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Some Poverty Risks that can affect Albania, as a Country in Decelerating Growth, Exposed to Current Global Economic Crisis

Abstract

This study examines poverty issues in Albania, caused by global economic crisis, according to Growth estimates: WEO January 2009 forecast and poverty: 2008 WDI estimates. Albania as a country in decelerating growth is counted among the exposed countries to poverty risks. These study discus three directions: First, Albania is considered as a Low Income Country (LIC) and remittances constitute an important source of external financing, providing income to the poor and contributing to growth. Second, massive unemployment and acute poverty can leave individuals and the society in Albania destitute. Third, the need for adaption of social protection structure must be seen as a priority of government to help the most effected group of people.

Keywords: poverty, risk, Albania, growth, economic, crises.
Introduction

The global financial crisis that has spread around the world has caused a considerable slowdown in most developed countries and has already affected financial markets and growth prospects in developing countries. Governments around the world are trying to contain the crisis, but some suggest the worst is yet to come. Crises can leave individuals and societies destitute through unemployment, inflation, destruction of socio-economic infrastructures and assets, deteriorating safety and working conditions, public spending cuts, and disruption of family and community support networks.

While for many LICs the effects of the crisis have lagged the rest of the world, its eventual impact may be severe, especially given their often limited scope for countercyclical policies. Many LICs have made great strides in strengthening their policy frameworks and robustness to shocks, reducing poverty, and reforming their financial systems. But many remain highly vulnerable to a deep global downturn that so closely follows the 2007/08 food and fuel price shocks. Without additional aid, the scope for countercyclical policies is limited for most LICs due to binding financing constraints and fragile debt positions. This could both deepen and prolong the crisis in LICs, and set back the fight against poverty (IMF, 2009).

The impact in the smaller and more vulnerable economies, especially in developing counties, which obviously had no role in the creation of the crisis, will be regardless of that much affected.

In contrast to many emerging countries, the Albanian economy has been sustained by domestic demand, while – although upward – foreign demand in the form of Albanian exports has provided a proportionally lower impact over the economic growth. Economic activity at home has been almost entirely sustained by domestic financial resources, while foreign financing in the form of credit lines or portfolio investment has been less considerable. Operating within all the parameters of financial soundness, the Albanian banking system has been dynamic and effective in channeling the savings towards the funding of corporate production or household consumption. This process has been also facilitated by the macroeconomic stability which enabled the fall of risk premiums in economy and helped to gradually extend the investment horizon. These features led the economic activity at home to record adequate growth in the first three quarters of 2008, a period which is covered by statistical data. With regard to the last quarter, indirect data on economic activity – mainly financial ones – suggest a slight slowdown of economic activity, however, remaining within the projections for 2008. Manufacturing, where construction continues to share the main weight, provided the main contribution to the increase of turnover indicator in terms of volume. Investment in major road infrastructure projects and the recovery of construction permits from the prolonged constraints triggered high growth
rates in construction activity during this period. In addition, the sector of services continues to provide the primary contribution to economic growth at home. The positive developments in domestic production have been also evidenced by the increase of economic tendency indicator, derived from the business and consumer opinions, and by the increased number in employed persons. In annual terms, unemployment rate fell by 1.5 percent to 12.62 percent, being mainly triggered by the increase in the average number of employed persons in the private agricultural sector.

The Albanian economy will mainly be affected by the global economic downturn through a decline in export demand, investment, remittances, and, as mentioned, less availability of credit. Export demand might in particular hurt the re-exporting industry in shoes and clothing but other sectors will also be affected. Meanwhile, remittances have been key to boost household incomes and have been particularly important as a safeguard for the poorest households.

Impact of Remittances in Developing Countries

It is often said that migrants, like other ethnic minority workers, are the last hired and first fired. This is certainly the case today as a consequence of the global economic and financial crisis. The global crisis has led to a serious slowdown in world economic activity. Nowhere has this been more evident to many people than in their jobs and their earnings. Enterprises no longer hire new staff; there are major lay-offs, often starting with dismissal of temporary workers. Some companies are resorting to short-time arrangements, such as reduced hours and pay for personnel remaining on the payroll or putting workers on part-time employment or unpaid leave.

