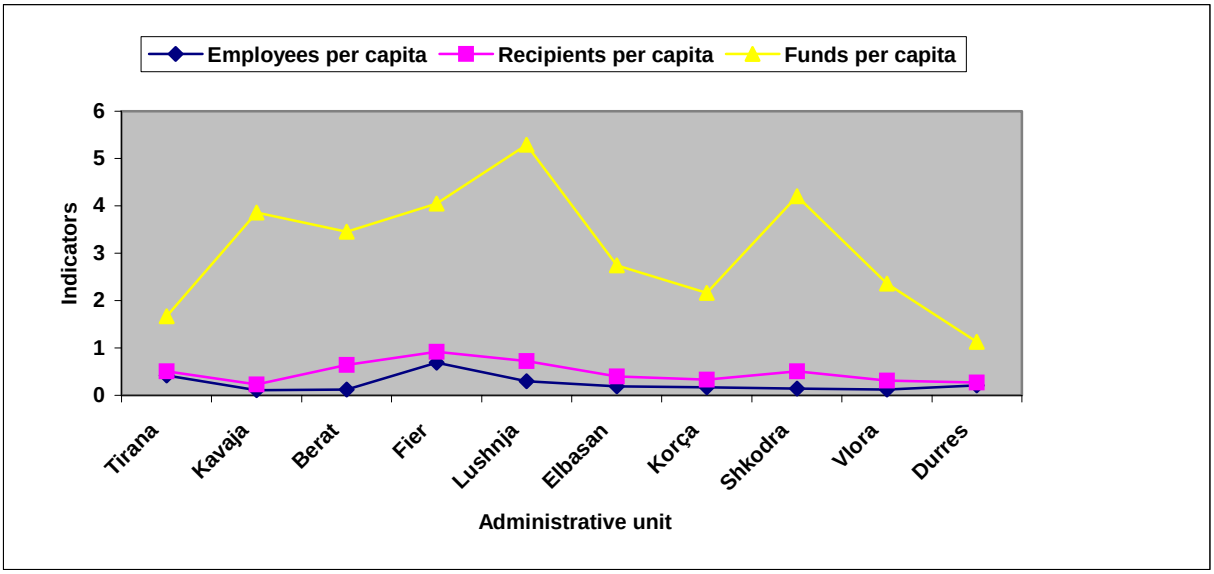



**Table 21. Group 2: Comparison of indicators**

| Clusters (leks) | Employees per capita | Recipients per capita | Funds per capita | Municipalities in each cluster |
|---|---|---|---|---|
| Up to 5,000 | 0.06 | 0.05 | 0.48 | 7 |
| 5 - 15,000 | 0.10 | 0.12 | 1.15 | 13 |
| 15 - 25,000 | 0.19 | 0.11 | 1.79 | 14 |
| 25 - 35,000 | 0.18 | 0.14 | 1.82 | 7 |
| Above 35,000 | 0.31 | 0.20 | 3.59 | 10 |
| Total | | | | 51 |

**Figure 26. Group 2: Comparison of indicators**

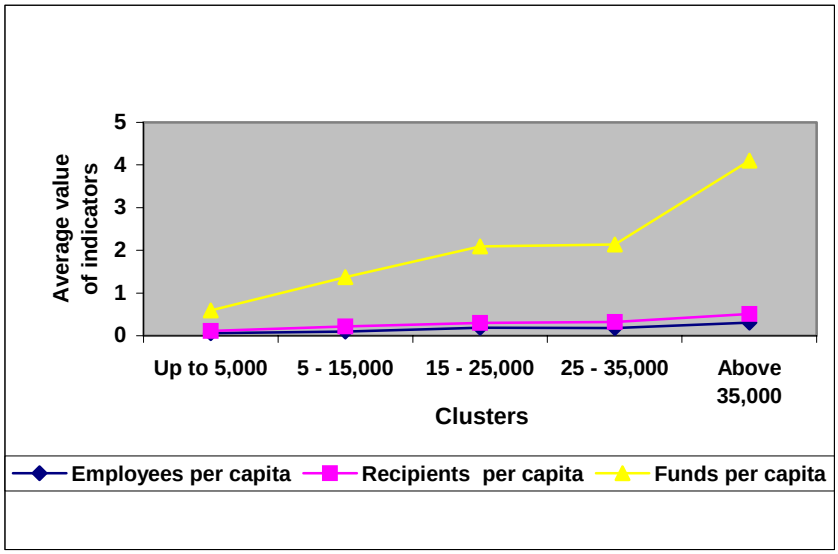
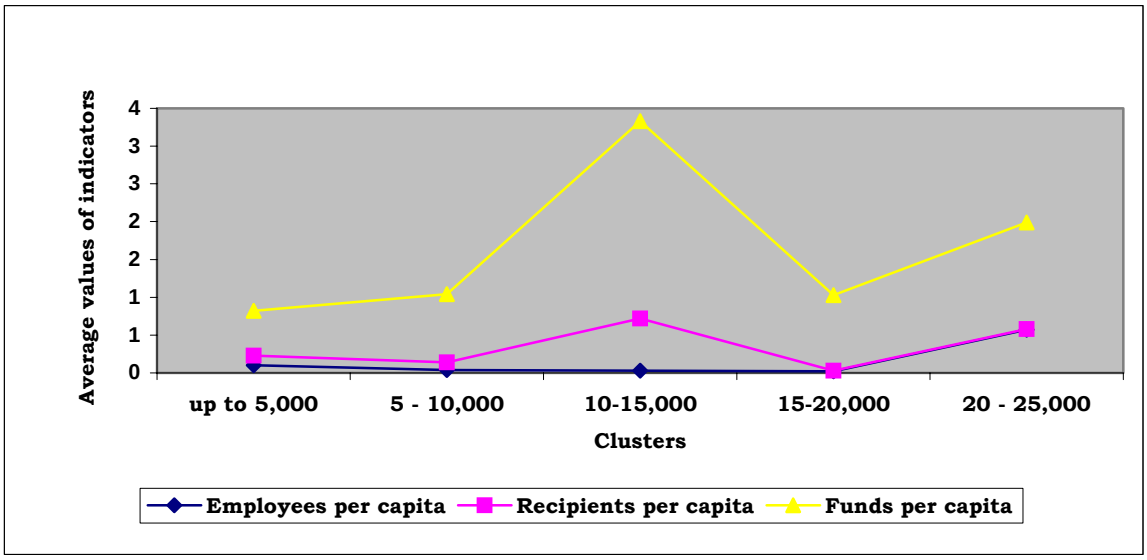



