

A Survey on Poverty in Albania: Comparison between Rural and Urban

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Abstract: The aim of this study is to measure and evaluate the poverty in Albania. There are three main objectives of the study. Firstly, to identify the population percentage below the poverty line in rural and urban area. Secondly, to find out if there is a gap between males and females living in poverty in these two areas. Lastly, to see if there is correlation of education and poverty rate. The methodology used to achieve the main goals of this study and to perform the necessary estimation is a primary data collection from 1000 surveys. These surveys are distributed based on the official geographical division of Albania according to the allocation method of INSTAT and distribution of questioners is based on the percentage of population density for each region. The results show that the poverty rate of Albania in 2016 is around 25% and the female population is highly affected from the poverty. 17% of the population under the poverty line are found to be females. Meanwhile, the people living in poverty in rural zones are lower comparing to the urban ones. The reasons for this unexpected result is the high migration of the population from rural zones to urban zones and to developed countries. Another reason is that the rural population can have some additional incomes form the remittances and the agriculture. Lastly, the study finds that the population with a higher education level is generally having a relatively higher income level.

Keywords: Poverty; Urban; Rural; Survey; Albania

JEL Classification: I32

1. Introduction

Poverty is one of the most discussing topics nowadays. Poverty includes many aspects such as economic, social and politic, in its own concept. It is defined as the lack of quantity of necessary material assets or moneys. While poverty is a relative term, it is perceived differently in different circumstances and conditions. The best way to measure poverty and the individuals' concept about it is through surveys and interviews. This study finds out and compares the rate of poverty in rural and in urban areas of Albania.

Statement of the problem

Every year various programs are formulated by many global organizations for reducing the phenomenon of poverty in many countries around the world. Recently, these organizations are increasingly present in Albania, as well as people become more aware helping a little in mitigating the effects of poverty. But despite the efforts of organizations and individuals, poverty, that appears as an increasing phenomenon, must have well-framed programs from the government. Albania lacks studies related to the poverty and its' effects it has on the society and the development of a country.

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Research question

The main purpose of this study is to examine where the phenomenon of poverty is widespread, in rural or urban areas in Albania and whether if this phenomenon is associated with various social conditions such as education, number of children, or even gender.

Research objective

The three main objectives of the study are as following:

1. To find the percentage of people interviewed living below the poverty line in rural and urban areas;
2. To compute the percentage of females from the total number of people living below the poverty line and compare it to the percentage of males;
3. To find out if there is a correlation between education and poverty in Albania.

This study has five main sections. The second section is devoted to the definition of the poverty and related literature review. The third section explains the poverty in Albania based on data taken from INSTAT, World Bank, United Nations and other sources. The third section of the study explains the data and the methodology used to realize the study. Additionally, it gives a better view of the poverty situation in Albania based on the questionnaires' results. The last part is devoted to the conclusion that comes as a result of the whole work.

2. Basic Concepts of Poverty and Literature Review

2.1. Poverty Line

Poverty line determines a level of living below which individuals are called extremely poor. It is considered as the income level that secures an adequate standard of living. Poverty line has different values in different countries. It varies from 1\$ or 2\$ per capita per day in Low Developing Countries (LDCs) to 14\$ per capita per day in developed countries. (Rvillion, 2010) For LCD countries, poverty line is decided by World Bank and it is 1\$ and 2\$ per capita per day and for the developed countries as a poverty line is used 14\$ per capita per day which is putted by UNDP. (UNDP, 2010) This classification is made in U.S. dollars and is made according to the real purchasing parity to avoid any differences that can be by the exchange rates. Many governments try to manipulate the value of poverty line in their own countries. Anyhow, in every country, poverty line is based on the GDP and the standard of living of that place that is measured through the consumption expenditure of the individuals. (World Bank, 2014) In developed countries, during the last years, the level of poverty line has an increased trend and there are some cases that this line has been near of GDP per capita. The number of people who live in poverty is decreased in both absolute terms and relative terms.

In Albania, poverty line is measured and determined since 2002 and it is equal to 1.35\$ per capita per day or 4891 ALL per capita per month¹ (INSTAT, Living Standarts, 2013) The major part of the studies related to Albania are made by consumption expenditure as in the most of other countries cases.

¹ Poverty Line of extreme poverty in Albania is 3047 ALL which include only the food needs; meanwhile the relative poverty line is 4891 ALL that includes basic non-food needs.

Estimations are also relied in the data taken from the Albanian Living Standard Survey (LSMS) randomly chosen families in different regions in Albania and it serves precisely to measure the poverty level and living standard in Albania. (INSTAT, 2008) In the methodology used in this case, firstly there are calculated the basic food needs based on the number of calories that every individual should take and then after this there are also made calculations on basic non- food needs considering that the individuals spend the same amount of money as calculated before for food needs. (INSTAT, 2008)

2.2. Poverty Measurement

Since the poverty is a widespread and important phenomenon it is necessary to evaluate accurate level indicators of it. There are different measurement methods for poverty but not all of them are used in practice. (Jalan & Ravallion, 1998) Some of the main poverty measures are headcount index, poverty gap index, squared poverty gap index, Sen Index, Sen- Shorrocks-Thon index, etc. These indexes give a better view of poverty even why some of them are very difficult to use in practice. They are shortly explained below.