According to the 2009 Global Employment Trends report recently issued by the ILO, a dramatic increase is taking place in the number of people sent into the ranks of the unemployed, becoming working poor or being put in vulnerable employment. Migrants tend to be among the workers most hit by economic downturns for several reasons. Migrant labor is often used as a cyclical buffer, like other macroeconomic policies aimed at maximizing growth and minimizing unemployment. For migrants, this means they are often the last to be hired and the first to be fired and their employment relationships are frequently non-standard, and in poorly regulated sectors or activities (Taran, 2009).
From a social and political perspective, in times of economic insecurity migrants easily become scapegoats; xenophobic sentiments and discrimination against migrant workers rise. This alone presents one of the most formidable challenges for social peace and cohesion, and therefore for governance, in hard times.

The data we have confirms a number of premises about the impact on migrant workers:
- Migrants and persons of foreign origin are hard hit, they are disproportionately among those already laid off or rendered unemployed;
- Those migrants remaining employed are often affected by reductions in pay, working time, and worsening working conditions;
- Migrant workers have less access to social safety net support. This is especially true for migrants in irregular situations;
- However, many migrant workers are not returning home, unless forcibly expelled. This is the case even when they are being offered financial incentives to voluntarily depart. Simply put, conditions at home are even worse. While there may be opportunities for some kind of work in host countries, there are simply none at all at home;
- Migrant workers are thus compelled to take whatever work they can find. They may accept even more substandard pay and abusive conditions than before. This fact presents an immediate policy challenges for governance and for stabilization of labor markets and working conditions;
- Scapegoats of migrants and xenophobic violence against foreigners is already on the rise throughout the world. It is expressed in dramatically increased murders and lynchings of migrants in some countries, in generalized expressions of anti-foreigner sentiment, in hostile political discourse, and in calls for exclusion of migrants from access to labor markets and emergency social protection benefits;
- Many countries have reduced quotas or intake of foreign workers;
- Some countries have embarked on deliberate policies of exclusion and expulsion of migrant workers;
- Migrant remittances home are declining;
- The further deteriorated situations in home countries make whatever remittances migrants can send an even more crucial lifeline for their families and local communities;
- What employment opportunities existed earlier for those remaining at home are also evaporating, meaning even fewer options for persons coming back from abroad. This also makes the return of migrant workers potentially a greater threat to labor market stability and ultimately, social stability at home.

Origin countries are voicing concerns over the loss in remittances and large scale-return of their nationals that the financial crisis may cause. Remittances sent home by migrants represent the largest source of
external capital in many developing countries. This source is now being affected by the current financial crisis. Remittances were estimated at $251 billion worldwide in 2007 (World Bank, 2008), which represents more than twice the level of international aid.

Adding remittances through informal channels, the number is higher by 50% (World Bank, 2008). The level of remittances has been increasing for many years (Chart 1), but if the predictions are confirmed, 2008 risks being the first year of decreasing levels of remittances in several decades. This would set back developing countries as remittances have a poverty reducing impact on both the sending households and the country of origin. Remittances are much less concentrated in certain countries than foreign direct investment, which tends to flow to certain countries.

Chart 1. Remittances to developing countries, 1990-2007 (USD billion)


The Impact of Emigration on the Albanian Economy

Emigration has a primary impact on the country's economy as a result of emigrants’ remittances. Flows of remittances constitute an important source of financial growth and economic development of the country, by ensuring continued access to foreign currency in the country as well as by consolidating the basis for savings and investment. Based on the Albanian migration experience, the sizeable remittances of the Albanian emigrants have considerable positive effects on capital formation, employment and economic growth in Albania. The official data on the contribution of emigrant remittances, for a period of 11 years is estimated about 15% of Gross Domestic Product. Also the contribution of these remittances in the trade balance, for a period of 11 years, is estimated to be around 58.8%. Proceeds from the emigrants with a vital importance for
most of the Albanians, have become a typical phenomenon, the most mentioned in the Albanian economy. Recent years, this money is not only considered as revenue for non productive purposes, meeting the basic needs related to actual improvement of living conditions, but were also sources of funding for productive purposes, in the form of short-and long-term investments.