**Table 22. Group 3: Comparison among indicators**

| Clusters | Employees per capita | Recipients per capita | Funds per capita | Communes in each cluster |
|---|---|---|---|---|
| Up to 5,000 | 0.10 | 0.13 | 0.59 | 126 |
| 5 - 10,000 | 0.04 | 0.10 | 0.90 | 74 |
| 10-15,000 | 0.03 | 0.69 | 2.61 | 49 |
| 15-20,000 | 0.02 | 0.01 | 1.00 | 32 |
| 20 - 25,000 | 0.57 | 0.01 | 1.41 | 30 |
| Total | | | | 311 |

**Figure 27. Group 3: Comparison of indicators**




Based upon the data reported in Tables 18,20,21 and 22[27], to address the question of whether social assistance reaches the poor districts, a definition of poverty is needed. Although there is no official poverty line and definition, fund allocation based only on claimants of social assistance and means testing has proved to be too empirical. As the main reason for being poor is thought to be high rate of unemployment, confirmed in this survey, the indicator 'employment per capita' is used to help answer the above question. This indicator is compared with 'recipients of social assistance per capita' and 'funds per capita'. Considering the alternative, that social assistance is targeted to the poorest areas of Albania, well-targeting of funds could be proven by opposite rates of change in employment per capita and the same rate of change in recipients per capita, which is not the case under the current scheme. Figures 25,26 and 27 illustrate the changes in the selected indicators. Because of the high number of administrative units, average values of indicators are calculated per cluster per group.

Each of the groups is divided into three levels. Level 1 includes all local administrative units, in which the indicator of 'employees per capita' is the lowest, less than the average of the group. Level 2 includes all administrative units in which the deviation of the selected indicator is almost zero. Level 3 includes the rest of administrative units of the group. Practically speaking, level 1 represents the poorest administrative units, level 2 the better-off units and level 3 the richest administrative units. Administrative units inside the groups are listed in ascending order of the indicator 'employees per capita'. Given that the indicators 'funds per capita' and 'employees per capita' must follow each other, the column 'difference' in tables 20,21 and 22 indicates the deviation of practical funds allocation from what the administrative units must receive. The overall results of calculations are summarized in tables 18 and 19, in order to analyse the distribution of funds according to three indicators: 'less than needs'(administrative units in which deviation is negative), 'according to the needs'(deviation is zero) and 'more than needs'(deviation is positive).

[27] The indicator "employment per capita" is calculated according to the number of employees in rural areas, which means that owners of the land are included

The survey confirmed that about 42 per cent of administrative units receive funds according to needs and more than needs (table 19). It also recognized that more than half of the administrative units receives funds less than required. It also identified that about one quarter of administrative units in the poorest sub-group (level 1, table 19) receive the lowest benefits, less than needs. About 60 per cent of the poorest areas receive higher funds, more than their needs. In contrast, 60 per cent of the comparatively well-off local administrative units (level 2, table 19) receive less benefits, and only a few of the richest, about 15 per cent, receive a large fund, more than they need (level 3, table 19). The most positive aspect of these confirmations is the fact that 97 per cent of the poorest areas (level 1) receive funds according to their needs. What we observe is that in group 1 only 20 per cent receive funds according to needs, in group 2 about 60 per cent receive more than needs and none of them according to the needs and in group 3 only 24 percent receives funds according to the needs.

