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THE IMPORTANCE OF NATURAL RESOURCES IN THE ALBANIAN ECONOMY: The economic impact of forestry and pasture management decentralization

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Abstract. Natural resources play a very important role in ensuring the livelihood of rural communities. Besides providing food, they can be a precursor to poverty reduction and economic growth. Decentralization of natural resources management is estimated to generate considerable benefits which are analyzed in three aspects, the economic, social and ensuring their sustainable development. Even in our country, in the context of achieving high levels of democratic governance and transition to a consolidated market economy, have been undertaken several decentralization reforms in different areas. One of the most important, is the transfer of a part of natural resources such are communal forests and pastures, in ownership of local governments units, in order to fulfill better the community needs, increase benefits from their use and at the same time protect them. In this paper, in addition to the analysis of secondary data available, it is intended to assess community perceptions of the importance of these resources in the creation of family income as well as, the possibility to increase the income generated after their transfer to local governments. Assessment is based on primary data collected by surveying members of rural communities affected by the decentralization process of these natural resources.

Keywords: decentralization, natural resources, income, impact assessment

JEL Codes: Q23, P28, Q58

1. Introduction

Natural resources play a strategic role in the rural economy, as a potential source of long-term development and as an essential contributor to a constant food supply. In one way or another, many rural communities are dependent on natural resources. Involvement in the management of natural resources is increasingly developing as a key factor for achieving the Millennium Goals, especially the one of reducing poverty. Natural resources play a special role in the democratization of local governments because local people rely on them for their daily living and governments also rely on them as a source of wealth (UNDP, 2004).

The government's notion deriving from the neo-classical theory of market economy, is to maximize the value of the stock. Many countries have chosen the institutional development strategy closer to local



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institutions and growing communities. Rural development policies are designed to fulfil the needs, to implement macro and micro economic change, to ensure equality, efficiency and sustainable use of natural resources. The strategic objectives of designing and implementing decentralization policies are:

- Increase community participation in decision making and consolidate democracy
- Reduce poverty
- Sustainable use of natural resources.

The access of poor communities to natural resources (land, forests, water, fishing, pastures, etc.) is essential for the continuous reduction of poverty. Providing access and ownership is crucial to economic growth and rational use of natural resources. The literature acknowledges that property rights can increase investment (local or external), which will provide employment and income, making a significant contribution to poverty alleviation. In rural areas where people are dependent on land access and productivity, property rights formalization can help improve nutrition since they imply a significant transfer of wealth to poor families (World Bank 2001).

Publicly implemented property rights will also increase investment incentives and overall economic output. Possession of natural resources can be defined as terms and conditions based on which natural resources are preserved, used and transferred. A fundamental objective of decentralization is to increase and guarantee people's rights over natural resources.

According to Stiglitz (1993), due to the importance of possessing natural resources, the community must be protected by the government by using the right legislation. This is necessary to determine the practical mechanisms to judge the economic performance, and, if natural resources are abundant, how to use them to promote economic growth, reduce poverty, increase investment, increase employment and GDP. Various authors like Frisvold (1995) and Harson (1995) clearly point out that assuring property rights can affect productivity.

After 1991, Albania, in the framework of achieving the highest levels of democratization and market economy, has undertaken a number of decentralization policies in various areas. The forestry sector has been particularly affected by this transition period since forest resources were put under great human pressure which brought about their degradation. To improve the situation the government undertook a series of reforms that focused more on the process of decentralization and privatization of the economy in general, and on a part of natural resources more specifically. Consequently, a process launched in 1996 was intensified more in 2008, when the government took the decision to transfer the ownership of communal forests and pastures owned by local government units.

The transfer of forests owning rights is not simply a "return back", but the return of responsibilities for forest management to people living next to them. The process is long and not a simple transfer of making forest areas "ready to use" to municipalities and villages. It is the process of transferring central government responsibility for forests management to local government. This process sets the foundation for forests management through the drafting and implementation of management plans by the local government. This promotes sustainable and decentralized management of natural resources with the community participation.



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The three main objectives of the transfer were:

- Facilitate and complement the needs of the local population with materials, firewood, livestock food, medicinal plants, secondary forest products and other forestry benefits;
- Protect of the natural environment, and;
- Increase revenue at a local level.

Experience has shown that forest management by local residents is successful for many reasons. Among the most important ones:

- Economic Reasons - Management costs are lower if is done by rural communities than by central government and also protection options are greater because they are interested in protecting them.
- Social Reasons – Rural communities have been traditional owners of forests that have already been formally transferred to them to use/own, while during the centralized economy period, these forests were often used for irrelevant purposes without asking them.
- Environmental Reasons - When communities are convinced that the forest belongs to them, and this is also confirmed by documents, they become more sensitive to the protection of forests and other natural resources, by having also direct benefits.

