



ALBANIA: TRENDS IN POVERTY

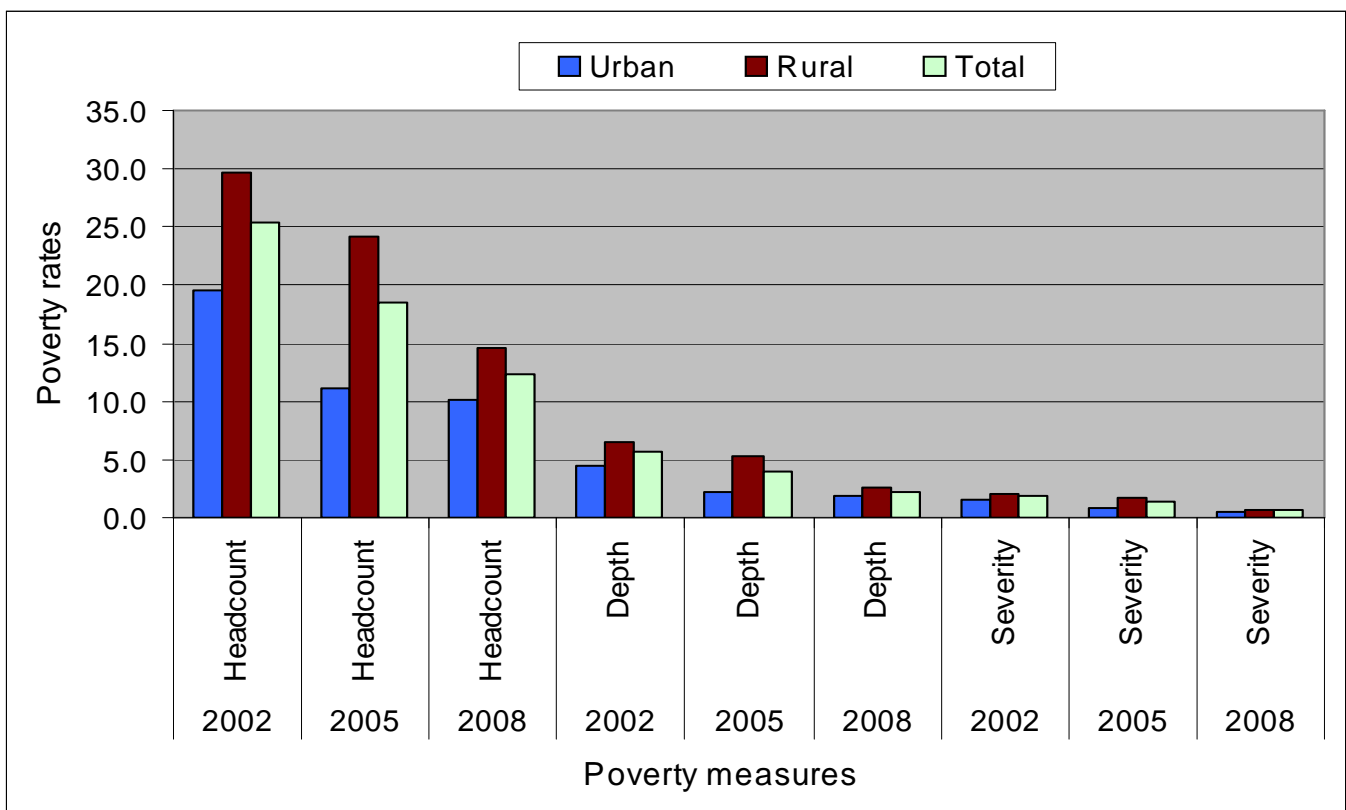
2002-2005-2008

April 2009

A. GROWTH, AND POVERTY

1.1 **High GDP growth rates, and wage and pension increases have been accompanied by a further reduction in poverty.** The fraction of the population whose real per capita monthly consumption is below Lek 4891 (in 2002 prices), fell from 25.4% in 2002 to 18.5% in 2005 to 12.4% in 2008 (Figure 1 and Table 1). This means that roughly 200,000 out of about 575,000 poor people in 2005 were lifted out of poverty. Extremely poor population, defined as those with difficulty meeting basic nutritional needs, decreased from about 5% in 2002 to 3.5% in 2005 to 1.2% in 2008 (Table A1). In urban areas, only 1.17% of the population can be considered extremely poor (Table A2).

