



# Progressing towards poverty reduction and inclusive growth in Albania

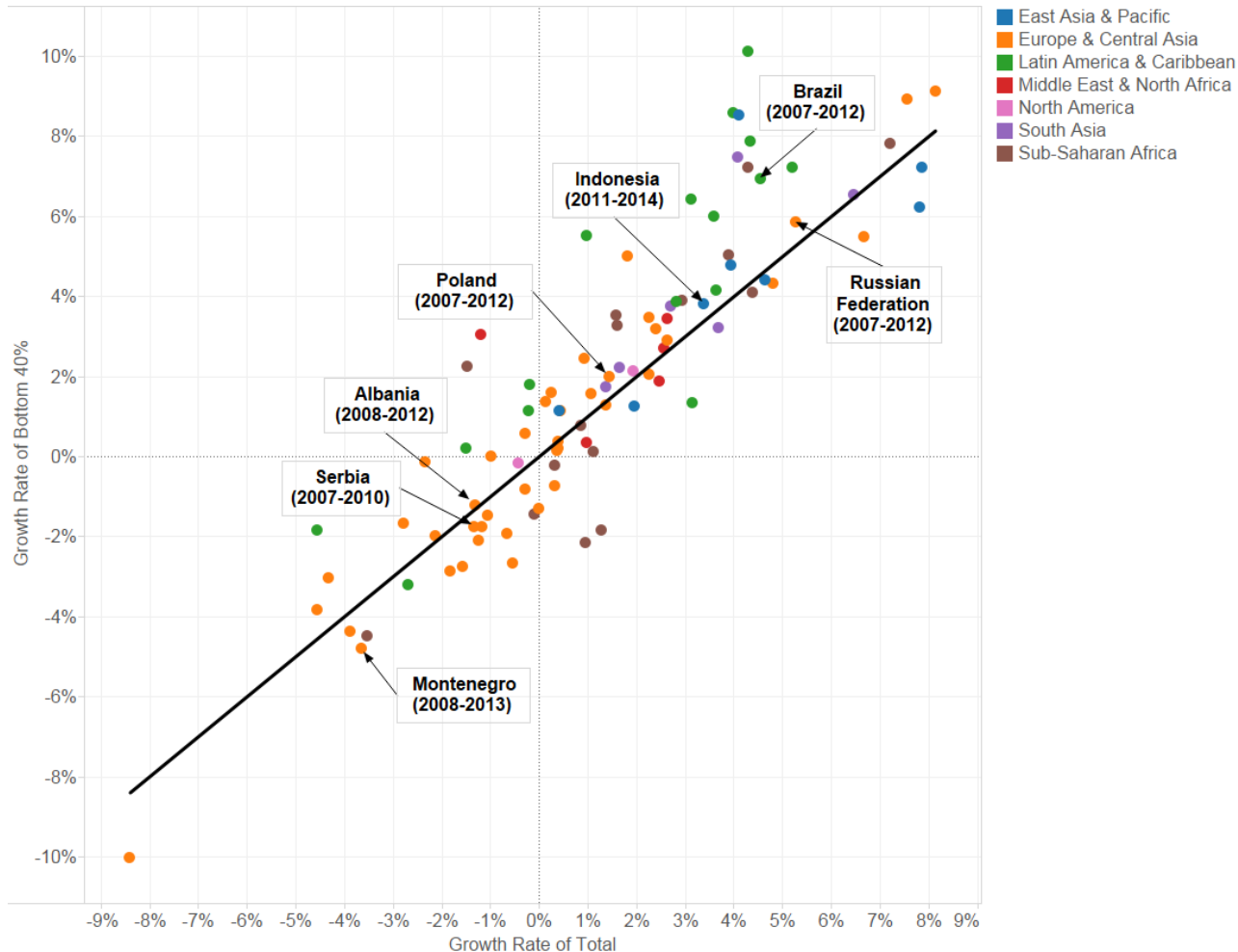
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# Growth is the main driver of improved economic welfare globally, but the inclusiveness of growth matters too

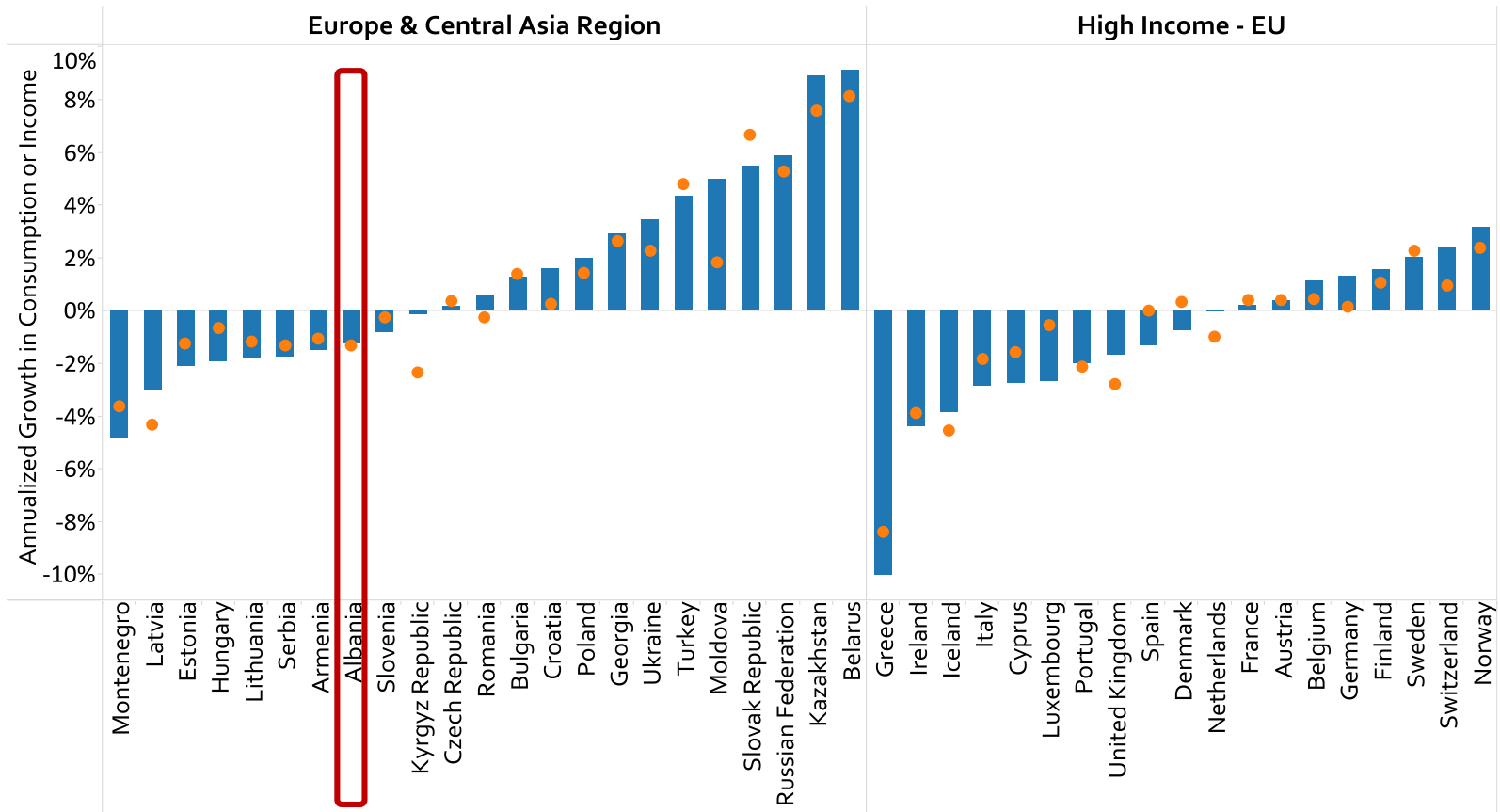
The World Bank uses the **Shared Prosperity** indicator to monitor both average growth and growth of the two lower quintiles of the population in every country