Headcount Index (HI)

HI is the most used index and it evaluates the percentage of people living in poverty. (Coudouel, Hentschel & Wodon, 2002) It usually is determined by the formula:

Equation 1. Formula of Headcounter Index

$$P0 = \frac{1}{N} \sum_{i=1}^N I(y_i \leq z) = \frac{Np}{N}$$

Where P0 is the HI, N is total population, Np is total number of the poor people, $I(y_i \leq z)$ is the indicator function that has the value 1 if the expression is true and 0 if it is not, y_i are the expenditure and z is the poverty line. If $y_i < z$ it means that $I(y_i \leq z) = 1$ and in this case can be said that the households are poor.

This index does not show how poor are the poor or if the poor people below the poverty line became poorer, the HI does not change. Anyway, this index has its priority because is easy to understand and to structure it.

Poverty Gap Index

This index determines the number of people who fall below the poverty line as a percentage of the poverty line. (Chen & Ravallion, 2007) This index is moderately used for poverty measures. The formula used for this index is:

Equation 2. Formula of Poverty Gap Index

$$P1 = \frac{1}{N} \sum_{i=1}^N \frac{Gn}{z}$$

$$Gn = (z - y_i) \times I(y_i \leq z)$$

This index also helps in the estimation of incomes that a person who lives under poverty line needs to equalize or to be higher the poverty line. As the HI, this index does not measure how poor are the poor but it estimates the percentage of people who live between the poverty line and the poor people standard of living.

Squared poverty Gap Index

The squared poverty gap index shows the weight sum of poverty gap which are the proportionate of the poverty gaps themselves. (Makoka & Kaplan, 2005) This index is measured by the formula:

Equation 3. Formula of Squared Poverty Gap Index

$$P2 = \frac{1}{N} \sum_{i=1}^N \left(\frac{G_n}{z}\right)^2$$

This index is complicated and difficult to understand and because of this it is not used in practice.

Sen Index

Sen Index is a combination of effect of the number of poor people, intensity of their poverty and the inequality between the poor members. (Sen, 1976) The formula used for this index is:

Equation 4 Formula of Sen Index

$$PS = P0 \left[1 - (1 - GP) \frac{\mu^P}{z}\right]$$

where: P0 is HI; μ^2 express the main income or expenses of the poor; GP is Gini coefficient¹ which measures the inequality between the poor.

This index, even why it considers the income distribution to the poor, is rarely used because of the lack of intuitive appeal.

Sen- Shorrock- Thon Index

The SST is a modification made to the Sen Index. It combines HI, poverty gap index and Gini coefficient. The formula given below shows how this index measures poverty:

Equation 5 Formula of Sen-Shorrock-Thon Index

$$PSST = P0P1P(1+GP) \text{ or } \Delta \ln PSST = \Delta \ln P0 + \Delta \ln P1P + \Delta \ln (1+GP)$$

The second equation can be determined as a change in the SST index is equal to the changes of the HI, changes of the poverty gap index and the change of 1+ Gini coefficient of poverty gap. (Xu & Osberg, 2001) The SST index also explain the poverty in to three different aspects: the first one explains if there are poorer, the second one explains if the poor are poorer and the last one says how deep the inequality to the poor is. This index is not analytically used because it is very complicated.

2.3. Literature Review

Even why the poverty reduction is one of the main aims of each country in the world, it still results present in developing and developed countries. Someone can define the poverty as the absence of possibilities to have one of the latest Smartphone, meanwhile someone else terms it as the absence of the drinking water. From these different point of views, the term poverty creates some different perceptions. Poverty definition differs in time and from one place to another.

¹ Gini coefficient varies between 0 for perfect equality to 1 for perfect inequality.

There are some studies done related to the changes of the poverty concept through the different countries. One of these studies is the one performed by Banerjee and Duflo (2007) for 13 different countries. According to their study, in some of the selected countries, the families that belong to the poor society have televisions while in other countries such as India, none of the families that lives in poverty have television. Another important result of study is the reasons of the expenses these countries do. In the countries who live with less than 1\$ per capita per day, the people spend more than 50% of their income to buy food. (Banerjee & Duflo, 2007)

The widely used definition for the poverty is that of World Bank, which defines poverty as the absence of the abilities to complete the basic economic needs. Poverty, despite the lack of the economical factors, includes even the non- economical factors such as the absence of the opportunities to be educated, to be healthy or to use different health or infrastructure services, etc.

From numerous studies it is concluded that children are the most delicate part of the society that can be easily affected by the poverty phenomenon. (Brooks-Gunn & Duncan, 1997) Mainly, the children that live with single, young age or with low level of education mothers are more affected. Some of the most common consequences of children who live in poverty are bad education, malnutrition, lack of health care and many other similar services, etc. According to studies made by the World Bank, LDCs have a higher number of under-five children mortality rate than developed countries. (Olinto, et al, 2013) This is because of the mothers' malnutrition during pregnancy or during they breastfeed the children, children malnutrition and the lack of health care. This strengthens the fact that poverty affects mainly the children rather than other society members.

Poverty is separated in relative poverty and absolute poverty which is also called extreme or severe poverty. Both of these terms are used and valuable to determine the poverty. Even though authors such as Rowntree (1901) and Orshansky (1968) take objective criteria for poverty as their point of departure in analyzing poverty, Praag et al. (1980) assume that individuals themselves are the best judge of their own situation by employing a survey to present an analytical definition of the poverty line for the European Community.