2. The importance of forests and pastures sector in Albania

The territory of the Republic of Albania is classified in 60% of its area as forests and pastures, thus creating the National Forest and Pasture Fund. As mentioned in the "National Plan for the Implementation of the Stabilization and Association Agreement, 2012-2015", forests and pastures generally extend to hilly and mountainous lands, often untraceable to serve, without the infrastructure needed to use them and too far to enjoy their recreational values. Albania can be considered rich in forest areas and with a high production potential, but with low potential of current production. About 60% of the forests are located at altitudes above 800m above sea level, often with unreachable infrastructure.

As in most developing countries, natural resources, and more specifically forests and pastures, are of great importance to guaranteeing the living of the rural community and not only. Their impact is significant for any economy, but in situations like our country, this impact gets more significant for a number of reasons such as: high poverty, high population living in rural areas, linkage between forestry and agriculture and the impact of the agriculture sector on the Gross Domestic Product.

2.1. Poverty Level

No other sector in Albania has such a significant impact on the rural population affected by poverty than the forest and pasture sector, given that rural residents are the ones who are mainly faced with extreme poverty. For these residents, the use of these resources is often the only source of living, being they unable to generate additional income. Lack of other capital makes these communities totally dependent on the products provided by forestry. The Living Standards Measurement Survey has collected data on the extreme poverty level in the mountain region, as most affected by this phenomenon.



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Table 2.1. Poverty Indicators by years (2002 – 2012)

Poverty Indicators	Mountainous Area	
	Poor	Extreme Poverty
2002		
Percent	44.5	10.8
Gap	11.1	2
Severity	4.1	0.5
2005		
Percent	25.2	3.1
Gap	5	0.4
Severity	1.5	0.1
2008		
Percent	25.9	3.7
Gap	5.5	0.5
Severity	1.7	0.1
2012		
Percent	15.1	1.2
Gap	2.4	0.1
Severity	0.6	0

Source: Living Standards Measurement Survey 2002, 2005*, 2008*, 2012*, Instat

As can be seen from the above data, although there is a significant reduction of average poverty in mountainous areas from 44.5% in 2002 to 15.1% in 2012 and a reduction of extreme poverty from 10.8% to 1.2%, the values remain high and problematic.

It should be emphasized that the role of forestry in poverty alleviation is not fully recognized at the national level. However, statistics collected by the National Forestry Inspectorate (2004) show that annual forestry revenues range from 0.83 to 1.5 million Euros per year, wood-derived incomes account for 50-75% of them and the revenues from medicinal plants and other non-wood products are 12-30%.

2.2. Number of population living in rural areas

Another reason that strengthens the importance of this sector in our country is the number of people living in rural areas. Albania is a country traditionally characterized by high levels of population living in rural areas compared to other European countries. This trend derived from the past has continued throughout the first period of transition, when more than half of the population continued to live in rural areas. For the first time in the Census conducted by the Albanian Institute of Statistics in 2011, our country counted more urban than rural population, as over 47% of the country's population lived in rural areas and 53% in urban areas.



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Table 2.2. Population distribution by settlement:

Urban Population	1,498,508	53%
Rural Population	1,301,630	47%
Total	2,800,138	100%

Source: Census 2011, Instat

According to the World Bank (2001), there is a disproportion between the distribution of population and the distribution of natural resources, which creates a great impact on the use of these resources.

2.3. The relation between forestry and agriculture

Agriculture and forestry are the two most important components of land use in rural areas and have been closely linked to each other throughout history. In Albania, rural residents manage both agricultural land and forests, according to some typical agro-forestry systems, as explained by Lako (2008). Within these agro-forest systems, agricultural crops, trees and livestock are managed in the same piece of land. Consequently, the development of forests and pastures has a direct impact on the development of agriculture as a whole.

2.4. Impact of forests in Economy

Agriculture and forestry have been important branches of Albanian national economy. In 1992, this sector contributed with 42.5% of Gross Domestic Product. Recent developments have changed the structure of the GDP, where agriculture provides only 16.5% of GDP (2013). Reducing the contribution of agriculture to GDP does not mean that agricultural production has decreased, on the contrary, the production has increased by 5% annually (Instat 2013). Forest products are not reflected as a separate item, but it is well known that agriculture and forests guarantee the livelihood of almost half of the population, mainly with small family farms.

These data alone, without detailed analysis, do not reflect the role that forestry actually plays in the economy. It is necessary to consider not only products from the forestry sector but also other benefits from them and environmental services as a prerequisite for their sustainable management in the future.

In some mountainous areas, forestry is the only employment opportunity, becoming a major factor in alleviating poverty and migration. In addition to firewood and timber, forest areas are used for livestock grazing and foliage provision. This contributes significantly to the income of rural families.