Source: World Bank, Global Database for Shared Prosperity

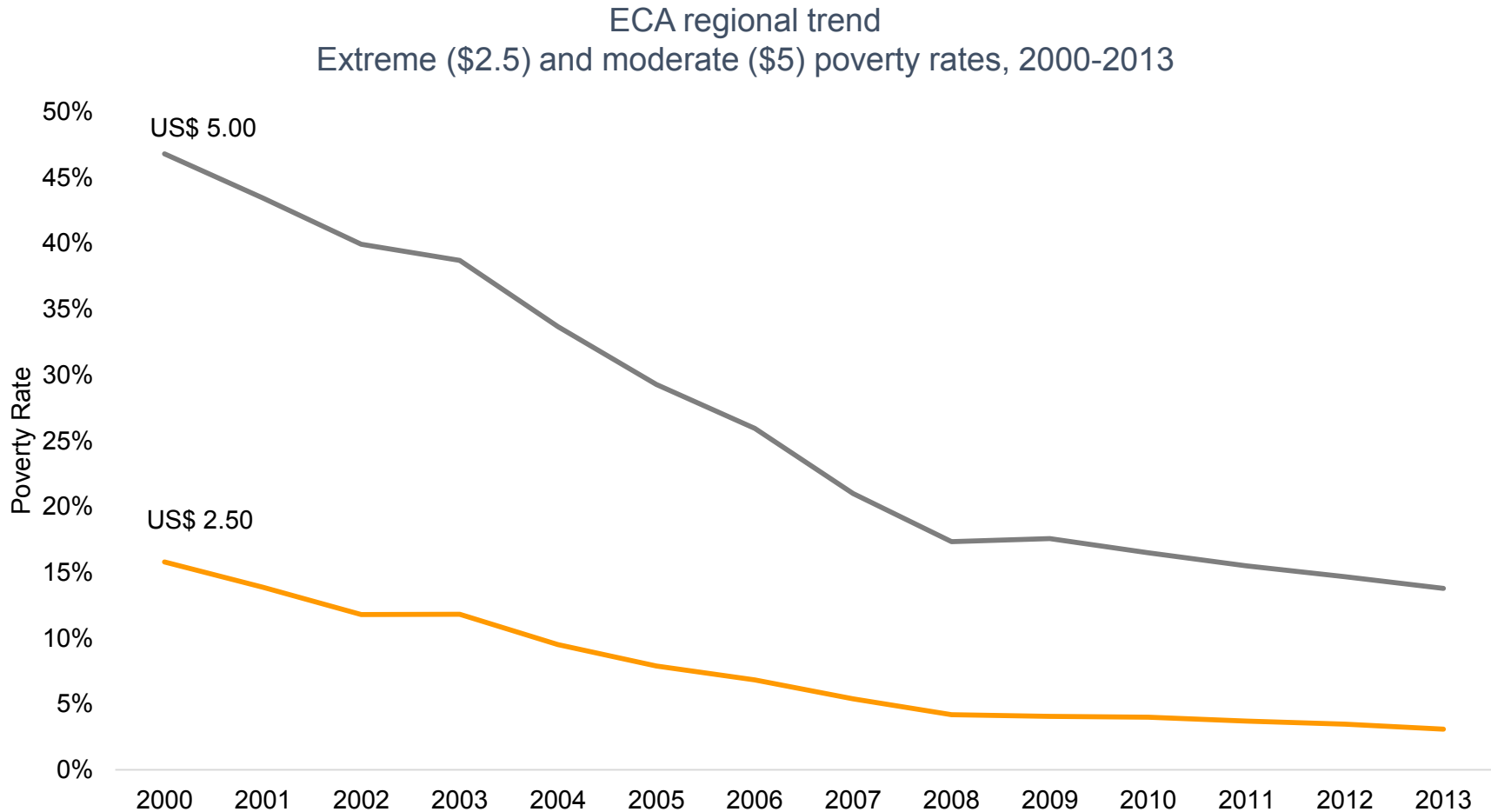
# The region has had a positive record on shared prosperity...

Annualized Growth Over a 5-year Period (circa 2007 – 2013)



**Legend**  
 ■ Bottom 40%  
 ● Total Population

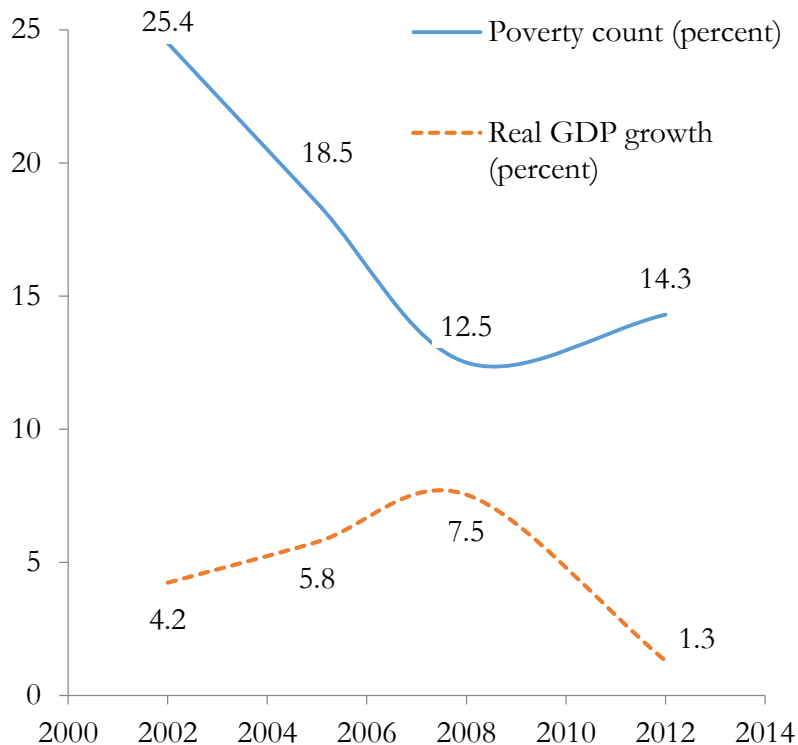
# ... accompanied by significant gains in terms of poverty reduction...



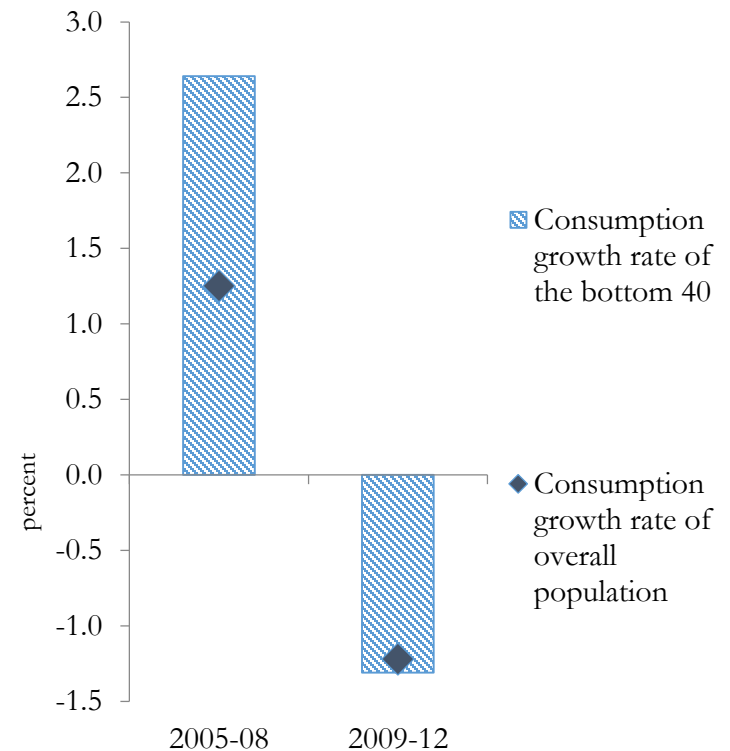
Source: World Bank ECATSD calculations using ECAPOV and EUSILC data  
Note: Regional trends are population weighted and include estimates