Figure 1: Trends in absolute poverty



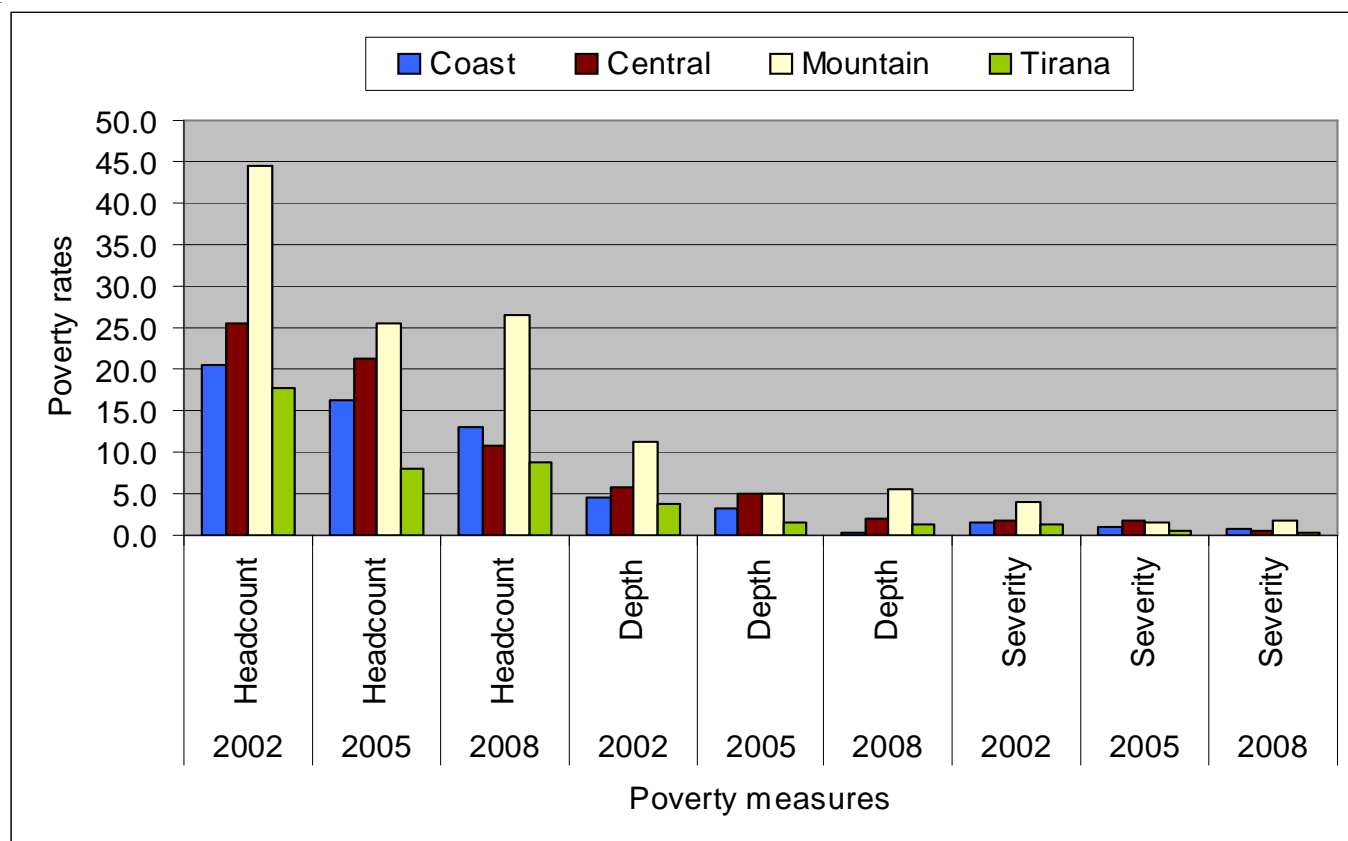
1.2 Other measures of poverty have also continued to fall sharply. Two alternative measures to headcount ratio are the poverty gap and severity of poverty. The poverty gap (sometimes referred to as depth of poverty) provides information regarding how far off households are from the poverty line. It is obtained by dividing the sum of the consumption gaps of the poor (that is, poverty line less consumption) for all the poor by the overall population, and expressing it as a percent of the poverty line. So a poverty gap of 2 percent means that the total amount the poor are below the poverty line is equal to the population multiplied by 2 percent of the poverty line. The main advantage of the poverty gap is that the contribution of a poor individual to overall poverty is larger the poorer that individual is. The second alternative measure to headcount is the severity of poverty, whose main advantage is that it is sensitive to inequality among the poor. The severity of poverty takes into account not only the distance separating the poor from the poverty line, but also the inequality among the poor. In this respect, a higher weight is placed on those households that are further away from the poverty line. Figure 1 and Table 1 show that the poverty gap fell from 5.7% in 2002 to 4.0% in 2005 to 2.0% in 2008, while severity of poverty fell from 2% to 1.3% to 0.5% in the same period.