During 2007, migrant remittances to their families estimated 951.7 million Euros, with a slight annual increase of 1.5 percent. This growth rate is estimated as the lowest in the past ten years (average growth rate has been 11.7 percent) and is explained by the fact of the removal of exchange flows towards investments. These last, in the form of real estate or placing deposits in the banking system.

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remittances</td>
<td>410</td>
<td>350</td>
<td>570</td>
<td>620</td>
<td>690</td>
<td>710</td>
<td>780</td>
<td>800</td>
<td>940</td>
<td>951.7</td>
<td>913.7</td>
</tr>
</tbody>
</table>

*Source: Bank of Albania*

On the other hand, emigrants’ remittances help the country economy in financing the external deficit, raising the living standards in particular of benefiting families, and poverty reduction.

Migrant remittances also play an important role in the country’s macroeconomic stability by financing imports, affecting the value of local currency and the rapid development of construction and service sectors. Their importance can be measured also when compared with foreign direct investments. In 2007, the inflow of foreign direct investment in the Albanian economy reached 460 million EUR, while the value of remittances was 951.7 million EUR. The remittances have been also higher then exports that in 2007 reached 785 million EUR. Remittances from Albanian emigrants fell during 2008 compared to 2007.

Recent years, this money is not only considered as revenue for non productive purposes, meeting the basic needs related to actual improvement of living conditions, but were also sources of funding for productive purposes, in the form of short-and long-term investments, creating new jobs. As a result of employment of emigrants in the developed
economies of host countries like Greece, Italy, America, Britain, etc., except their repatriation of financial capital they also can bring “know how” regarding their business management, ethics at work, knowledge on production and information technology and their supply with a broader business culture, which constitutes the most important components from the viewpoint of an investor. We have many positive examples of returned migrants in Albania, that have invested in many sectors of the economy especially in hotels, restaurants, tourism or other manufacturing sectors, precisely in those sectors who they have worked for a period of time during their migration.

During 2007, the macroeconomic environment was slightly disturbed by the rising trend of inflation which by September was higher than the upper limit defined by the monetary authority (4 percent level). Factors that have brought about the inflationary pressure on the economy are mainly related to the world market prices and to the prolonged energy crises that Albania has been facing, factors that are still present and may jeopardize the economic forecast and expectations on economic growth. As these inflationary pressures have influenced the food prices, apart from affecting economic growth projections, they are expected to affect the income and welfare distribution by reducing the purchasing power and increasing poverty. Remittances inflows, that have been the main source of domestic savings (deposits), are estimated by the Ministry of Finance to increase by an annual rate of 7 percent. This positive scenario does not seem to be supported by experts’ views on migration and remittances which foresee a slowdown of these transfers. This slowdown is related to global financial crisis.

The current global financial crisis is expected to lead to a downturn in the global economy (and perhaps a deeper recession). During economic downturns, migrant workers are often the first to lose their jobs and while some may well choose to return home, policies aimed at sending migrant workers home are not the solution and could have potentially disastrous consequences for development, given the scale of remittances and the already high levels of unemployment in developing countries. Calls to reduce migration in destination countries tend to be based on the false perception that “migrant workers take jobs” or “compete for welfare benefits”, when in fact the majority of migrants create economic activity and jobs. Human mobility, as underscored in IOM’s 2008 World Migration Report, makes economies more dynamic and more efficient. Migration may also be a positive force in alleviating various aspects of the financial crisis.
and potentially make an important contribution towards overcoming the economic downturn. Trying to combat the financial crisis by simply cutting migration may make the situation worse. Nevertheless, countries of origin are likely to experience some influxes of returning migrants, which may result in economic and social instability in poorer countries. Reduced labor migration flows and increases in irregular migration and trafficking in human beings are also possible outcomes. Therefore, flexible, coherent and comprehensive migration management policies are needed to maximize the benefits of migration, protect migrants and take their needs into account in measures addressing the crisis.