# In Albania, progress has mirrored trends in economic growth; poverty reduction halted since the global economic crisis

## National poverty rate and GDP growth (percent)

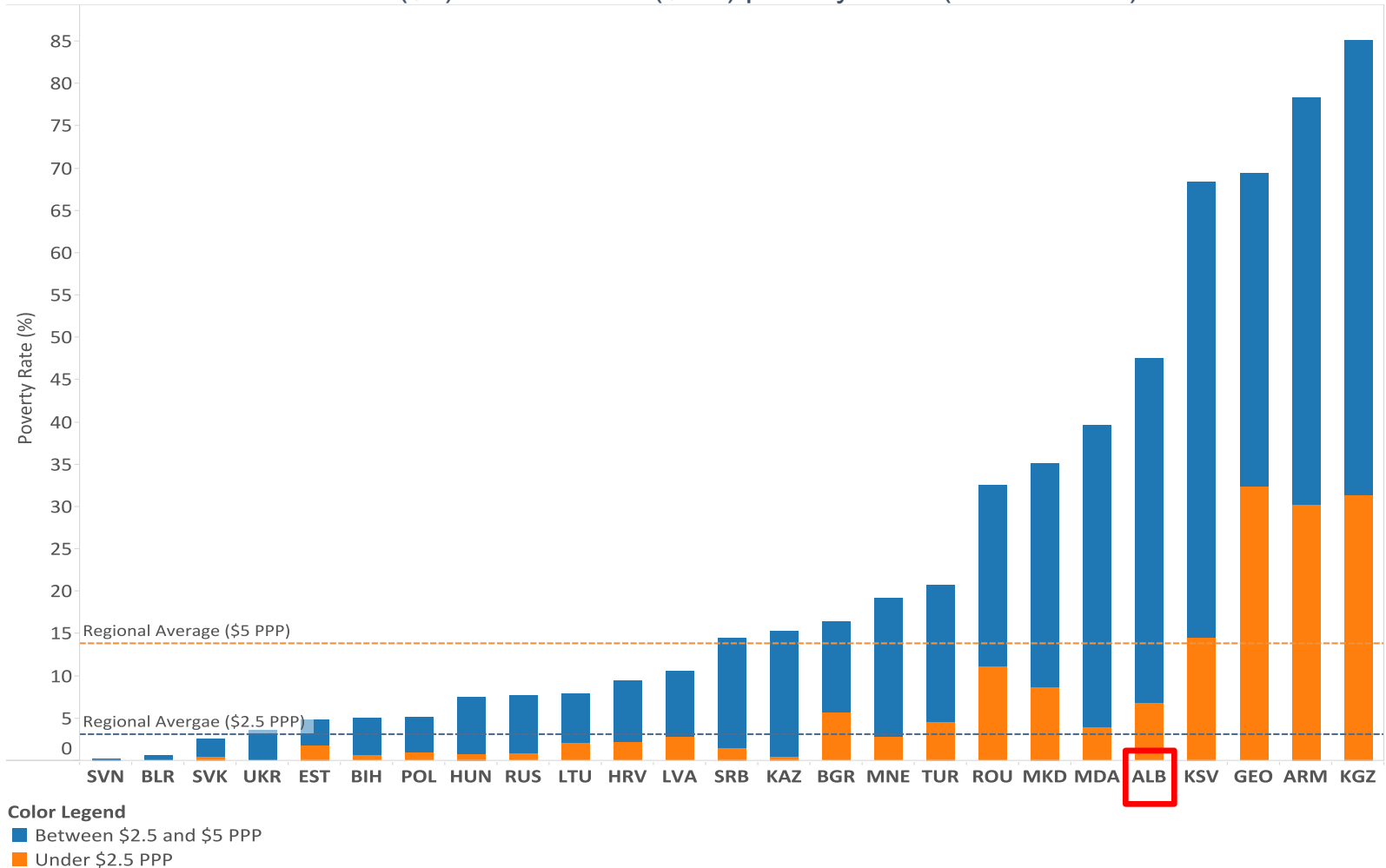


## Shared prosperity indicator



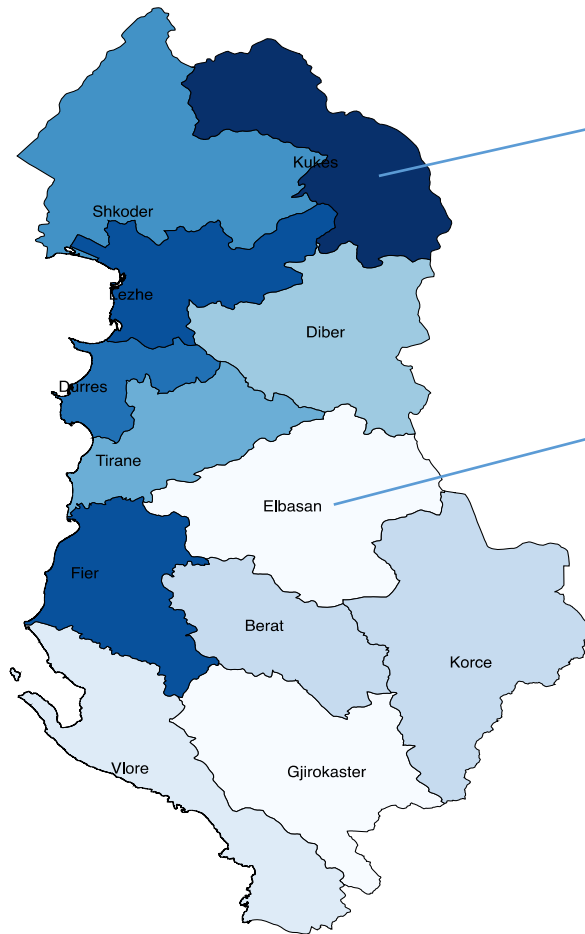
# ... but challenges remain to eliminate poverty...

Moderate (\$5) and extreme (\$2.5) poverty rates (circa 2013/4)



# ...and to boost prosperity throughout the country

Incidence of poverty, by prefecture



For example, poverty stands at 22% in Kukes...

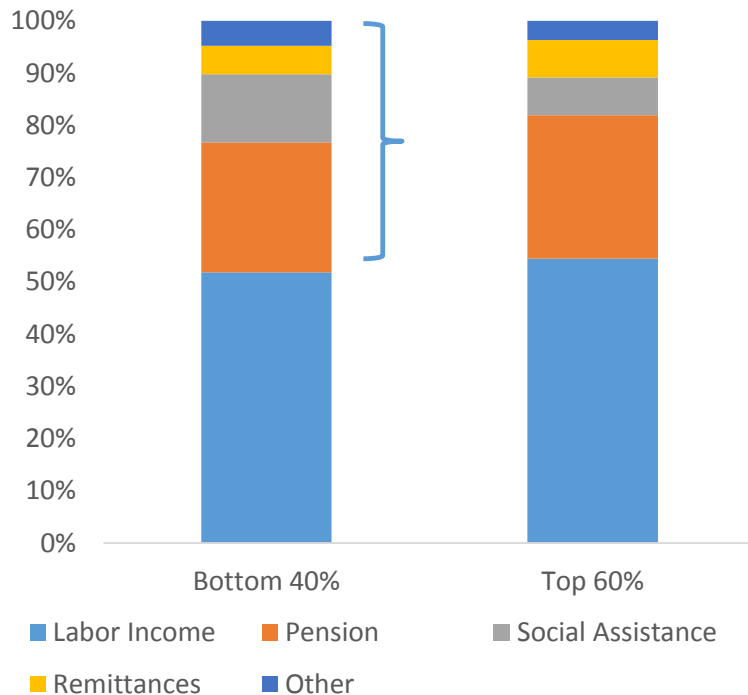
... compared to 11% in Elbasan

An ongoing poverty map using the 2012 LSMS and the 2011 Census will further inform on challenges on spatial inequalities (INSTAT & the World Bank)

# While labor income accounts for half of total household income, labor markets played a limited role in poverty reduction