Relative poverty term varies depending on the countries that it is used. Relative poverty expresses a particular standard or minimal level of consumption which is called the fair standard of living and it shows if an individual or a group of individuals are poor compared to this standard. Relative poverty occurs everywhere and from the studies made it is noticed a growing trend of this phenomenon. (Ferreira, 2011)

Absolute or extreme poverty has to do with a depth lack of basic needs of living for humans such as drinking water, food, health, shelter and the access to get educated and be informed. This is not dependent only by incomes but also by the access to benefit from different services such as education, infrastructure, and health services, etc. (Gordon, 2005) Absolute poverty is used to express a standard of living which is equal all around the world and it shows the value of necessary resources to support a minimum level of physic and health conditions. (Chen & Ravallion, 2007)

According to Sen (1999), "real" poverty can be sensitively identified in terms of capability deprivation: deprivations that are intrinsically important, unlike low income, which is only instrumentally significant. Relative deprivation in terms of income can yield absolute deprivation in terms of capabilities. Sen thus

distinguishes between income poverty and capability poverty. Tilak (2010) states that education deprivation is itself capability poverty, and investing in education of the poor itself is reduction of capability poverty.

Ravallion (2007), in his study related to urban poverty has found that 75 percent of the developing world's poor still live in rural areas, although there are some marked regional differences. But the share of the poor living in urban areas is rising, and more rapidly than for the population as a whole. According to his observations, among those living on no more than \$1 a day, the proportion found in urban areas rose from 19 percent to 24 percent between 1993 and 2002; over the same period, the urban share of the population as a whole rose from 38 percent to 42 percent.

Tilak (2010) has presented in his paper how education can reduce poverty, through its influence on productivity and earnings, and also how poverty leads to education deprivation. He states that there is a mutual reinforcing cyclic relationship between education and income poverty, which can be broken effectively by concentrating on education development of the poor.

Hentschel et al. (2000) have combined sample survey data with census data to yield predicted poverty rates for the population covered by the census for the case of Ecuador. This method provides a more completed poverty map since according to them, Census data have the required sample size but generally do not have the required information. The study has found precisely measured poverty rates, even at fairly disaggregated levels. However, beyond a certain level of spatial disaggregation, standard errors rise rapidly. (Hentschel et al., 2000)

3. Poverty in Albania

During the transition period, Albania has faced many economic, political and social problems. One of these problems is the poverty phenomenon too. Albania is categorized as one of the poorest countries in region and in Europe and according to CIA report it is compared to an African country. (CIA, 2014) This is categorizing is found even in the comparison with the other countries. Albania is ranked as the 4th poorest country in Europe after Moldova, Ukraine and Kosovo¹.

Many governments use the direct method to gather the poverty data by using the living standard measurement survey (LSMS). Institute of Statistics in Albania (INSTAT) is using the same method. LSMS is done for 2002, 2005, 2008 and 2012 in collaboration with WB and UNDP. Therefore, since 2012 there are not accurate data related to poverty rates.

The survey used for the LSMS is composed with questions related to the demography, education, job, shelter, ownership, family's member etc. Based on the data of 2002, 2005, 2008 and 2012, the respected poverty rate in Albania was 25.4%, 18.5%, 12.4% and 14.3%. In the other hand the extreme poor in 2012 were 2.2% of population, and compared to 2008 it was increased by 1%. Compared with the previous years, the population living in poverty in 2012 was increased in both, rural and urban areas (Figure 1).

¹ Ranking is based on the annual per capita income by Gazzete Review (2016). At the Albanian case, the average of per capita income in 2015 was 4450\$.

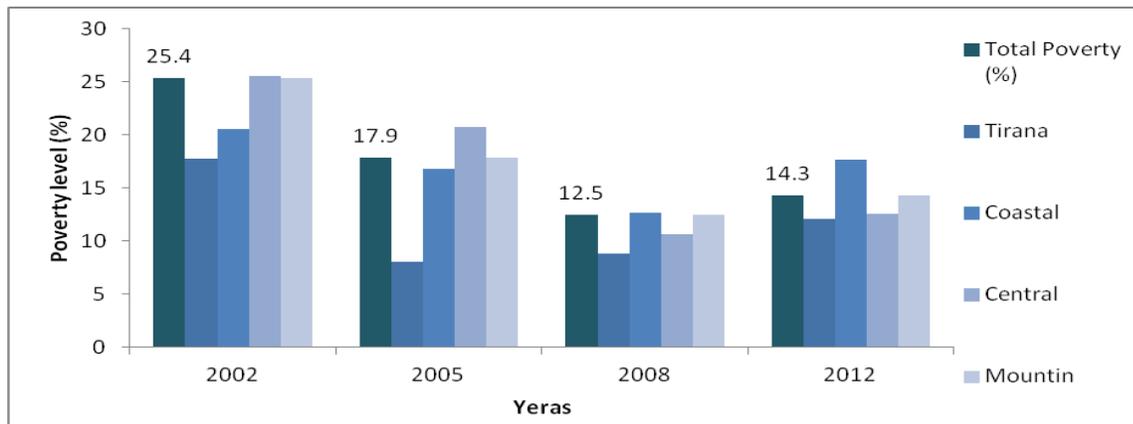


Figure 1. Percentage of population living in poverty

Source: INSTAT (LSMS 2002, 2005, 2008, 2012)

Another measure of the poverty is the Poverty Gap Index. By comparing the values of the poverty gap in 2002 and 2012, a considerable decrease of this index has happened, from 5.7% to 2.9%. If compared to year 2008 (Poverty gap=2.3%), it seems that in 2012 poverty gap is increased by 0.6% (Figure 2).