Table 1: Trends in Absolute poverty by stratum: 2002, 2005, 2008

Stratum	Poverty measures	2002			2005			2008		
		Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Coastal	Headcount	20.2	20.9	20.6	11.6	19.7	16.2	10.7	15.0	13.0
	Depth	5.4	3.6	4.4	2.0	4.1	3.2	2.7	2.5	0.2
	Severity	2.1	1.0	1.5	0.6	1.3	1.0	1.0	0.6	0.7
Central	Headcount	19.3	28.5	25.6	12.5	25.9	21.2	10.3	10.9	10.7
	Depth	3.8	6.5	5.7	3.0	6.0	5.0	1.9	1.9	1.9
	Severity	1.2	2.1	1.8	1.2	2.1	1.8	0.6	0.4	0.5
Mountain	Headcount	24.7	49.5	44.5	17.1	27.7	25.6	14.7	29.8	26.6
	Depth	6.5	12.3	11.1	3.6	5.5	5.1	3.2	6.2	5.6
	Severity	2.6	4.4	4.1	1.1	1.7	1.5	1.2	1.8	1.7
Tirana	Headcount	17.8		17.8	8.1		8.1	8.7		8.7
	Depth	3.8		3.8	1.6		1.6	1.2		1.2
	Severity	1.3		1.3	0.5		0.5	0.2		0.2
Total	Headcount	19.5	29.6	25.4	11.2	24.2	18.5	10.1	14.6	12.4
	Depth	4.5	6.6	5.7	2.3	5.3	4.0	1.9	2.6	2.3
	Severity	1.6	2.1	1.9	0.8	1.8	1.3	0.6	0.7	0.7

1.3 Continued poverty reduction has been accompanied by significant reductions of regional poverty. Differences in poverty rates across broadly defined regions¹ have narrowed substantially compared to what they were in 2005, with the exception of the Mountain areas (Figure 2). For instance, in the Central areas, which have the largest reduction in poverty, 10.7% of the population is poor compared to 21.2% in 2005. The Coastal areas have also experienced a sizeable decrease in poverty. Compared to 2005, the percentage of the population considered as poor has gone from 16.2% in 2005 to 13.0% in 2008. Unlike the Central and Coastal areas, the Mountain areas have lacked behind, widening the distance with the other areas. The percentage of poor in the Mountain areas has experienced a negligible change from 25.6% in 2005 to 26.6% in 2008. Within the Mountain areas, the problem appears to be a rural one. Rural poverty rates across all other regions have experienced a sharp decline in 2008. In the Mountain areas, however, rural poverty has almost stayed the same. More specifically, while Mountain region's rural poverty rate was 67% higher than the national rural rate in 2002, and only 14% higher in 2005, it is now 114.5% higher (see Table 1). On the other hand, rural poverty rates for each other region in 2008 are below the national rural poverty rate ranging from 4.8% to 13.7% lower. This has been a considerable decline compared to 2005 and especially 2002 when there was a wider spread (e.g. they ranged from 20 percentage point higher to 8 percentage point lower).