3. Methodology

This chapter briefly explains the methodology of drafting this paper. It should be noted that this paper is only a part of an extensive study that analyses the impact of forestry and pasture management decentralization in Albania. This paper is focused on the evaluation of community's perception about their economic benefits derived by the decentralization of natural resource management.

The data used in this study were collected using a structured survey questionnaire that represents rural communities affected by decentralization policies in the forestry and pasture sector implemented in Albania.



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The number of questionnaires analyzed is 242, conducted with residents from 31 municipalities throughout Albania.

Data analysis is done using the software SPSS.20 and focused on descriptive data statistics.

The analyzed variables are ordinal measured by Likert scale, for assessing the impact of natural resources on household income, and the ability of the community to increase their income after decentralization of these resources.

4. Data analysis

In this section is presented the analysis of a set of indicators that are considered important to be studied to assess the importance of forests and pastures in revenue generation and the economic impact of the decentralization process.

The importance of the study is initially linked to the importance of these resources for providing income to residents of areas where they are stretched. It is precisely the economic motive that pushes the community to ask making use of the resources available and therefore ask to become part of the decision-making process in order to guarantee their sustainable development. If rural communities did not depend on natural resources, the decentralization of their management would be an insignificant issue and would not have any effect on their livelihoods. It is the great impact of these resources on the living of rural communities which makes it a sensitive and essential issue to be studied.

Table 4.1 The Impact of Natural Resources on Family Income (as %)

<i>Source of Income</i>	No Income	Low Income	Average Income	High Income	Main Source of Income
Agriculture	5.8	37.2	20.7	11.2	25.2
Forestry	78.5	19.8	1.2	0	0.4
Pasture	86	11.2	2.5	0.4	0
Medical Plants	73.6	21.1	4.1	0.4	0.4

As shown in Table 4.1, agriculture remains a source of income for 94% of respondents, of whom 25.2% affirm that it as the main source of their household income. This figure is understandable given the extent of the study in rural areas where the majority of the residents provide their living through agriculture. 21.5% of respondents estimate that forests are a source of income for them even though to a lesser extent than agriculture, of which 20% declare to provide little income from forests. Only 14% of those surveyed claims to provide income from pastures, while more than 25% provide income from medicinal plants. The low percentage of income derived from the pastures is related to the indirect impact they have on income generation through stocking, but not analysed as a separate item in this case. What is to be noted is the importance of these resources to guarantee the income of these residents and consequently the importance of their management.



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One of the objectives of the study is to assess the possibility to generate income after undertaking the transfer of forests and pastures owned by the municipality and to identify the effect of this process.

Table 4.2 The ability to generate income after transfer of forests and pastures

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Very Poor	4	1.7	1.7	1.7
Poor	28	11.6	11.6	13.2
I don't Know	3	1.2	1.2	14.5
Good	135	55.8	55.8	70.2
Very Good	72	29.8	29.8	100.0
Total	242	100.0	100.0	

As mentioned, one of the most significant impacts of decentralization of natural resource management is the ability to generate income by using these resources. This conclusion is also supported by the responses received from the community where more than 86% of them consider this transition as a good opportunity to increase the revenue generated by these resources. Only 13.2% of them consider poorly the opportunity to increase their income after their transfer.

The importance of transferring ownership of these resources to local government units aims at their more efficient administration. This is to be achieved through the establishment of a system for collecting taxes for using these resources and the investment of the generated revenues for the maintenance of these resources.

Table 4.3 Taxes paid and investments made to improve communal forests (as %)

	No	Yes	Total
Do local residents pay for the use of forests and pastures?	60.3	39.7	100
There are investments done to improve communal forests?	36.4	63.6	100

Based on the answers received, less than 40% of respondents state that they pay taxes on the use of communal forests and pastures, while almost 64% of them admit that investments have been made to improve forests and pasture communal. The low rate of tax payment is related to the low level of residents' income in these areas. Residents of rural areas, mainly in the cities of Kukës and Diber, are treated with economic aid and are unable to afford taxes payment. Investments currently carried out have been supported in most cases with donations from foreign organizations and very little income from local government units.



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5. Conclusions

- Forests and pastures in Albania are an essential sector for guaranteeing living and alleviate poverty for rural communities due to the characteristics that our country represents.
- Although agriculture continues to be the main income source, forests, pastures and medicinal plants are also important contributors to the creation of rural families' income.
- Based on the community perception, the main impact of decentralization is estimated to be the improvement of the ability to generate income after the transfer of forests and pastures to Local Government Units.
- Taxes revenues from the use of forests and pastures by residents continue to remain low, although they acknowledge the importance of making investments for their improvement. This makes it difficult to generate income and reinvest them at the source.

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