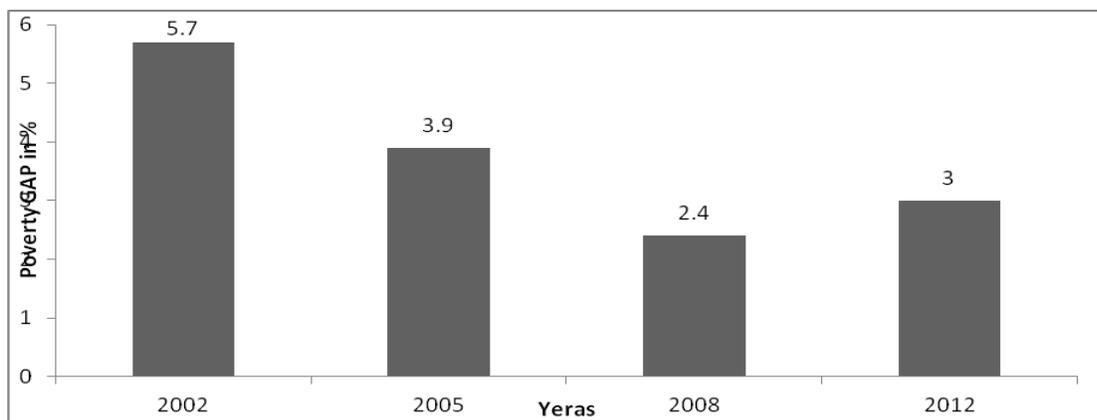


Figure 2. Poverty GAP in Albania

Source: INSTAT (LSMS 2002, 2005, 2008, 2012)

Poverty phenomenon has no border and it affects every part of a country. Rural areas are classified as all areas that are not urban, suburban or metropolitan. (Butera & Maughan, 2001) Rural areas usually are based at agriculture but not in all cases.

The rural areas are more affected by poverty but lately it is noticed an increased trend of poor people in urban areas. One of the main reasons of this trend is the migration process, many people who lived in poverty had moved to urban areas to have a better life but in many cases they have not been able to progress above the poverty line. (Cord, 2002) The studies are mainly based on poverty in rural areas because these are more exposed to the phenomenon of poverty. Even though in many cases per capita incomes have been growing year after year, the poverty remains a widespread phenomenon. According to data across the world, there are around 1.4 billion poor living on less than 1.25\$ per day, but if this value

is compared with the data of 25 years ago the number of poor people has fallen (United Nations, 2010)¹. Even why the population in urban areas and cities is increased, around 70% of the world’s poor live in rural areas. (IFAD, 2011)

Even though the poverty is spread everywhere around Albania, it is more dominant in rural areas. People living in rural areas are deprived from many conditions to achieve the minimum standard of living over poverty line. Despite the economical condition many people of rural areas do not have access to the public transport, health service, or water supply. The education in these areas is in lower levels compared to urban areas too. Poverty has particularly affected mountainous region which have lack of investments and infrastructure. In addition, high unemployment rate has been often one on the main reason of the poverty.

In Albania, around 14.5% of population live in poverty and form this group of people, around 53% of them live in rural areas. In both, urban and rural areas, the poverty percentage is decreased compared with previous years except 2008. Obviously seen, the difference between rural and urban poverty is getting smaller and smaller. For example, in 2008 the difference of poverty in these two areas was 4.5% meanwhile in 2012 this difference was only 1.7%. This is because of the migration process which has an increasing trend each year.

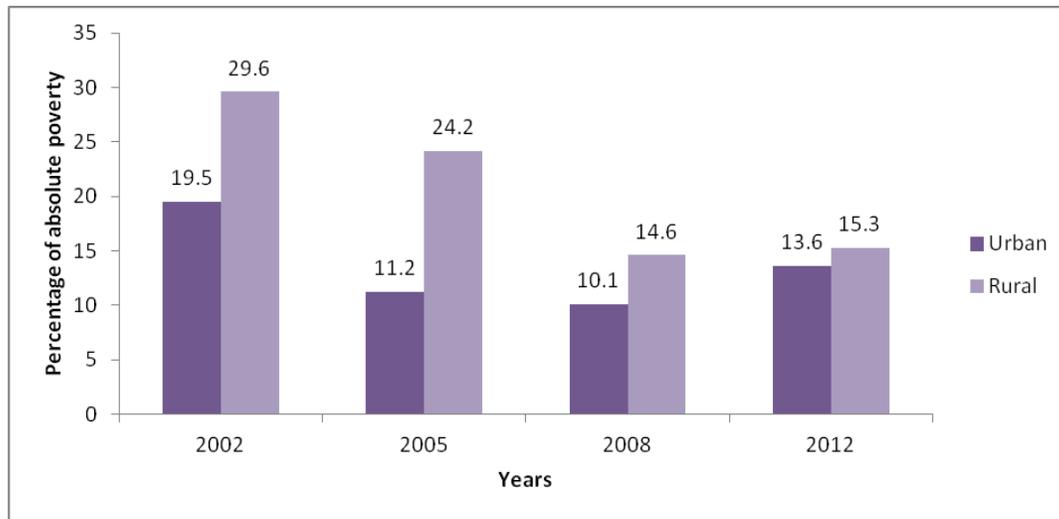


Figure 3. Comparison of absolute poverty in Albania

Source: INSTAT (LSMS 2002, 2005, 2008, 2012)

4. Data and Methodology

The measurement of a particular phenomenon or occurrence has its own difficulties and complexities. This is especially accurate if the data are determined only by taking them through primary data. Usually in developing countries, having a high number of population the ratio used for questionnaires is 1 to 5000 people, which means that one individual is selected to represent 5000 individuals of total population.