**Unemployment and Poverty in Albania**

Return migration may increase unemployment and decrease the countries income. Poverty may increase with the slowdown in growth and falling commodity prices. If output declines in capital-intensive industries, the impact on employment would be limited, at least in the short run. However, in countries that export agricultural commodities, falling commodity prices would cut into rural employment and incomes, thereby increasing rural poverty. The urban poor, however, may benefit as food and energy prices decrease. Various estimates suggest that on average, when mean growth declines by 1 percentage point, the poverty head count increases by 2 percent. Countries may need to expand social spending to address rising poverty levels.

The slowdown of economic growth always means a slowdown in new job openings. The crisis brings a psychological impact, a rising unemployment and poverty, uncertainty for the future, a fall in consumption; the economy goes into a downward spiral where governmental intervention becomes a necessity.

The increase in public investments as an anti-crisis policy shouldn’t be aimed only at big public works, but its recommended for public works with a direct effect in easing and stimulating business, or investments that while in the short term aspect they aim to reduce the rise of unemployment and poverty, the mid and long term point of view should have a positive impact in ameliorating the quality of public investments in its core services toward the community such as education, health care, culture, environment, services that happen today through the mayoral districts and communes.
The element of tax breaks perhaps should be seen carefully—perhaps more focused should be reducing the cost and the service time for business even in the local level. A moderate tax level may be a better long term strategy. A considerable decrease of simple taxes because of the crisis may create difficulties in the future. Decreasing taxes considerably is not considered as a free or cheap lunch – conclude the researchers. Rescheduling of unpaid dues, freezing cash penalties, qualified assistance for their difficulties may have productive results.

Widening of tax base between service tariffs in some countries has eased the covering of tax increases. In the short term point of view you need help packets from central governments to assist the poor through economic assistance programs as well as to encourage employment, while in the mid and long term point of view the focus should be good governance - an indicator that today is carefully scrutinized and emphasized as a very important factor.

The main focus of the government in the field of employment, for the long-term period, is the undertaking of the hiring process pursuant to the rules in force in the field of employees movement, taking into consideration the situation in the labor market, depending on the legislation, the creation of existing facilities for access in employment for the Albanian citizens accorded from the Other States, through bilateral agreements; the co-operation for the easiness of the Albanian labor reforms and policies, in the context of the strengthening of the economic and integration reforms; the approximation of the Albanian legislation regarding the labor environment and the equal opportunities for women, as well as the increase of the general education level and the professional development in Albania. The strategy of the sector of employment and professional education aims at fixing the foundations for the improvement of employment services system and professional education and the implementation of active and passive programs.

**The Need for Adaption of Social Protection Structure**

The main focus of the government in the field of social protection, referring to the short-term period, is the improvement of the system of the social protection and standards, by fighting the social expulsion and discrimination through: (i) decentralization and increase of responsibility of local units on the establishment and administration of social services, community based; and (ii) inclusion of civil society in offering services and
support and adjustment of the social protection system with new social economic requirements.

The main focus of the Government in the field of social security, for the long-term period, is the co-ordination of the social protection system for the community employees employed in the territory of Albania, as well as the adoption of the social security system with the new economic and social requirements, through co-operation with the other parties. The main focus of the government in the field of health and safety at work, for the short-term and medium-term period, is the stimulation of the implementation of the labor legislation, regarding the safety and the integrated physical, mental and social protection of the employees, through the improvement and harmonization of the Albanian legislation with that of the European Community.

The main focus of the Government in the field of gender equality is the progressive harmonization of the Albanian legislation with that of the European Community in the field of working conditions, and especially of health and safety at work, as well as guaranteeing equal opportunities and cooperation to simplify policies in the Albanian employment reforms, in the context of strengthening political reform and integration, aiming at the adaptation of Albanian social security system to the new economic and social requirements, and the adaptation of Albanian legislation to guaranteeing good working conditions and equal opportunities for women.

Being among low income countries, Albania in recent years has developed a Social economic aid program that consists of a program of transfers in cash, in financially assisting families without income, or with non-sufficient income. The program is fully financed from the state budget and it is provided on basis of social and economic assessment of living means of the concerned families. It is unlimited in time and it may consist of a full or partial financial aid. On the basis of decentralization process, competencies and responsibilities of local government units have augmented. The government has created the necessary legal environment, in order that municipalities and communes take more responsibilities in conditioning the distribution of economic aid with relevant labor and services in the community. With the implementation of this scheme, abusive cases of the economic aid have been discovered and subsequently set out. Economic aid funds are allocated by the beginning of each year from the state budget to the relevant municipality/commune as conditioned grants.
Local government units have the necessary legal basis to support poor families from sources such as local taxation budgets, setting on specific criteria.