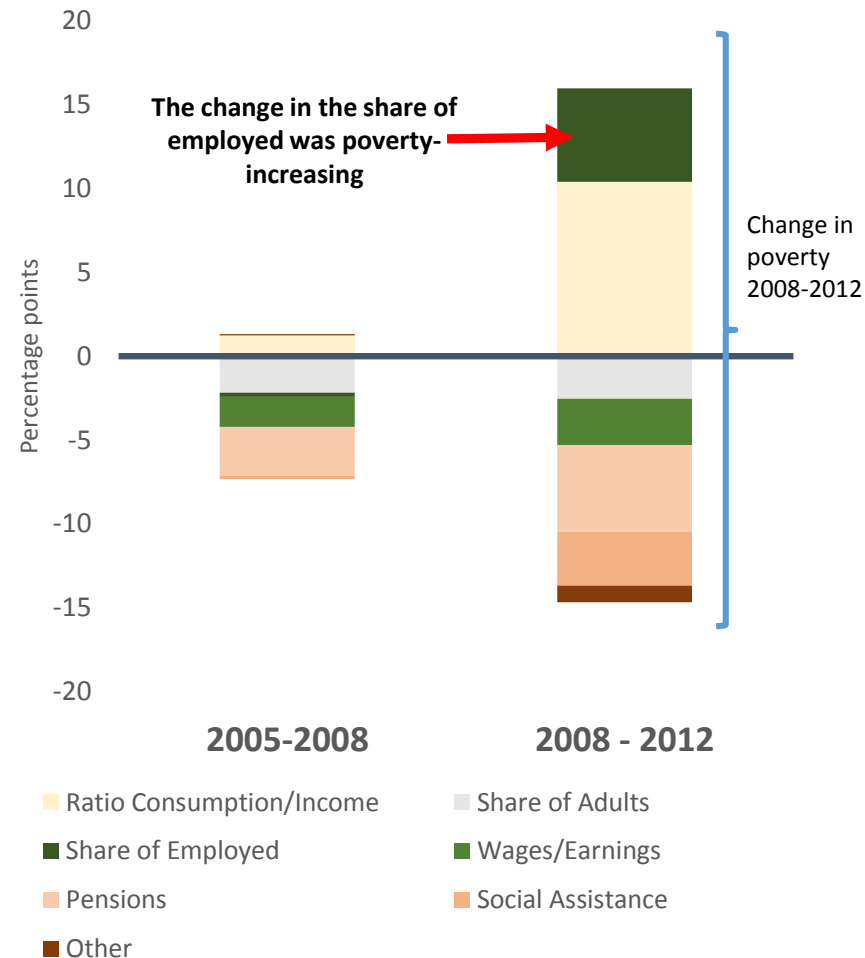
## High reliance on public and private transfers

Household Income by Source in Albania, 2012



## Changes in employment were poverty-increasing

Total poverty changes decomposed by income source, percentage points

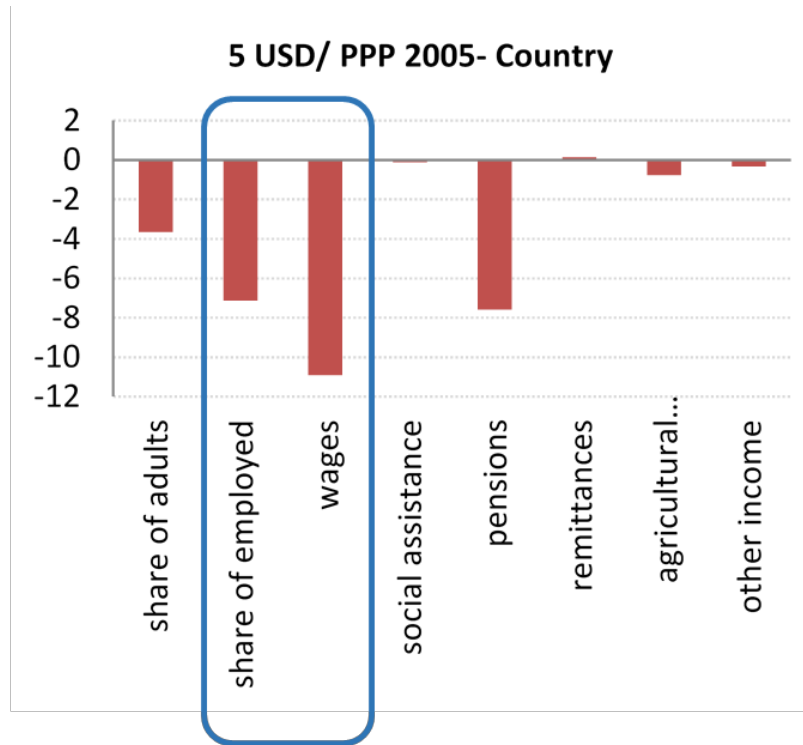




# ... while in many countries across the world, sustained improvements in labor markets drove poverty reduction and shared prosperity

## Turkey

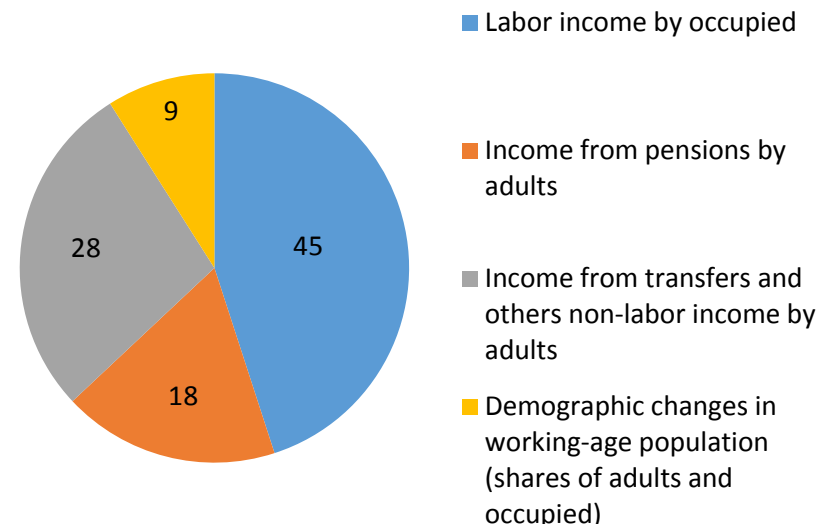
Changes in Income Poverty reduction,  
2002-12, %



Source: World Bank staff calculations based on HICE, TUIK.

## Brazil

Determinates of inequality reduction,  
2001-2011



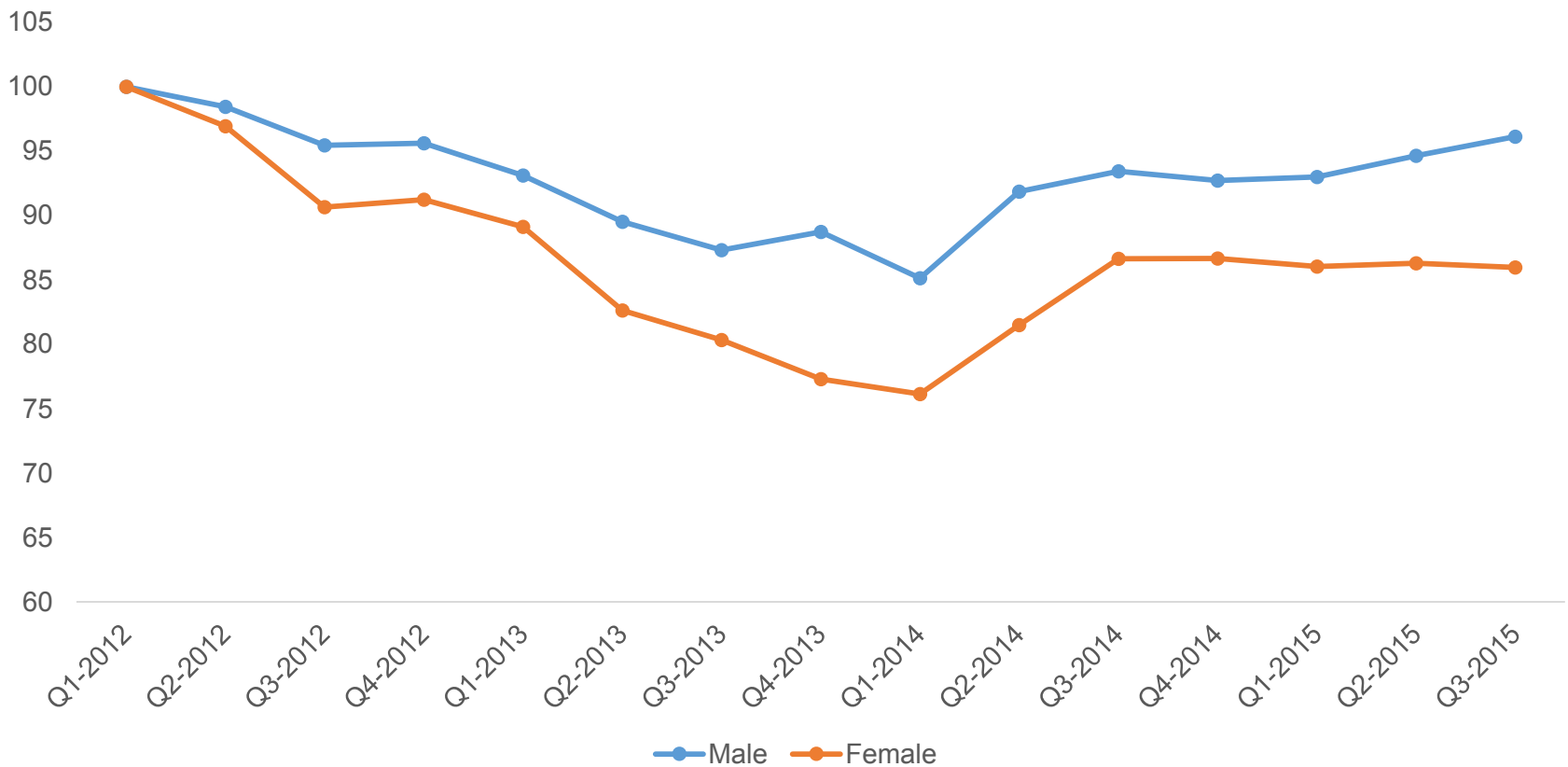
Source: Ferreira, Messina and Firpo (forthcoming), based on Azevedo, Inchauste and Sanfelice (2013).