¹ According to the United Nations the number of poor who lived with less than 1.25\$ per day was 1.8 billion in 1990.

(World Bank, 2009) Based on the method used by the WB, an effective number of surveys for the Albanian case given the population around 3.000.000 people, it can be sufficient 1000 surveys. Even though, it is clear that the higher the number of data, the more accurate the study is.

Surveys of this study have been distributed in different areas of Albania which are based on the official division of the Albanian regions. The questions were based on a deep literature review and on other surveys related to poverty. They are distributed based on the number of population of each region and their cities. This is made to eliminate any possible bias that can occur during in these categories of studies. Surveys are fulfilled in four different regions based on their economic activity, average income per capita and the population number. The districts are: Coastal region, central region, mountainous region and Tirana region¹.

31.4% of surveys are distributed in the coastal region, 32.6% of the surveys are distributed in the central region, 7.9% in mountainous region and 28.1% in region of Tirana. In all cases surveys have been equally distributed among rural and urban areas. Surveys are taken randomly without concentrating in a particularly group of age. 25% of the respondents belongs to 41-50 years old group of age, 23% to 51-60 and 19% to 18-25 years old group of age. The lowest number of the respondents belongs to over 60 years old group of age.

Whereas in gender base, 52% of the respondents are males and 48 % females. The findings show that the females (17%) having the personal income lower than the poverty line is much higher compared to the number of males (7.5%). This means that the poverty rate s gender biased in Albania, emphasizing that the females are mostly affected by the poverty (Figure 4).

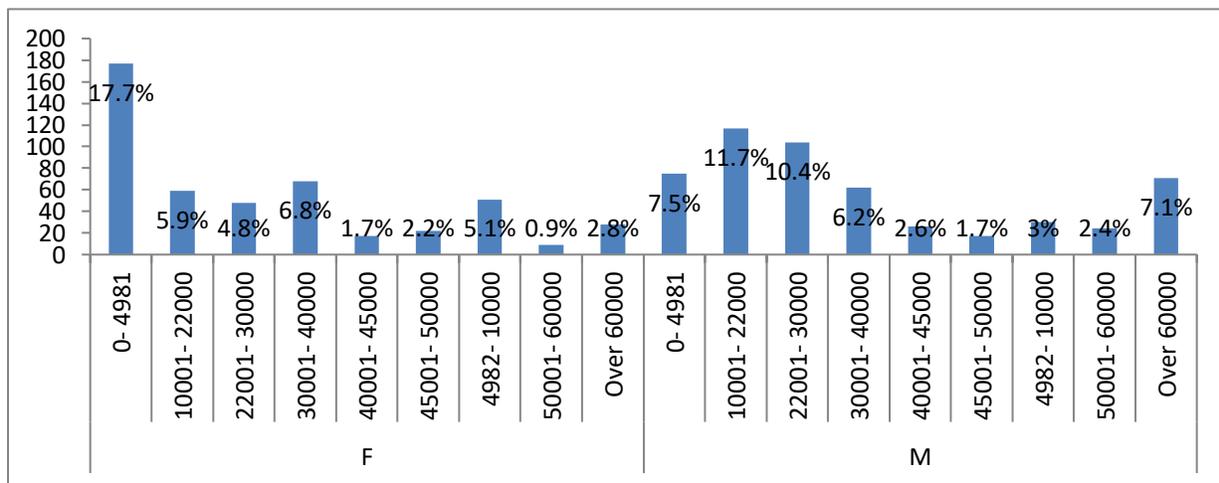


Figure 4. Monthly incomes for males and females

Source: Conducted Survey (April- June 2016)

If the personal income of the females and males are compared to the region where they live (urban versus rural) it is clearly visible that the number of females living in poverty in urban areas is higher that of those

¹ The separation is based at INSTAT data and the main cities of each district are: Coastal region: Lezhë, Lushnje, Sarandë, Durrës, Fier, Vlorë; Central region: Pogradec, Pukë, Malësi e Madhe, Shkoder, Berat, Korçë, Elbasan, Gjirokastër; Mountainous region: Kukës, Tropojë, Dibër, Bulqizë, Gramsh, Librazhd; Tirana region: Tirana and its rural areas.

living in rural areas. This could be because a considerable number of females in rural areas participate in agricultural activities where they generate some incomes (Figure 5).