In parallel with enlarging responsibilities of local government in identifying families in need the decentralization process has been accompanied by an extension of limits of economic aid for specific social groups. The opinion of the Society of Municipalities and Communes has been taken into account while drafting the relevant legislation on social aid and services.

Payment program for persons with disabilities is based on the assessment of disability of persons. The disability is assessed from specialized medical commissions. Relevant funds for this purpose are transferred from the Ministry of Labor, Social Affairs and Equal Opportunities to the local government units, which carry out payments for these social categories.

Residential and community services program offers relevant services for children of persons with disabilities, youth, women and elderly. During 2007-2008 residential services were decentralized. Thus, 19 out of 26 residential services were transferred to local government units. Every year the Ministry of Labor, Social Services and Equal Opportunities transfers relevant funds for covering these services.

The economic assistance is a monthly salary for the families and is calculated on bases of the family members. The dynamic of reimbursement of the funds for the economic assistance and the number of the families benefiting from that is presented in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds programmed, milliards ALL</td>
<td>4.0</td>
<td>4.0</td>
<td>3.2</td>
<td>2.8</td>
<td>2.6</td>
<td>3.5</td>
<td>4.2</td>
</tr>
<tr>
<td>No. of families in Economic Aid (thousands)</td>
<td>130</td>
<td>124</td>
<td>126</td>
<td>112</td>
<td>110</td>
<td>93</td>
<td>85</td>
</tr>
</tbody>
</table>

As it looks, starting from 2008 and up to 2013, the funds programmed for the social assistance is increased whereas the number of the families involved in this scheme decreases. This is because the evaluation of poverty rate is based on the Survey of Poverty LSMS of 2002,
2005, meantime we are expecting the results of 2008 from INSTAT. According LSMS-2002 the absolute poverty population lived with less than 2 dollars per day making up the 25% of 820 thousand inhabitants.

In 2005 (LSMS) the level of poverty reduced to 18.5% or about 592,000 inhabitants. This means that 126 families were involved in economic aid scheme. Actually the number of peoples living with less than 2 dollars per day is 437,000 or at about 93,000 families.

The reduction of poverty is a result of the good management of the work of the municipalities and as a result of the incomes from the businesses, lands, stocks, and others. The establishment of the inspectorate of controlling these programs has assisted the reduction of poverty as well. The family needs starting from 2008 are improved for two main reasons: first, the increase of funds which in 2008 is 34% more than in 2007 and second, the reduction of the families in scheme at about 20%. For this reason the average economic aid for family is increased 68% in 2008 compared to 2007 and in 2009 it will double compared to 2007.

This improvement of the economic aid scheme guarantees social involvement, covers all the needs of poor families and leaves no room for abuses.

Program of payment for persons with limited capabilities covers the needs of the persons with limited capabilities. The following funds, since 2003, are transferred to the local levels and below table show it:

<table>
<thead>
<tr>
<th>Year</th>
<th>Funds (million ALL)</th>
<th>Number (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>3,851</td>
<td>52</td>
</tr>
<tr>
<td>2004</td>
<td>4,200</td>
<td>53</td>
</tr>
<tr>
<td>2005</td>
<td>4,800</td>
<td>59</td>
</tr>
<tr>
<td>2006</td>
<td>6,000</td>
<td>62</td>
</tr>
<tr>
<td>2007</td>
<td>7,000</td>
<td>64</td>
</tr>
<tr>
<td>2008</td>
<td>7,700</td>
<td>69</td>
</tr>
<tr>
<td>2009</td>
<td>8000</td>
<td>71</td>
</tr>
</tbody>
</table>

In 2008, 7.7 milliard ALL are transferred to municipalities/communities or 2.3 times more than in 2003. In 2009 are foreseen 8 milliard ALL. The number of the beneficiates in 2008 is 69 thousands PAK compared to 52 thousands in 2003, or 32% more. This table shows a
better involvement of social groups in need and the increase of the payment in cash of the persons with limited capabilities.