Generally speaking, the survey confirmed that the indicators currently used to assess poverty in Albania are insufficient. The way in which funds are distributed to the local administrative units does not address their most critical economic and social needs, simply because the funds allocation procedure is not based on such indicators.

*Is the actual scheme addressing the most critical social economic needs of the household?*

That the social assistance reaches the poorest of the poor is confirmed by the poverty study, conducted in 1996-1997[28]. However, the question raised here is whether social assistance benefits do help households alleviate their social problems. In fact, this issue relates directly to the efficiency of the system. To answer this question, one needs to know the indicators that can measure the efficiency of social assistance. So far, that has been assessed by funds allocated to each local unit and their respective recipients of social assistance. Table 23[29] and figures 28 and 29 show how recipients and funds change based on the number of household members.

Given the current information, it is clear that the information on the households' needs is insufficient. Despite the biggest share of the funds gooing to households with four members (up to 30 per cent), the question of addressing the social needs through social assistance is far from the reality. The fact that 54 per cent (table 23 and 24) of households benefit from partial social assistance reconfirms the fact that social assistance helps households alleviate only the economic needs.

The survey indicates that social inequalities are not yet considered as a priority. A comparison between 'social groups' as they result from the survey and the social assistance benefit for the household, shows the gap that exists between 'benefit' and 'needs' from the policy point of view. Analysing the data presented in table 24 further, 'social groups', one can see that there is no relationship between the composition of social groups and benefits for a given household. There are a variety of social groups inside the 'poor families and beneficiaries of social assistance' if the

[28] Decentralization and Targeted Transfers: Social Assistance in Albania, Harold Alderman, World Bank

[29] Data of this table refers to March 2000, as the most complete information available on household size, which is why the total number of households differs from that in table ! 5.1

analysts take into account some social needs. On the contrary, there is no special treatment, either economic or social, provided to them.

**Table 23. Recipients of social assistance benefit**

| Members of household | Municipality | | | Commune | | | Overall |
|---|---|---|---|---|---|---|---|
| | Full | Partial | Total | Full | Partial | Total | |
| One | 4,803 | 207 | 5,010 | 361 | 2,782 | 3,143 | 8,153 |
| Two | 4,476 | 566 | 5,042 | 288 | 5,720 | 6,008 | 11,050 |
| Three | 7,933 | 1,124 | 9,057 | 493 | 9,415 | 9,908 | 18,965 |
| Four | 17,618 | 2,553 | 20,171 | 975 | 17,682 | 18,657 | 38,828 |
| Five | 8,267 | 1,828 | 10,095 | 616 | 15,234 | 15,850 | 25,945 |
| Six | 2,642 | 918 | 3,560 | 319 | 10,090 | 10,409 | 13,969 |
| More than six | 1,549 | 1,021 | 2,570 | 249 | 9,856 | 10,105 | 12,675 |
| Total | 47,288 | 8,217 | 55,505 | 3,301 | 70,779 | 74,080 | 129,585 |

**Table 24. Fund of social assistance benefit in 000 lek per month**

| Members of household | Municipality | | | Commune | | | Fund |
|---|---|---|---|---|---|---|---|
| | Full | Partial | | Total | Full | Partial | Total |
| One | 9,902 | 429 | 15,773 | 10,331 | 991 | 4,451 | 5,442 |
| Two | 11,159 | 1,183 | 23,001 | 12,342 | 762 | 9,897 | 10,659 |
| Three | 23,086 | 2,554 | 44,002 | 25,640 | 810 | 17,552 | 18,362 |
| Four | 58,515 | 6,101 | 97,902 | 64,616 | 1,706 | 31,580 | 33,286 |
| Five | 30,220 | 4,860 | 66,577 | 35,080 | 1,360 | 30,137 | 31,497 |
| Six | 10,624 | 2,852 | 37,168 | 13,476 | 721 | 22,971 | 23,692 |
| More than six | 7,186 | 3,422 | 37,939 | 10,608 | 798 | 26,533 | 27,331 |
| Total | 150,692 | 21,401 | 322,362 | 172,093 | 7,148 | 143,121 | 150,269 |