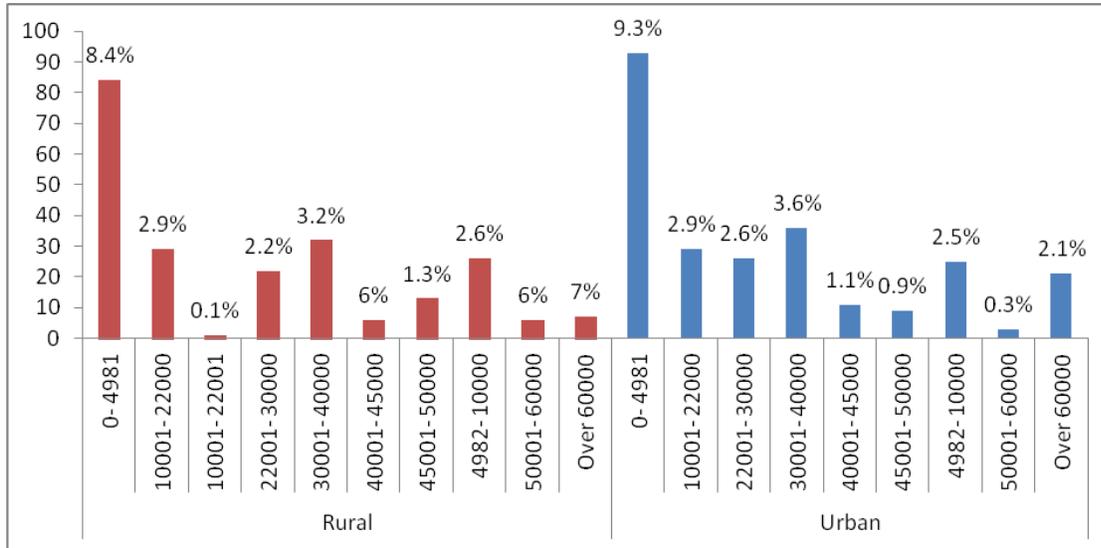


Figure 5. Incomes for females in rural versus in urban areas

Source: Conducted Survey (April- June 2016)

Unemployed number of respondents from the surveys is larger in rural areas than in urban ones. 12.8 % of unemployed people live in rural areas and 7.8% in urban region (results taken from 1000 surveys). Total number of the unemployed people taken from the analyzed data is nearly 20.3 % which is relatively higher. Unemployment is a main factor affecting the level of poverty which should be considered (Figure 6).

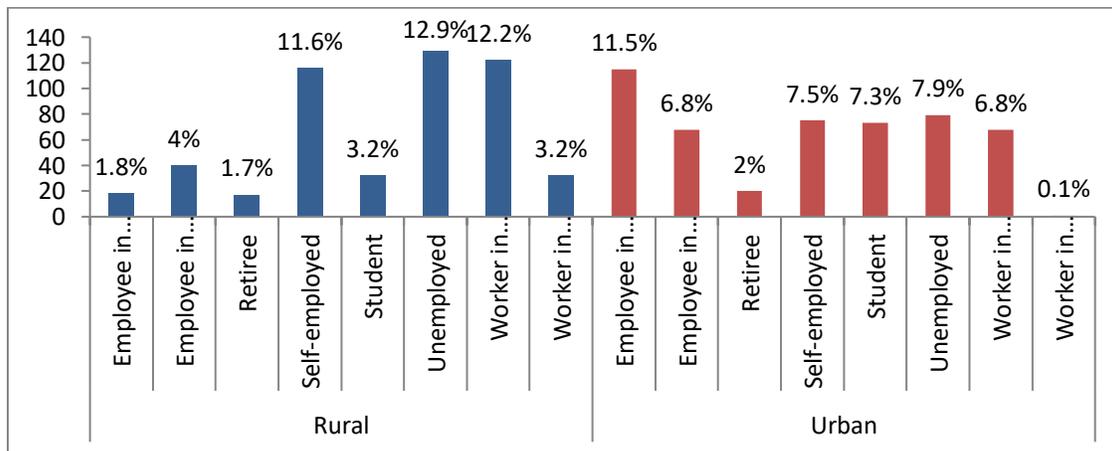


Figure 6. Comparison of unemployment rate in urban and rural areas

Source: Conducted Survey (April- June 2016)

Another question done to the interviewed people is about their shelter, if it is their property or they have rented it. From the answer the majority of people in Albania lives in their own houses or apartments, concretely only 13% of them live in rented residents and 87% have their own property. Individuals in the

study are asked if they can have any saving or not and from the responses it results that 71% cannot have any saving from their incomes and only 29% can.

The main aim of this study was to evaluate the percentage of people living below poverty line and the difference of this rate in urban and rural areas. From the survey results it is found that 25% of the respondents lives under the poverty line (Figure 7).

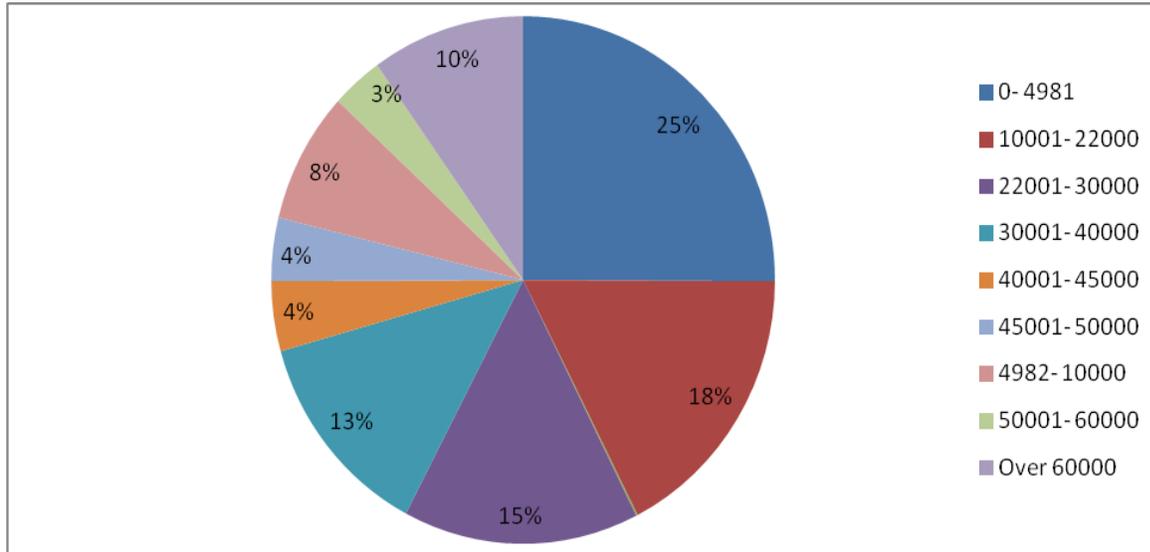


Figure 7. People living under poverty line
 Source: Conducted Survey (April- June 2016)