# Labor Markets in Albania

# After deteriorating since the global economic crisis and halting progress in poverty reduction, labor markets have slowly recovered; however...

Albania Employment Index, Q1 2012=100

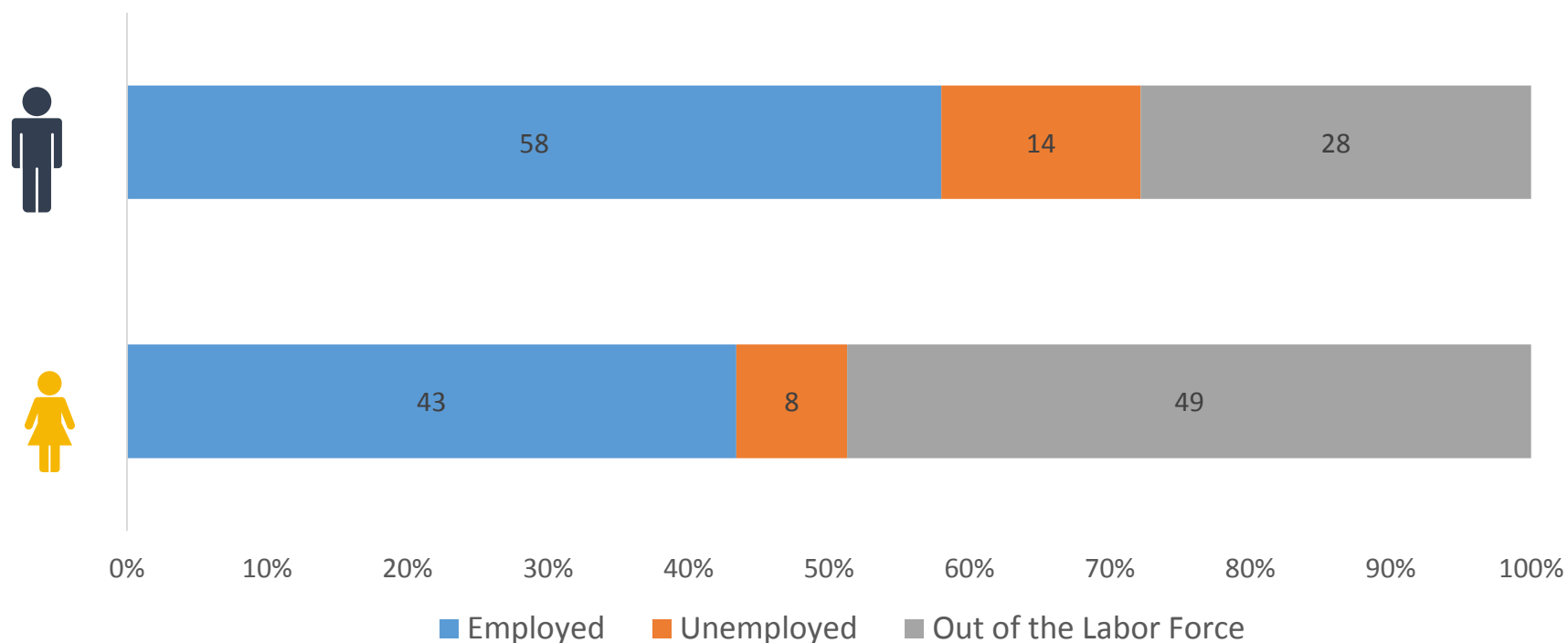


Sources: World Bank staff calculations based on national statistical offices.

# ... labor attachment remains weak and labor force participation rates are low, particularly among women

## High inactivity, particularly among women

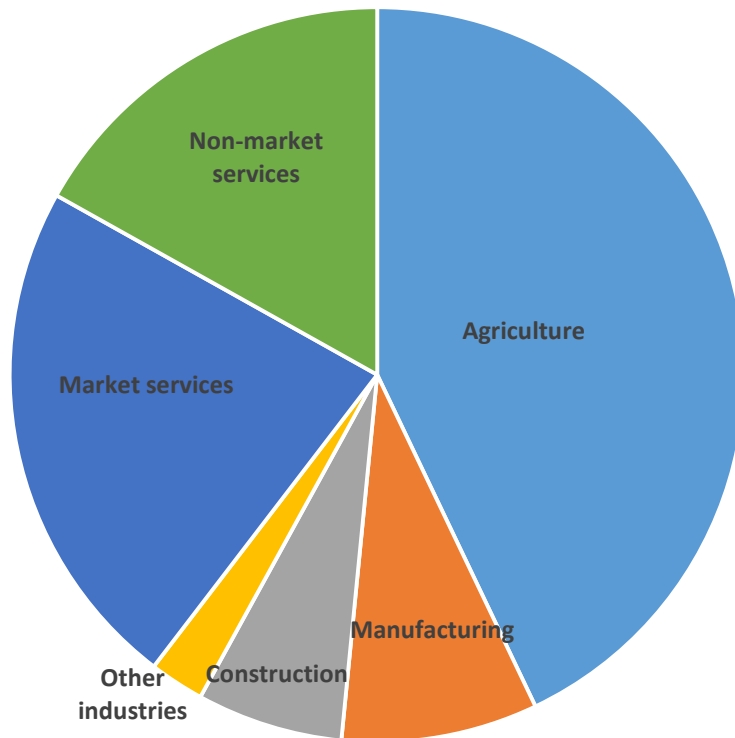
Distribution of population aged 15-64 years



# The quality of employment is poor, with many working in low productivity agriculture and as unpaid family workers

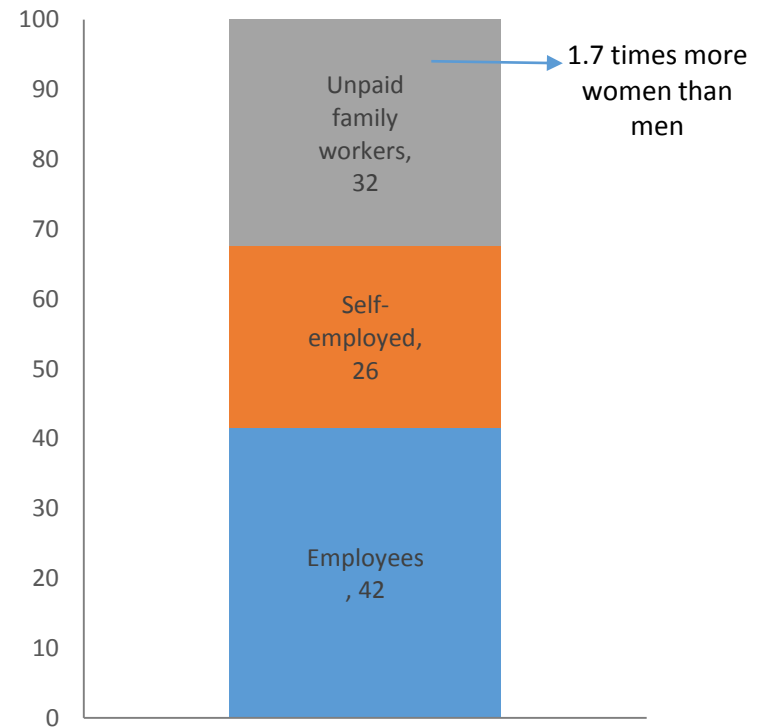
## 43% of the employed work in agriculture