Figure 2: Regional poverty trends

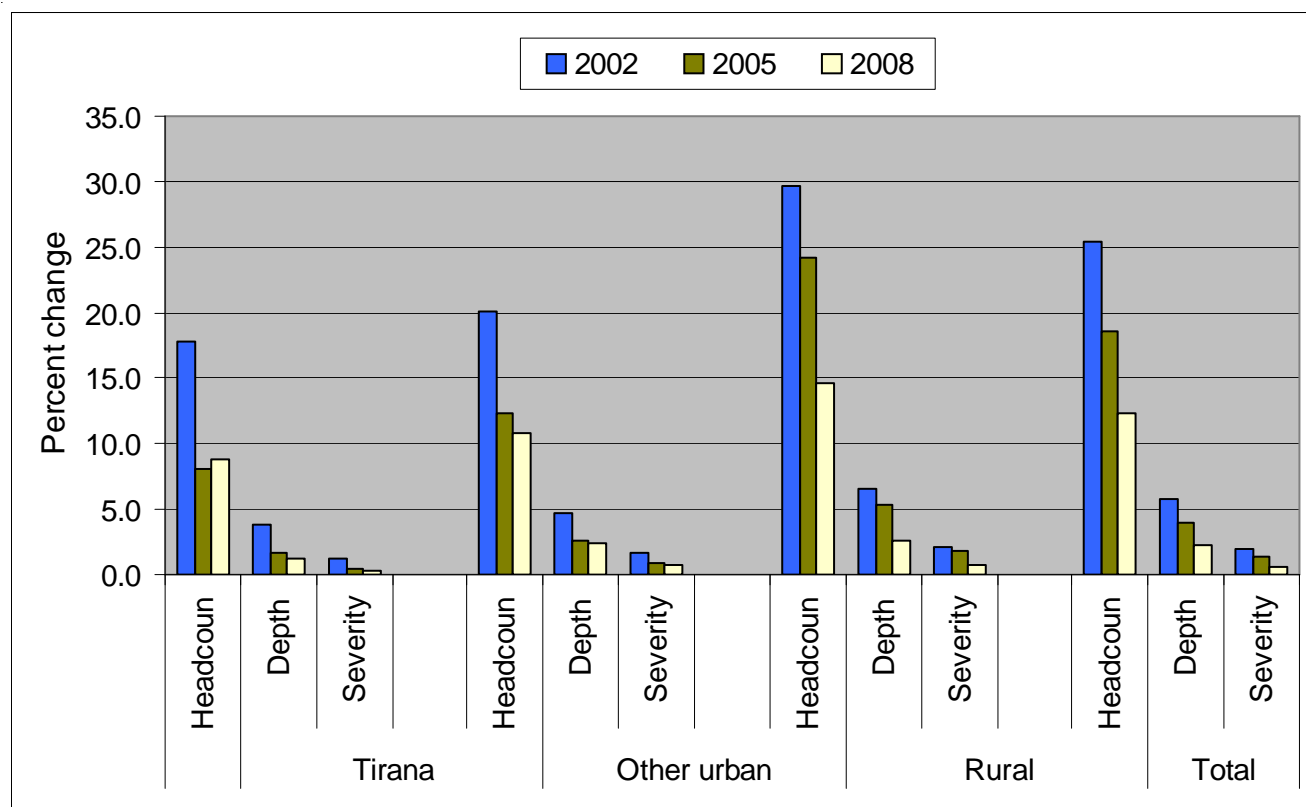


1.4 **The substantial reduction in poverty across the board was accompanied by a faster decline of rural poverty rates.** Table 2 shows that while rural poverty declined by about 47%, urban poverty went down by 1.2%, so that the headcount measure of rural poverty decreased from 24.2% in 2005 to 14.6% in 2008, while urban headcount fell from 11.2% to 10.1%. Moreover, even within rural areas, the rate of poverty reduction is significantly higher in the Central areas compared to other rural areas (Figure 3). Despite the significant reduction of poverty in the rural areas, the poor are still concentrated in the rural Mountain areas. Other measures of poverty in the rural areas have also experienced a larger decline. Although the poverty gap (depth of poverty) measure for rural areas is 2.6% in 2008, compared to 1.9% in urban areas; for rural areas, this is a reduction of 57% from the 2005 level, while for urban areas it was a reduction of 30%.

Table 2: Rates of poverty reduction in rural and urban areas

Poverty by Rural/Urban	Poverty by Rural/Urban			Change in poverty	
	2002	2005	2008	% change 2002-2005	% change 2005-2008
Total population in poverty	813,196	575,659	373,137	-29.21	-35.2%
Urban	257,690	151,811	150,052	-41.09	-1.2%
Rural	555,506	423,848	223,085	-23.70	-47.4%

Figure 3: Changes in poverty: urban and rural



1.5 Education shares of real per capita consumption have the largest increase since 2005.

Education expenditures and shares in 2008 have increased by about 57% and 53% respectively since 2005 (Table 3 and Table 4). Per capita real consumption of food in 2008 (2002 prices) has increased from 9,105 Lek in 2005 to 9,731 Lek in 2008 (Table 4). As a share of total per capita consumption, food shares have declined by 2.2% between 2005 and 2008 (Table 3). The increase in the education expenditures and shares of real per capita consumption in 2008 and the decrease in food shares of real per capita consumption indicate a higher quality of life in Albania. Once certain satisfactory levels of consumption are reached, food shares of the per capita consumption are expected to decline, since once food requirements are satisfied, individuals will use the extra income for other activities. In 2008, this seems to be going towards higher investments in education. Indeed, between 2005 and 2008, the number of students has known a significant increase in addition of a large number of private schools in the country, and an increase in the number of students studying abroad. These factors comply with the increase of education expenditures and education shares of the real per capita consumption.