Analyzes performed to compare the difference of the income between the individuals living in urban and rural areas shows that people living under the poverty line are more in number in urban areas than in rural ones. This result is different from the previous performed studies done by INSTAT and World Bank for Albania. However, this result can be explained by the migration phenomenon of poor people (living under poverty line) moving from rural region to urban regions. Moreover, the analyzed data shows that the individuals having a monthly income lower than 22000 ALL is in a higher percentage in rural areas than in urban areas. It can also be mentioned the fact that in urban areas the number of individuals having a monthly income over 60000 ALL is larger. 46% of the respondents living in urban areas and only 11 % of those living in rural areas are having an income over 60000 ALL (Figure 8).

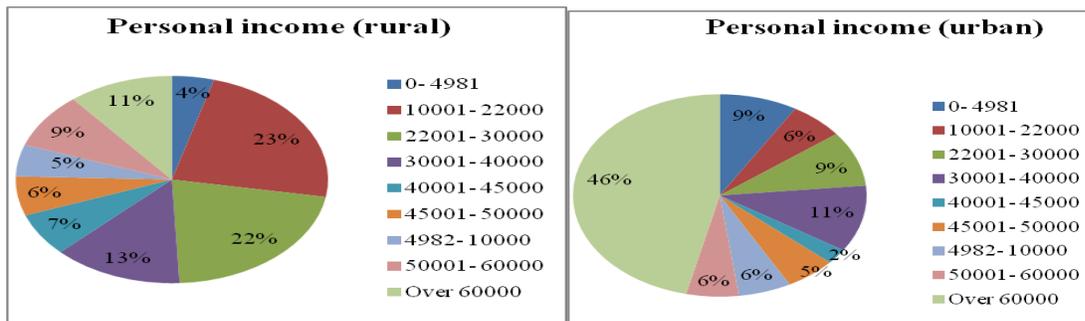


Figure 8. People living under poverty line in rural versus urban areas
 Source: Conducted Survey (April- June 2016)

Another objective of the study is to look at a correlation between education and poverty. Literature review shows that education level directly affects the monthly personal income as well as the standards of living. Based on the survey results, the number of respondents with a higher education degree (university level) have a personal monthly income over 60000 ALL (around 47% of all individuals with university degree). Whereas, the respondents with a lower education level have a lower monthly personal income. Consequently, the education level affects the level of the personal income and parallelly being one of the main factors of the differences in the poverty level (Figure 9).

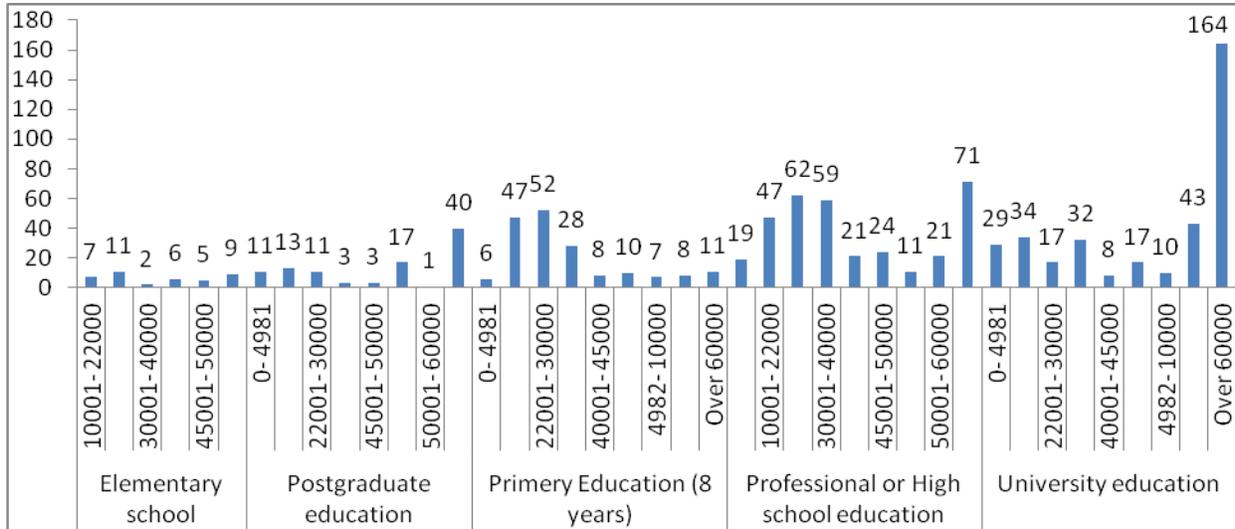


Figure 9. Effects of education level on poverty

Source: Conducted Survey (April- June 2016)

10.4% of responders living in rural areas stated that they do not have additional income except their wage, meanwhile in urban areas around 25.7% of responders do not have other incomes. The major part of individuals in rural areas has additional income from agricultural activities and economic support from family. In urban areas the majority of individuals take additional incomes from a second jobs and family support. At the same time, 9.1% of all respondents have additional income by remittances and 7.7% from private commercial activity (Figure 9).