Employed population 15-64, by sector of employment



## Large share of employed as unpaid family workers

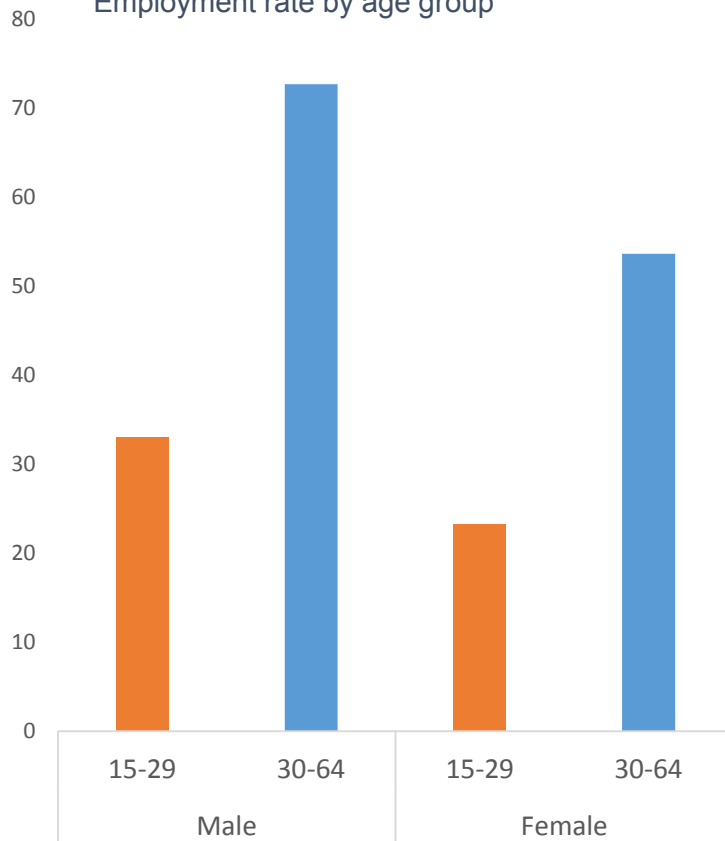
Employed population 15-64, by type of employment



# Employment among youth is low, with many in unemployment, discouraged or facing family responsibilities

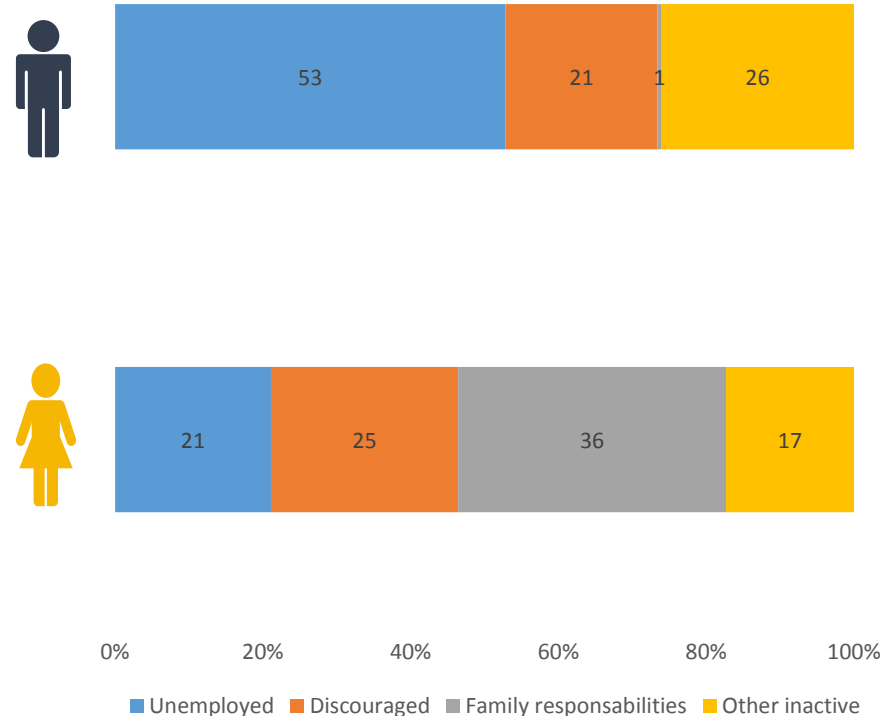
## Youth, particularly women, have very low employment rates

Employment rate by age group



## 1 in 3 female youth don't work because of family responsibilities

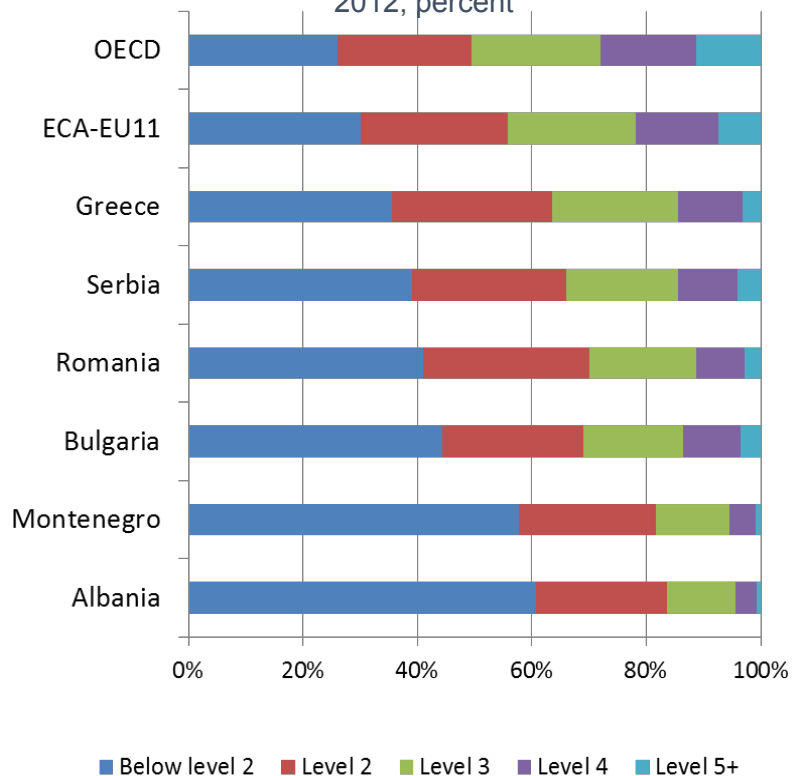
Youth 15-29, neither in employment nor education



# Youth have low quality education, and face disincentives and barriers in the local labor market...

## 60% of youth is functionally illiterate in math

Distribution of students by mathematics proficiency level, 2012, percent



Source: Albania Systematic Country Diagnostic, World Bank 2015.