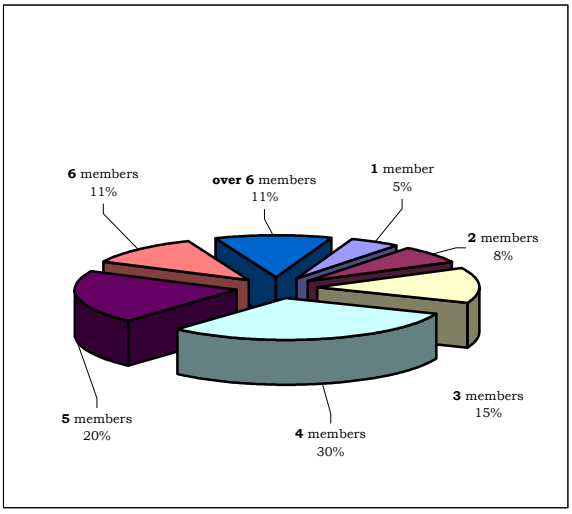



**Figure 28. Recipients of social assistance benefit according family size**

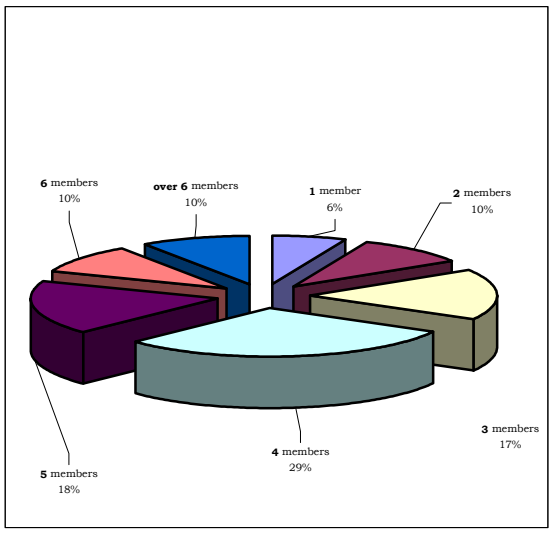
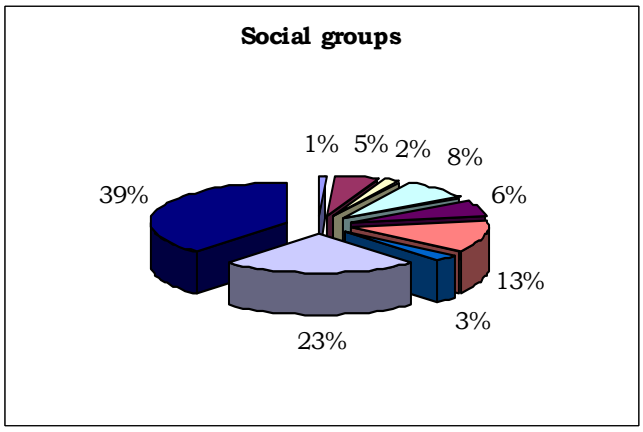



**Figure 29. Funds used for social assistance according family size**

**Table 25. Social categories**

| Category | Full benefit | | Partial benefit | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Children with no parents | 601 | 1 | 552 | 1 | 1,153 | 1 |
| Single parents and a child under 16 | 4,197 | 7 | 2,920 | 4 | 7,117 | 5 |
| Single families with disabled children | 869 | 1 | 1,975 | 3 | 2,844 | 2 |
| Single parents | 5,899 | 9 | 5,386 | 7 | 11,285 | 8 |
| Families with disabled children | 2,696 | 4 | 5,725 | 8 | 8,421 | 6 |
| Families with old or sick persons | 4,624 | 7 | 13,001 | 17 | 17,625 | 13 |
| Families with old aged persons and children | 2,296 | 4 | 1,894 | 3 | 4,190 | 3 |
| Big families | 10,966 | 17 | 20,627 | 28 | 31,593 | 23 |
| Other families | 30,927 | 49 | 22,245 | 30 | 53,172 | 39 |
| Total | 63,075 | 100 | 74,325 | 100 | 137,400 | 100 |

**Figure 30. Social groups**



*Does the research provide a tool to measure social exclusion?*

Accepting the idea that the research provides a strong tool to measure social exclusion might be wrong. Although the literature suggests ways how to measure social exclusion, these are not applicable in this exercise, because it was not the goal of this research, and secondly, there is no reliable information in this subject in Albania. However, the recent survey, through collected data gives a general picture of social exclusion among beneficiaries of social assistance.

The effectiveness of social assistance in the form of meeting some critical social and economic needs of the households depends on the ability to set out conditions, which exclude social groups or individuals from society. For the purpose of this survey, we focus on seven indicators and the impact they have on social exclusion. The idea is to measure the coefficient of exclusion for each of the indicators, starting from the data collected through individual interviews with households, beneficiaries of social assistance. Indicators used to assess social exclusion are: level of education, age, health conditions, period of benefit, amount of social assistance, reasons of being with no income and opinion regarding the most critical problems/needs of the household.