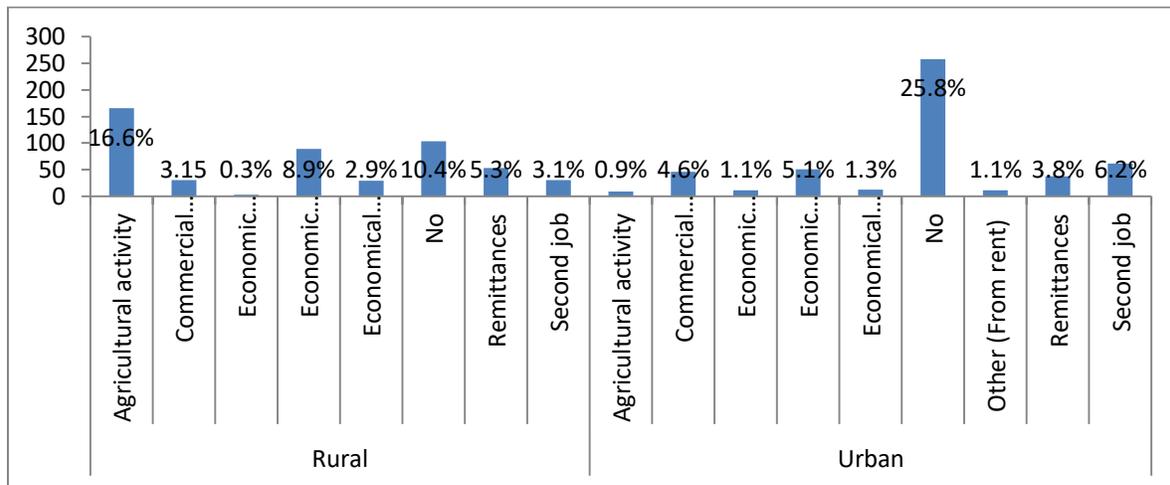


Figure 9. Additional Incomes

Source: Conducted Survey (April- June 2016)

As a last question in the survey, the responders are asked to give their opinion about the action the government should take on reducing poverty in Albania. According to data, 43% have said that government should offer more jobs to reduce the poverty level, 22% stated that the government should increase the minimal wage, 17% of them said that it should intervene to decrease basic food price, 12% of them stated that the reduction of taxes would help them and 2% of the responders stated that the government should give more economical assistances. The rest, around 4% of the responders, have expressed some other opinion not listed in the questionnaire as suggestion to reduce the poverty (Figure 10).

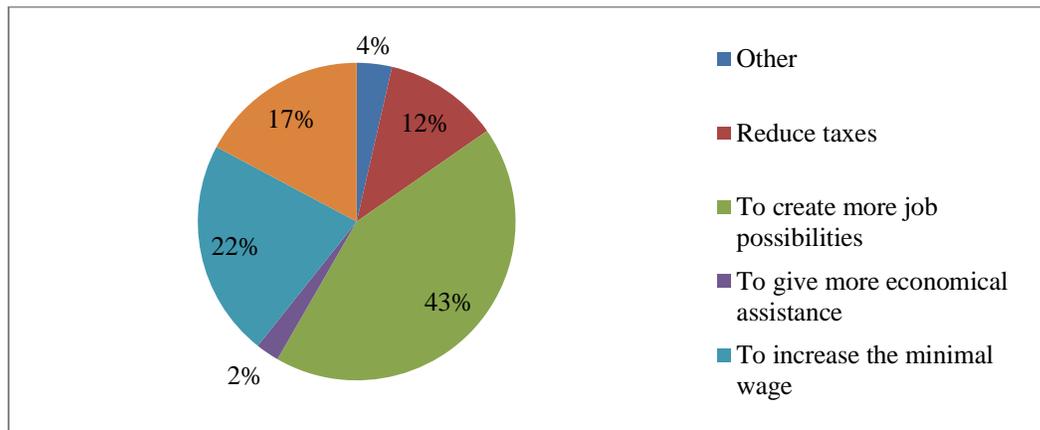


Figure 4. What should the government do to reduce poverty

Source: Conducted Survey (April- June 2016)

5. Conclusion

This study identified the poverty level in four districts of Albania, such as, Coastal region, Central region, Mountainous region and Tirana region. 1000 surveys were distributed equally among urban and rural

zones. Based on the results of the conducted survey, 25% of the population in Albania lives under poverty line. Most of the people living under the poverty line are females, because they do receive less personal incomes comparing to the males. 17% of the population under the poverty line are females and only 7.5% of this category are males. The unemployment rate seems to be one of the most important factors negatively affecting the poverty level. As so, 43% of the responders have stated that in order to reduce the poverty in Albania, government should offer more jobs. Albanian people generally own their houses but at the other side, they do not have too much saving possibilities. Additionally, the percentage of people living under poverty line are found in urban zones rather than in rural zone. The reason to such a result is because of the migration of the people from rural to urban zone, the migration from their country to a developed one and because in the rural zone people are having additional incomes from remittances and/or agriculture. Lastly, the education level seems to be a key factor of a positive push in the poverty reduction in Albania. The more people invest in their education, the higher the income level of these people is in the case of Albania.

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