Even 50 thousands invalids are included in this program which besides the pension insured by the social security system they benefit a payment for their limited capabilities.

All of these categories need the adaption of social protection structure that must be seen as a priority of government. These are the most effected group of people that need help, to survive the poverty risks due to economic crisis. The government must take the appropriate measures to: Develop all aspects of social protection, with an emphasis on coverage extension; Adapt social security principles to the development level, socio-economic, cultural and other aspects of countries and communities, including crisis risks; Create tools to grasp trends and causes of socio-economic insecurity: socio-economic security indexes; an international database of socio-economic insecurity indicators, etc; Undertake crisis-response interventions. Protect migrant workers operating in crisis areas: developing codes of conduct for contracting firms who bring in foreign workers, building structures, procedures and capacity of countries to manage international migration of nationals, including their return; Devise Strategies and Tools Against Social Exclusion and Poverty that provides services enabling community-based and other grass-roots solidarity groups to develop their own social protection systems; Prevent or mitigate crises, for instance through information, advice and awareness raising at various levels, on the prevention of major industrial hazards.

Aid Flows

Poverty-reducing initiatives across the globe have led to sizable aid flows during this decade. Potential reductions in aid flows are a serious concern. Empirical evidence shows that aid is pro cyclical with both donor and recipient incomes.

Given the severity of the slowdown in growth in advanced economies, a potential reduction in aid cannot be ruled out.

Projections of aid to LICs already started to decline in 2009. Growth in aid to LICs during 2008 was higher than initially anticipated by the WEO spring projections. This high level of projected aid partially reflected multilateral aid packages approved during late 2008 to help countries cope with food and fuel shocks experienced in early 2008. Notwithstanding
international commitments to scale up aid, projections do not suggest such scaling-up is in the pipeline for 2009.

Conclusions

Economic and financial developments have by and large been positive during 2008. Economic growth performed in line with the early year projections, while the main indicators of macroeconomic and financial stability remain solid. The negative impact of developments in global economy was marginal. However, as in other emerging countries, the Albanian economy cannot remain immune for long to the direct or indirect impact of the global economic crisis. The Bank of Albania public statements have constantly noted that the global crisis impact over the Albanian economy will largely depend on its intensity and duration. The persistence and deepening of the global economy crisis signal that the Albanian economy will go through a harder economic environment in 2009, which may call for the solution of many issues.

The slowing remittances and the tightening of financing conditions are the channels exposing the Albanian economy the most to shocks in the global economic environment. The expected impact of these factors would materialize in a slower economic growth in 2009. We note that the economic and financial programs of all economic agents need to reflect and consider this prospect. A slower economic growth does not necessarily translate into a crisis in Albania, but rather as a temporary development propelled by external factors. Hence, promoting policies need to be formulated based on this underlying premise. They should at no case be designed to the detriment of long-term macroeconomic stability, which represents one of the most treasured assets the Albanian economy has achieved during the transition years.

The preservation of financial stability remains crucial for the long-term economic development and under constant consideration in the Bank of Albania decision-making process. In this context, confidence in the banking system and in its balance sheets would be the most rational behavior of any individual, business or other agent in the Albanian economy. Global experience shows that the mutual interaction between the real economy and the banking system in terms of savings, use of payment infrastructure and expertise in the area of financial counseling and support with funds is a key feature of economies that have managed to progress and leave behind the transition countries’ level.
The government considers continued transition reforms a condition for achieving sustainable economic progress. However, in order to tackle directly the problems of poverty, the government’s attention has to be focused on (i) restoration and maintenance of macroeconomic stability, perceived, above all, as price stability (which contributes directly to the protection of the living standard, especially of the poor groups of the population) and on (ii) the implementation of adequate policies for distribution and redistribution of incomes, which has mitigating effects on poverty. Attention has also to be attached to (iii) promotion of economic growth and (iv) development of sectors contributing directly to the living standards such as health, education, infrastructure etc.

References