The questionnaire identifies directly the relationship between social assistance benefit and indicators selected. On that basis, we calculate the coefficient "We", that indicates the weight of the selected group to the total number. A number of additional indirect questions were asked to assess the coefficient "Pe", possibility of each of social groups to be excluded by normal social environment. These questions discover indirect relationships between social assistance benefit and its effectiveness. On that basis, we constructed a score ranging from 1 to 10 for each of the seven indicators (maximal value indicates that the group is "likely to be excluded"). Coefficient of exclusion, " Ce" was calculated as a production of "We" and "Pe"(table 15, annex)

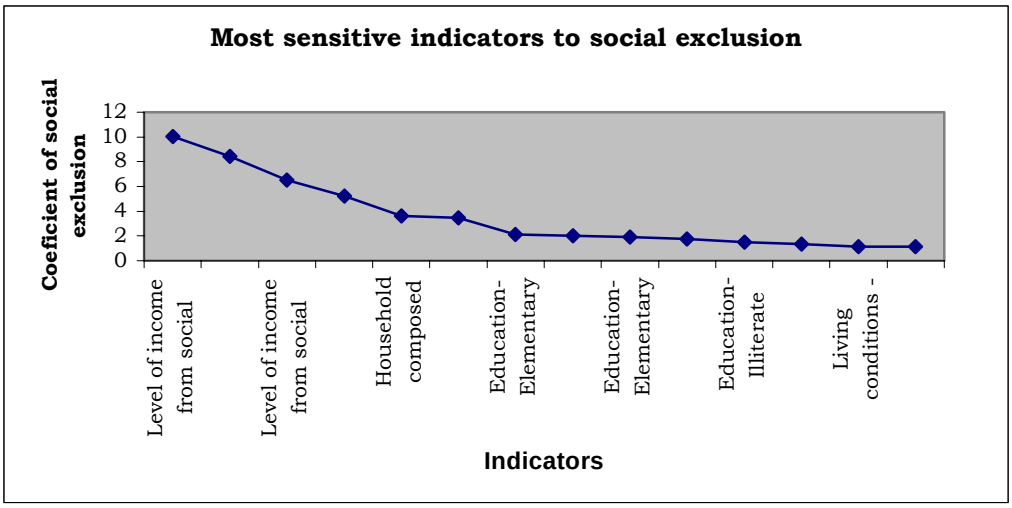
Analyzing its values we conclude that level of income from social assistance benefit, the period of benefit, the relationship with labor market, the age and level of education do have the greatest impact on social exclusion. Coefficient of exclusion achieves its peak under the statement " level of income from social assistance until 1, 000 leks per month", which means that it is almost impossible for the household to afford any of services through a payment like the one mentioned.

Table 26 List of indicators which affect social exclusion

| Indicators | Ke |
|---|---|
| Level of income from social assistance until 1,000 lek | 10,01 |
| Period of benefit over 4 year | 8,43 |
| Level of income from social assistance 3 - 5,000 leks | 6,52 |
| Relationship with labour market-unemployment | 5,2 |
| Household composed members 0 to 14 years old | 3,6 |
| Level of income from social assisatnce1 -3,000 leks | 3,44 |
| Education- Elementary school,low level | 2,14 |
| Period of benefit 2 to 4 year | 2,04 |
| Education- Elementary school,high level | 1,92 |
| Health- Without serious health problems | 1,76 |
| Education- Illiterate | 1,51 |
| Vocational and professional training - no skill | 1,32 |

| | |
|---|---|
| Living conditions - housing | 1,14 |
| Health- particular nees for health services | 1,12 |

Coefficient is among the highest when the period of benefit is longer than 4 years, which means that the household may stay permanently under social assistance, because of the inactivity and the lack of interest. Coefficient is still high for the social group excluded from the labor market. Another meaningful finding is the relationship between the group of age of households' members and social exclusion. Social groups composed mainly of young members from 0 to 14 years old are likely to stay permanently under social assistance benefit because of the exclusion from the labor market. Level of education has also a considerable impact on exclusion, confirming that either illiterate or low level educated groups' members are not competitive in the labor market.




*How to allocate money from central budget to local budget?*

**As long as the total fund "F1" [30]is mathematically linked with some variables, the allocation of money from central budget to local budgets can transform in a practical question: to discover the correlation among variables and to ensure the accuracy of the data. It is known that:**

$$F1 = \sum_{i=1}^{m} [\Psi(Pi, Ei, Ci, Ri, Ui, Di)]$$

It stresses the necessity of knowing exactly all variables in each of local administrative units and in the national level. Even if it was the case of Albania, it could not solve the problem, because the system itself is set up in a way that there is no clear-cut distinction among the group of recipients of social assistance and other social groups.