### Including:

#### Low returns to secondary education

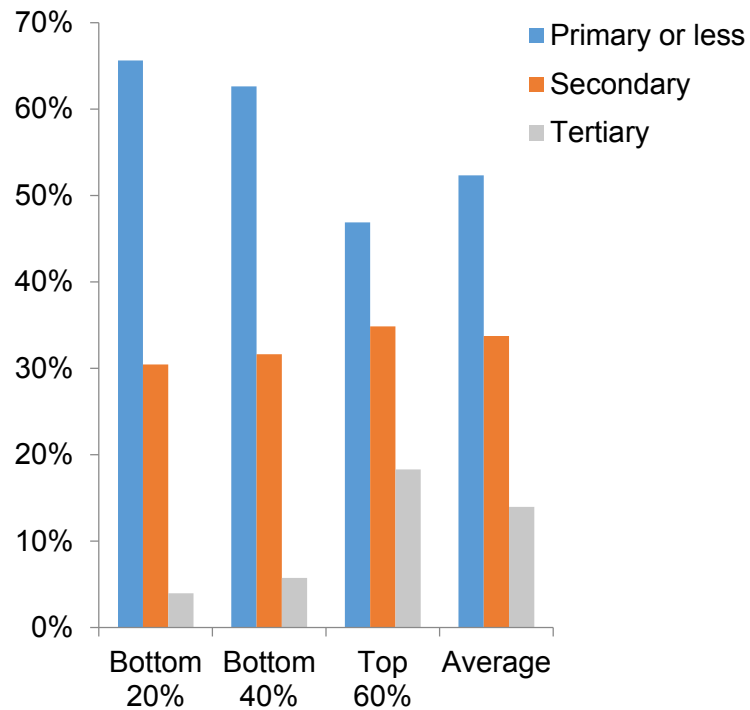
The wage premia is high for tertiary education compared to primary education (50%), but secondary education doesn't pay in the local labor market (likely linked to migration)

#### Skills mismatch

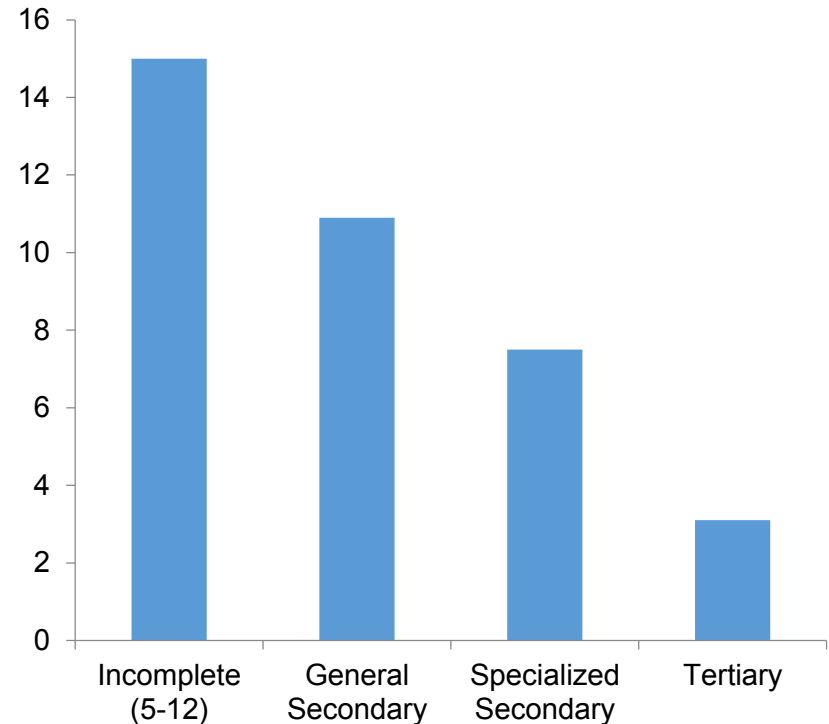
Albania has the largest share (36 percent) of firms among SEE countries reporting that the workforce does not possess the skills they require

# ... and inequalities remain in access to education, limiting opportunities for many

Educational attainment (ages 25+) by economic status, percent



Poverty headcount, by educational attainment, population 25 and over, percent



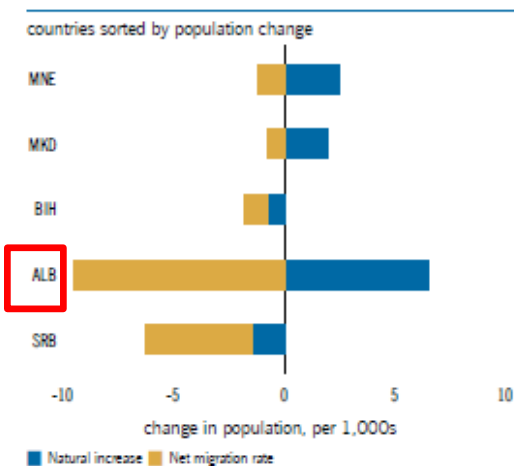
→ **Young Roma adults** have around 4 years of schooling on average, compared to 10 years average of their non-Roma neighbors.



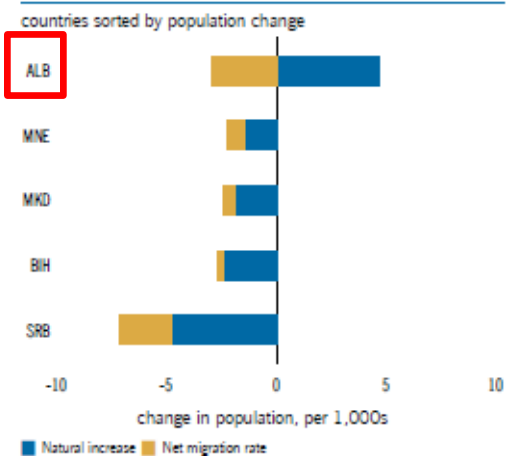
# Migration is high in Albania, and emigrants are better educated than the resident population

Population change because of natural increase and net migration

2005–2010

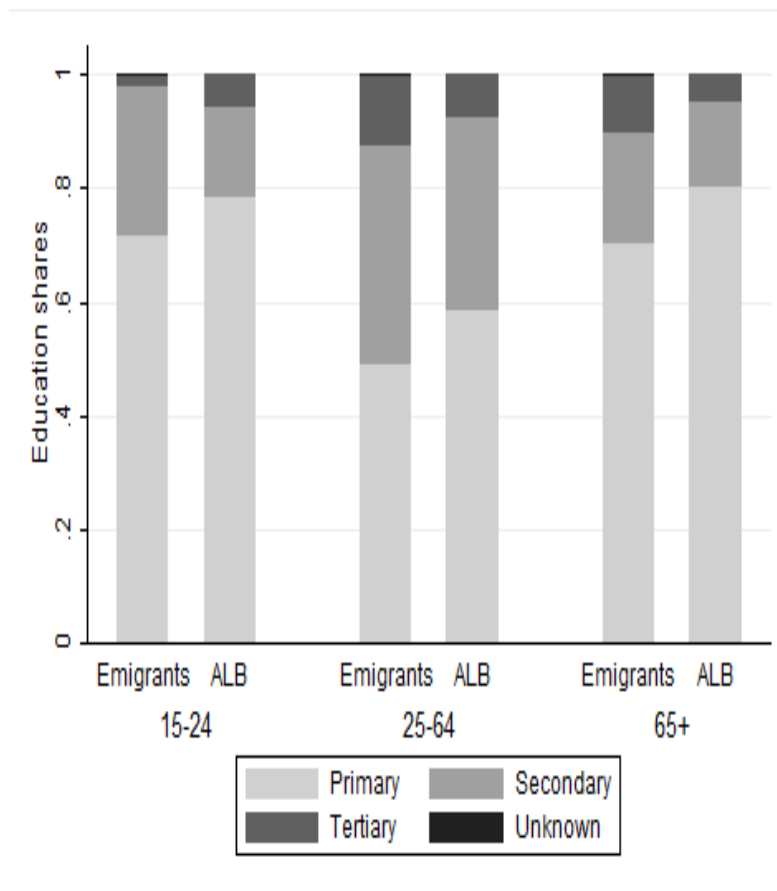


2025–2030



Source: UN World Population Prospects (2012).

Education of emigrants to OECD countries and of resident population by age-group, Albania, 2005



Source: Albania Systematic Country Diagnostic, World Bank 2015.