Table 3: Shares of real per capita consumption

Consumption component	2002	2005	2008
Food	64.5	59.2	57.88
Non-food	19.4	24.8	22.77
Utilities	12.6	12.6	15.15
Education	2.3	2.4	3.67
Durables	1.2	0.9	0.54

Table 4: Summary of Key variables

	2002	2005	2008
Variable	Mean	Mean	Mean
Total consumption	7800.824	9105	9731
Food	4905.895	5159	5280
Nonfood	1654.973	2457	2519
Education	177.1835	275	432
Utilities	957.6875	1087	1447
Durables	105.0853	128	56

*Mean values are presented in Albanian New Lek.

B. CONCLUSION

1.6 This note looks at poverty trends in Albania. It reaches three main conclusions. First, it finds that Albania's impressive 7.1% annual real GDP growth between 1998 and 2008, along with an increase in wages and pensions between 2005 and 2008 has been accompanied by a further poverty reduction. Second, continued massive poverty reduction has been accompanied by larger decreases in poverty in the rural areas. This has come as a result of sharp reductions in poverty in the rural areas of the Central and Coastal areas. Third, even as rural poverty has significantly declined, poverty rates in the Mountain areas have experienced negligible reduction in poverty. The poor are still concentrated in the rural areas of the Mountain region. A possible hypothesis of this outcome is the creation of a poverty trap in the Mountain areas.

1.7 The important role of sustained economic growth and economic reforms, which have led to macroeconomic stability, improved governance, investments in private sector development, public provision of social services (education, health and social protection), and expanded infrastructure should continue to take place in order to maintain low levels of poverty. In addition, addressing the specific obstacles that populations in Mountain areas face, will accelerate future gains in poverty reduction.

C.APPENDIX

Table A1: Trends in Extreme poverty by Stratum:2002-2005-2008

Stratum	Poverty measure	2002			2005			2008		
		Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Coastal	Headcount	5.9	1.8	3.6	1.8	2.5	2.2	1.9	1.0	1.4
	Depth	1.2	0.3	0.7	0.2	0.4	0.3	0.4	0.1	0.2
	Severity	0.3	0.1	0.2	0.0	0.1	0.1	0.1	0.0	0.1
Central	Headcount	3.4	5.1	4.6	3.5	6.0	5.2	0.0	0.0	0.0
	Depth	0.5	0.5	0.5	0.8	0.9	0.9	1.2	0.8	0.9
	Severity	0.2	0.1	0.1	0.3	0.2	0.2	0.3	0.1	0.2
Mountain	Headcount	7.8	11.6	10.8	2.6	3.4	3.2	0.1	0.0	0.0
	Depth	1.6	2.1	2.0	0.3	0.4	0.4	2.9	3.9	3.7
	Severity	0.5	0.5	0.5	0.0	0.1	0.1	0.6	0.5	0.5
Tirana	Headcount	2.3		2.3	1.0		1.0	0.2	0.0	0.2
	Depth	0.6		0.6	0.1		0.1	0.0	0.0	0.0
	Severity	0.2		0.2	0.0		0.0	0.0	0.0	0.0
Total	Headcount	4.1	5.2	4.7	2.2	4.5	3.5	0.0	0.0	0.0
	Depth	0.8	0.7	0.8	0.4	0.7	0.5	1.1	1.2	1.2
	Severity	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2

Table A2: Trends in Extreme poverty by Urban and Rural: 2002-2005-2008

Area	Poverty measure	2002	2005	2008
Tirana	Headcount	2.3	1.0	0.2
	Depth	0.6	0.1	0.0
	Severity	0.2	0.0	0.0
Other Urban	Headcount	4.8	2.7	1.6
	Depth	0.9	0.5	0.4
	Severity	0.2	0.1	0.1
Rural	Headcount	5.2	4.5	1.2
	Depth	0.7	0.7	0.2
	Severity	0.2	0.1	0.0
Total	Headcount	4.7	3.5	1.2
	Depth	0.8	0.5	0.2
	Severity	0.2	0.1	0.0

(Footnotes)

¹ It is important to bear in mind that these broadly defined regions are not the same as administrative regions – commonly referred to as prefectures. Rather, these are areas that have been grouped together because they share similar geographic contiguity and endowments. There are four such areas defined for survey purposes, while there are 12 prefectures.