[30] "F1" indicates fund planned for social assistance

Despite the information and data taken from the table 16, number of social assistance applicants can not be calculated automatically as the sub group of one or some social groups. It is necessary to use some mathematical calculations based on the following logic:

**Table 27** : Potential applicants of social assistance scheme

| Indicators | | Tirane | Kamez | Vore | Kavaje | Rrogozhine | **Total** |
|---|---|---|---|---|---|---|---|
| **Population** | P | 422.863 | 39.997 | 14.211 | 33.234 | 9.759 | **3.354.300** |
| **Employees** | E | 166.565 | 494 | 1272 | 3.772 | 1.587 | **1.085.000** |
| **Children** | C | 53.301 | 12.800 | 17.056 | 10.635 | 3.123 | 1.060.300 |
| k1=0.01 | C*k1 | 533 | 128 | 46 | 106 | 31 | 10.603 |
| | C - C*k1 | 52.768 | 12.672 | 4.502 | 10.529 | 3.092 | **1.049.697** |
| **Pensioners** | R | 72.479 | 4.000 | 1.479 | 3.854 | 1.110 | 406.000 |
| k2=0.03 | R*k2 | 2.174 | 120 | 45 | 116 | 33 | 12.180 |
| | R - R*k2 | 70.305 | 3.880 | 1.434 | 3.738 | 1.077 | **393.820** |
| **Unemployes** | U | 55.000 | 8.000 | 4.500 | 6.500 | 3.500 | 235.000 |
| k0=0.23 | U*k0 | 12.650 | 1.840 | 1.035 | 1.495 | 805 | 54.050 |
| | U-U*k0 | 42.350 | 6.160 | 3.465 | 5.005 | 2.695 | **180.950** |
| **Disabled** | D | 7.717 | 195 | 129 | 326 | 58 | 43.264 |
| k3=0.08 | D*k3 | 617 | 16 | 10 | 26 | 5 | 3.461 |
| | D - D*k3 | 7.100 | 179 | 119 | 300 | 53 | **39.803** |
| **Applicants** | **X'** | 83.775 | 16.612 | 3.419 | 10.190 | 1.255 | **605.030** |
| k4=0.01 | X'*k4 | 838 | 166 | 34 | 102 | 13 | 6.050 |
| **After correction** | **X** | 82.937 | 16.446 | 3.385 | 10.088 | 1.242 | **598.980** |

Population is composed of two big groups: economically active and non-economically active. Each of them includes some other sub groups, but generally speaking, population is composed of: employees " E", Children up to 18 years old " C", Pensioners "R", Disabled "D", Recipients of unemployment benefit "U" and claimants of social assistance " X". Theoretically speaking none of these groups can be eligible for social assistance benefit, because they are beneficiaries of other schemes. Except the group " X" which is the target group of the research. However, there are some sub-groups who might need special protection and services because of different reasons, like: The sub-group of R, let's call R (k2) who might need special protection because of special reasons like sickness; The sub-group of C, let's call C (k1) who needs a special assistance and services because of specific and critical needs etc; the sub-group of U, lets call U (k0) who needs a special treatment because of the insufficiency of income and special social needs; the sub-group of D, let's call D (k3) who needs a special treatment because of the special needs. There is a sub-group of X' lets call X (k4) who should be excluded by claiming social assistance because of the relationship it might have with unofficial labor market.

**Since data about P, E, D, C, R, U are known, let's try to calculate k0, k1, K2, k3**
K1 – coefficient, it represents the share of " children in need for social assistance" (it is 0.01 in our exercise); K0 – it represents the share of " unemployment benefit recipients in need for social assistance" (in the given exercise it is 0.23); K2 –it represents the share of "pensioners in need for social assistance" (it is 0.03); K3 – it represents the share of "disabled persons in need for social assistance (it is 0.08); K4 – it represents the share of " employees in informal labor market"

Whereas k0, k1, K2, k3 are taken directly from the table 25 and applied as the percentage of the whole population, K4 is taken indirectly by the questionnaire through the questions of sufficiency of social assistance benefit and needs uncovered. However, it represents the datum, based on which X' must be corrected to find the number of approximate number of people who can be claimants of social assistance. In this exercise, the lowest possible value of k4 is 0,01, since only 1 percent of people interviewed think that social assistance is sufficient to cover family needs and 99 percent of householders think that social assistance is not sufficient to cover the needs for food. It is possible to replace the indicators in the followed formula with data:
X' = P – E – (D-D*k3) – (U – U *k0) – (C - C* k1) – (R – R * K2)
After the calculations, the X' is corrected with K4:
X = X' – X' * K4
X – the number of persons who can apply for social assistance, but they might be/not be eligible to receive it.
F1 = Za * X where Za is the average level of social assistance applied so far.[31]
Survey confirmed the possibility of allocating money in a way which addressees more effectively the economic and social needs of administrative units. Calculations in the table 27 indicate the possibility of reducing the number of recipients and re-allocating the money more effectively.

**How to distribute money from local budget to recipients, how to target social assistance?**

This question relates directly to the question of avoiding social exclusion. Table 25 provides sufficient information about the most excluded social groups. Looking at these tables, the criteria of " the most excluded social and economic needs" lead to the "listing and prioritizing" of social groups. The survey confirmed that if households are ranked in terms of " social priority", there is a gap between benefit and need. It also shows that despite of deep changes in needs, benefits vary smoothly. These observations might be used to draw local criteria for the eligibility of social assistance benefit. The nine core social categories would serve as the starting point to proceed with social assistance benefit delivery.