# Policies for accelerating progress in poverty reduction and inclusive growth:

## Exploring Two Policy Areas

# Action/reforms needed on multiple fronts to tackle labor market challenges

1. **Given the multiplicity of labor market challenges, alongside efforts to boost labor demand through an improved business environment, it is key to **increase the quality and inclusiveness of labor market engagement**:**
  - **Improve policy incentives and remove barriers for formal employment**, particularly for the less well-off, youth and women, including by strengthening the evidence base
  - **Improving skills through quality, access and relevance of education and training systems**
  - **Strengthen active labor market programs** to promote activation of particular groups (e.g. youth, women, minorities)
  - **Enhance labor market information systems** to improve education, training, and job matching

# Policy Example: Tackling the Skills Challenge for Disadvantaged Youth

## A Targeted Innovative Program in the Dominican Republic

- **Objective:** Improve the employability of youth at risk, by providing life and technical skills training combined with private sector internships.
- **Target groups:** 16 to 29 years old individuals who dropped out from the education system before finishing their secondary studies, are unemployed, underemployed or inactive and are below a poverty threshold
- **Program:** In-class training on Life Skills training and technical skills, and on-the-job learning through and internship.

Positive long-term impact (6 years later) was noticeable for certain youth groups:

↑ formality for men, older students and workers in urban areas (25% or more)

↑25% on earnings in urban areas for women

# Policy Examples: Interventions to target barriers to employment for youth

Barrier to be addressed	Examples of Potential Interventions
Weak labor market and educational information	<ul style="list-style-type: none"> <li>• Professional orientation in the school system</li> <li>• Apprenticeships/internships</li> <li>• Employment services, including job search and general counseling</li> <li>• labor market observatories</li> </ul>
Lack of access to productive inputs	<ul style="list-style-type: none"> <li>• Business advice and training</li> <li>• Micro-credit</li> </ul>
Weak professional networks and lack of work experience	<ul style="list-style-type: none"> <li>• Employment subsidies</li> <li>• Apprenticeships/internships</li> <li>• Job fairs</li> <li>• Role models, job shadowing, mentoring</li> <li>• Employment services, including matching services</li> </ul>

# Continuing ongoing efforts for sound fiscal policies is key

## 2. Given high reliance on public transfers by households, fiscal pressures and inequalities in service delivery, **it is key to continue ongoing efforts to implement sound fiscal policies, including:**

- Improving the efficiency of public spending
- Enhancing revenue measures
- Addressing pension system sustainability
- Eliminating quasi-fiscal deficits (especially in energy)
- Strengthening the management of public debt and public financial management

**The design of fiscal policies should be informed by the impact fiscal policies have on poverty and inequality; some tools already exist...**

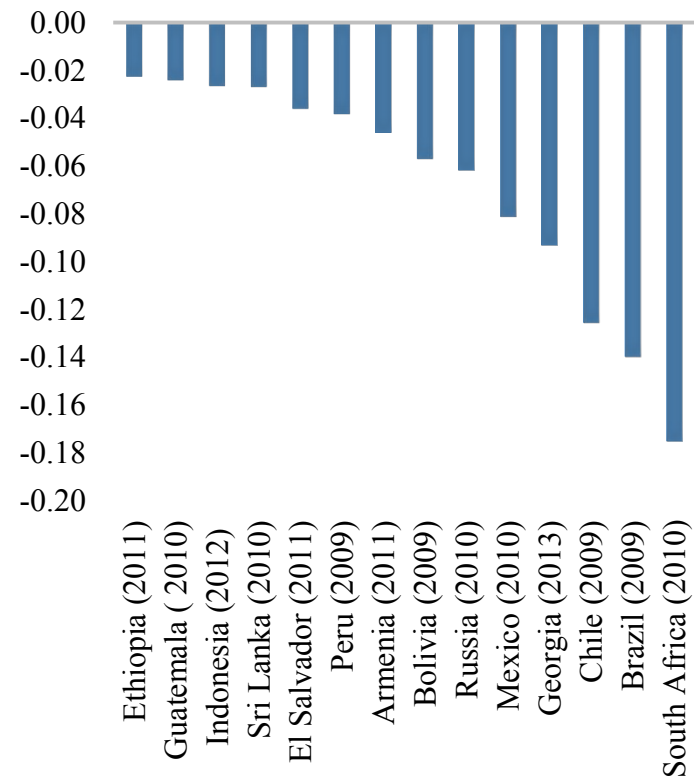
# Tools – Example 1:

## The Commitment to Equity Methodology

### Key questions

- What is the impact of taxes and transfers on inequality and poverty?
- How effective is the fiscal system in reducing inequality and poverty?
- Who bears the burden of taxes and receives the benefits?
- How equitable is the use of education and health services?
- Identify areas of potential policy reform to enhance the capacity of the state to reduce inequality and poverty through taxes and transfers

Change in Gini when considering direct and indirect **taxes and transfers**, and **in-kind transfers** in education and health



This approach is based on the methodology and findings of the Commitment to Equity project (CEQ) led by Nora Lustig, Professor of Economics at Tulane University.

[www.commitmenttoequity.org](http://www.commitmenttoequity.org)

# Tools - Example 2:

## Estimating the poverty impact of energy reform

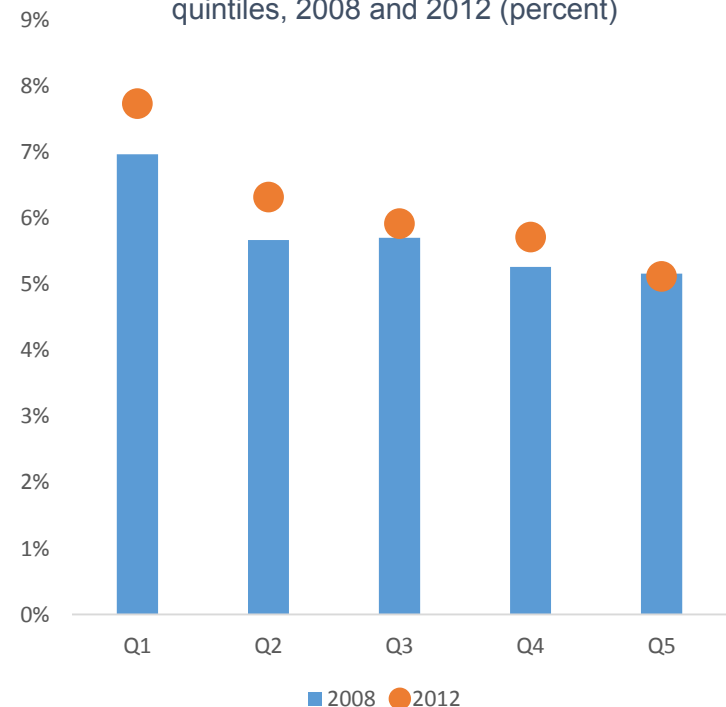
As the energy market is deregulated in Albania, it is important to understand the welfare impact of reforms, particularly impacts of realigning tariff levels for households.

### Key questions

- What are the indicative new tariff levels expected as the reform progresses?
- What are the current energy consumption and expenditure patterns in Albania? by population groups?
- What is the distributional impact of changes in tariffs on households? What would be the simulated impact of tariff increases on poverty?
- Are mitigation mechanisms necessary as energy reforms are implemented? How can these mitigating measures be channeled through the social assistance system?

→ World Bank is currently supporting the GoA in this area.

Share of electricity in total household expenditures by consumption quintiles, 2008 and 2012 (percent)



Source: World Bank using LSMS data.

**Efforts are ongoing to apply this tool in Albania to identify potential impact and put in action mitigation mechanisms, if needed, through existing social protection channels**



# Conclusion

- **Economic growth** is resuming in Albania, and continued efforts are needed to ensure that growth is strong, inclusive and sustainable
- **Reforms are already ongoing** in several areas, including fiscal, energy, pensions and others, to promote this strong, inclusive and sustainable growth
- However, persistently weak **labor markets** limit the inclusiveness of growth and the potential of the Albanian economy
- **Fiscal pressures** may jeopardize growth prospects for Albania; reform efforts – including on energy, financial management of public investments and pensions – need to continue to foster macro-fiscal & financial sector stability
- As reforms are designed and implemented, they should be informed by the **impact fiscal policies** have on poverty and inequality
- **Tools**, some discussed today, can help in assessing the distributional impact of fiscal policy
- Quality and frequent **data** – including for household welfare and poverty measurement - is critical!

Thank you