Survey confirmed the possibility of allocating money in a way which addressees more effectively the economic and social needs of the households. Calculations in the table 26 the possibility of reducing the number of applicants of social assistance benefit. Thus, there is the possibility of allocating the same money for a lower number of applicants, which causes the increase in household's benefit. Observing data at table 26, it is recognized the decline in number of beneficiaries (598, 980 persons equal to 133, 000 families). Comparing with the current number of beneficiaries (150, 249) results a difference equal to 17, 249 families per month. If the central government keeps the same rates of payments per households per month (the average value of the current payments is 2, 672 leks per month per household), there is a fund equal to 46, 089 thousands leks per month (2, 672 * 17, 249) which could be used to differentiate payments per households according to social conditions or index of priority of social groups. The decline in number of beneficiaries compensates also the increase in average household's benefit.

[31] According to the table 2, it is 2,672 leks per month per household in year 1998

The results of survey encourage the idea of distributing benefits according to a ascending scale starting from the ninth social group (table 25). It means that the first social group, whose index of priority is the highest, receives the maximal level of the benefit. Table 26 shows how the benefits vary from one social group to another. The crucial feature of the current social assistance scheme in Albania is the impossibility to calculate benefit according to the needs. Because of financial limitations in payments, calculations are based on comparisons among social groups and relative changes among them.

**Table 26** **Distribution of social assistance benefit according to social groups**

| **Social group** | | **Formula** | **Real benefit** | **Number of applicants** | |
|---|---|---|---|---|---|
| | **a** | **Zra +(n-a)*k** | | | **Na** |
| Single parents with children | 1 | Zra +8 k | 2,672 + 8*122 | 8% | 10.648 |
| Single parents and a child under 16 | 2 | Zra+7 k | 2,672 +7*122 | 5% | 6.655 |
| Families with disabled children | 3 | Zra +6 k | 2,672 +6*122 | 6% | 7.986 |
| Families with old or sick persons | 4 | Zra + 5k | 2,672 + 5*122 | 13% | 17.304 |
| Single families with disabled children | 5 | Zra +4 k | 2,672 +4*122 | 2% | 2.662 |
| Big families | 6 | Zra + 3k | 2,672 +3*122 | 23% | 30.615 |
| Families with old age persons and children | 7 | Zra +2 k | 2,672 + 2*122 | 3% | 3.993 |
| Children with no parents | 8 | Zra + k | 2,672 + 122 | 1% | 1.331 |
| Other families | n=9 | Zra | 2.672 | 39% | 51.912 |
| Total | | | | 100% | 133.000 |

Thus, if "a" is the target of the group according to priority index and it changes from 1 to 9 and "N" number of applicants of social assistance benefit per each social group, "k" is the additional benefit according to social needs per social group " n-i",
" Zra" average benefit per household, "F2 "fund per month, than:

$$\sum_{a=1}^{n} Na * [Zra + (n-a)*k] = F2.$$

Replacing in the formula the data, we can calculate "k"

The question of applying the model in practice is still open. However, since the scheme is under local management, it paves the ground for flexibility in order to tackle in a better way people's needs. The survey confirmed that there is the possibility of offering services in cash and/or in kind. Thus, combining financial resources either from central and local government or from government and non - government is a strong tool. The model explained in this section helps the poorest

social strata and the most excluded to alleviate some of their social and economic needs.

## Conclusions

This report has presented an analysis of living conditions in Albania from a different point of view, compared to poverty analysis. The analysis used in this document is also the first attempt based on nationally representative household survey to assess the social protection mechanism. As any survey it is based on a number of assumptions and methodological choices, and as such it is open to debate. This report encourages this debate by documenting in detail all the methodological steps and decisions taken to arrive at the proposed mechanism of social protection.

The results reported here can be summarized by six policy-oriented observations:

i) Social Assistance in Albania is relatively well targeted to the country's poorest districts. Despite that, there is room for improvements through increasing the number of indicators used to assess social and economic poverty and monitoring them continuously;
ii) Targeting of social assistance in Albania does not tackle the most critical economic and social needs of the poor households;
iii) The current system of social assistance fails to avoid social exclusion among the poorest strata, because orientation of benefits from social needs is lacking. In turn, the survey proposes a model to identify them;
iv) A social assistance mechanism that stimulates all forms of social interaction and encourages people to shift from their situation might serve as a tool to develop social capital, at least among the poorest strata;
v) Through collecting information from all official sources, and combining and harmonizing them, it would be possible to apply a more effective model of allocating money from the central to local budget;
vi) By implementing the above orientations, it would be easy to elaborate a new model that targets social assistance to households in need.

The policy suggestions developed here do not pretend to revise the whole system of social assistance in Albania. The crucial features of the current system (allocating money through block grants from central government, taking decisions on recipients according to local criteria, managing the scheme through decentralized local governments, applying means testing of households) are considered comparatively appropriate taking into account the specific economic, political and social conditions of Albania. However, all policy proposals aim to improve qualitatively the system, orienting it gradually towards economic and social needs of the household. This is the policy achievement of this research. The paper provides the practical models for implementing new social policies. The fact that these models are developed through reliable data and mathematical correlation may attract the attention of scholars and experts either to open discussions or study in depth the conclusions, and design appropriate policies in Albania for Albania.

Starting from the practical observation on the critical points of the current social assistance system in Albania, the paper reaches its objective. It succeeds in proposing a new model of social assistance, which, through effective funds allocation from

central to local government and distribution of money to the households, paves the way to prevent social exclusion and develop social capital. This is the main goal of the research.

In the context of the National Strategy for Socio-Economic Development, the problems affecting the social protection program can be resolved by making a revision of this program and by adjusting it to the country's economic and social conditions. The Strategy, aims to: (i) increase the coverage ratio of the poor with economic assistance (increase the number of the poor benefiting economic assistance in relation to the total number of the poor); (ii) increase the coverage rate of the economic and social needs of the families through economic assistance; (iii) implementation of active re-integration programs of social protection. The conclusions of this paper goes hand in hand with the objectives of the strategy.

The results of the survey emphasise the necessity of bringing in a new definition of poverty in Albania: 'Poverty is hunger. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school, not knowing how to read, not being able to speak properly. Poverty is not having a job, is fear for the future, living one day at time. Poverty is powerlessness, lack of representation and freedom.' But poverty also carries a social responsibility, for individuals 'to be the change you want to see in the world'. This is why, policies proposed in this paper imply a new definition of poverty in Albania. Now is the time to apply that definition, to develop civil society as the only possibility and hope towards re-building a democratic Albania. In this context, a part of the burden for reform falls on the social assistance mechanism as a tool to avoid social exclusion and develop social capital.

# B I B L I O G R A P H Y


Bank of Albania, 1999, Annual Report, Tirana Bank of Albania

Gerxhani Klarita, 2001, The informal sector in transition:Tax Evasion in an Institutional Vacuum, Amsterdam: Tinberger Institute Amsterdam University

Dejan Jovic, 2003, Southeast Europe in the Global Corruption Report 2003, Transparency International, on line available on http:// www.globalcorruptionreport.org

Batt Judy, East Central Europe from reform to transformation, USA, 1991, Chatham House Paper

Barr Nicholas, The Economics of the Welfare State, Great Britain, 1987, Biddles Ltd.

Barr Nicholas, Labour Markets and Social Policy in Central and Eastern Europe, Washington, DC, 1994, the International Bank for Reconstruction and Development

Elgar Edward, Blaas Wolfgang and Foster John, Mixed Economies in Europe, England, 1992, Edward Elgar Publishing Limited

Grootaert Christian, Social Capital, Household Welfare and poverty in Indonesia, Local Level Institutions, Working Paper No.6, 1999, The World Bank

Grootaert Christian, Social Capital: The missing link, Social Capital Initiative, Working Paper No. 3, April 1998, The World Bank

Harold Alderman, Decentralization and Targeted Transfers: Social Assistance in Albania, Draft, October 1997, The World Bank

Lave Lester, The strategy of Social Regulation: Decision frameworks for policy; Washington DC, 1981, The Brooking Institute

Narayan Deepa, Complementary and substitutions: the role of social capital, civic engagement and the state in poverty reduction, February 1999, Poverty Group, PREM World Bank

Peacock Alan, The economic analysis of government, Great Britain, 1979, Martin Robertson, Oxford

Rose Richard, Getting things done in an anti-modern society: Social Capital networks in Russia, Social Capital Initiative, Working Paper No.6, November 1998, The World Bank

Stiglitz Joseph, Economics of the Public Sector, USA, 1986

Vecernik Jiri, Incomes in Central Europe, Institute of Sociology, Academy of Sciences, 1995, Prague

World Bank, Social Security and Social Safety Nets in reforming and transforming economies, 1995, Washington DC

The World Bank, MultiQuery Database - Europe and Central Asia, spring 1996

The World Bank's strategy for reducing poverty and hunger, A report to the development community, Environmentally Sustainable Development Studies and Monographs Series No.4, 1995, The International Bank for Reconstruction and Development, Washington DC

Poverty Reduction and the World Bank –Progress in fiscal 1993, 1994, The International Bank for Reconstruction and Development, Washington DC

Jiri Vecernik, Institute of Sociology, Academy of Sciences, Prague, Paper : Changes in the rate and types of poverty"

National Strategy for Socio-Economic Development , 2001, Government of Albania

Living Standard Measurement Survey, National Institute of Statistics, 2002, Draft