
METHODOLOGICAL AND THEORETICAL CONCEPTS OF POVERTY IN ALBANIA

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Abstract

Living standards, poverty and wellbeing, were measured until 2012 using the Living Standards Measurement Survey (LSMS). In 2016, INSTAT presented a new method of calculating these indicators. Until 2012, poverty measurement was based on determining the absolute poverty line based on consumption expenditures. From 2016-ongoing, poverty will be measured based on the relative line and the equivalent household income.

The purpose of this article is to inform about methodological changes occurred. Taking into account the methodological changes, the information and results is expected to be different; the range of indicators will be wider, focusing on monetary and non-monetary estimates of poverty and comparable to other EU-countries. The analysis is focused on narrative and informative explanations for the new methodology involved in INSTAT activities.

KEY WORDS:

Income; Living standard; Poverty; Relative poverty line

1. INTRODUCTION

The Living Standard Measurement Survey (LSMS) is the only source of information to measure the living standard, poverty, and wellbeing of Albanian household until 2012.

This survey collects a series of monetary and non-monetary indicators, bringing a variety of information to different users, and provides a necessary tool for policy maker and strategies. LSMS was conducted for the first time in 2002, followed by two other surveys every three years, respectively in 2005, 2008 and 2012 (INSTAT, 2013). Through LSMS it is tended to measure poverty by consumption expenditures and using the absolute poverty line. LSMS data are widely used by different users inside and outside the country. From year 2016 in the activities of INSTAT was included the Income and Living Conditions Survey (SILC). SILC measures poverty based on total income of individuals or households and uses the relative poverty line. The SILC methodology is based on the Eurostat methodology and is comparable with EU countries (Eurostat, 2017).

2. METHODOLOGY OF CALCULATING POVERTY

2.1 METHODOLOGY OF CALCULATING MONETARY POVERTY BASED BY HOUSEHOLD CONSUMPTION EXPENDITURES.

For the first time, the poverty based on the consumption expenditures was carried out by the LSMS in 2002. The data of this survey were representative at four regions and by urban and rural area¹. Other LSMS surveys conducted in 2005 and 2008 followed the same methodology. In 2012, in order to have more representative (from 4 Regions to 12 Prefectures), was increased the number of selected households in the survey. The results of this survey give a clear picture of expenditures, living conditions and poverty.

The LSMS calculates poverty by taking in consideration the necessary expenditure to provide food products and an expenditure level of non-food basic necessities. In this way is calculated the absolute poverty line. For the calculation of the monetary poverty line it is used the methodology of "Cost of Basic Needs" (Ravallion and Bidani, 1994). The poverty level is calculated using the food basket

consumed by the individuals in the second to the fourth lowest deciles.

Taking into consideration the FAO² recommendations on the minimum calorie requirements according to age and sex, and adjusting these to the population distribution in Albania in 2001 (INSTAT, Census, 2001), it was estimated that the per capita required calorie intake was set at 2,288 calories per day.

The non-food component of the poverty line was calculated, taking into consideration the percentage of non-food expenditure of those households that spend for food consumption an amount approximately equivalent to the food poverty line. The food poverty line or extreme poverty line was set at 3,047 ALL per month, whereas the poverty line has been set at 4,891 ALL per month at constant prices (2002).

All the calculations done in 2005, 2008 and 2012 surveys have as base line the year 2002. For this reason, all results are deflated to bring the real values, which mean that they are cleaned from the influence of the price changes in the respective periods.

To calculate the total poverty line, first is calculated a food poverty line, or the cost of obtaining a certain minimum amount of calories, and then augments it by making an allowance for non-food basic necessities. The non-food component is calculated as the average of non-food share expenditures of households, assuming that they spent for food roughly the same amount as the food poverty line.

2.2 METHODOLOGY OF CALCULATING MONETARY POVERTY BASED ON HOUSEHOLD INCOME

In 2016, for the first time in our country was conducted Income and Living Conditions Survey. The main purpose of this survey is to study the living conditions of households mainly related to their incomes both at national and European level. This survey is a basic source for generating comparable statistics on income distribution and social exclusion at European level. The EU-SILC survey is implemented in all EU member states on a regular annual basis. Income, social inclusion and living conditions statistics cover the objective and subjective aspects of these topics in both monetary and non-monetary aspects for households and individuals. The expected results will provide comparable statistics to other countries and will

¹ <http://instat.gov.al/en/themes/social-condition/living-standard-measurement-survey/#tab4>

² Food Agriculture Organization

help the country with reliable data in the area of poverty, social exclusion, and household income, helping in anti-poverty policies.

EU-SILC survey provides two types of annual data:

- Cross-sectional data pertaining to a given time or a certain time period with variables on income, poverty, social exclusion and living conditions
- Longitudinal data pertaining to individual-level changes over time, observed periodically over a four-year period.

Since the SILC survey contains panel data, the sample each year consists of 4 rotational groups, which have been in the survey for 1-4 years. Any rotation group remains in the survey for 4 years; every year one of the 4 rotational groups from the previous year is dropped and a new one is added. According to the methodology for measuring poverty, the poverty line is calculated with its relative concept (poor in relation to others) and is defined at 60% of the median of total equivalised disposable income of the household (disposable income per person), using the modified OECD equivalised scale. Total equivalised disposable household income is considered the household net income (that is, income after taxes, social and health contributions) from all household members.

Through SILC, equivalised disposable income of the individual is considered the total disposable income of the household after being divided using the modified OECD equivalised scale.

It is pointed out that in the income distribution per person it is suggested that each member of the household possesses the same income, i.e. the equivalised disposable income of the household. This means that each member of the household has the same standard of living. Consequently, in the income distribution per person, the income that is attributed to each person does not represent wages but, actually, an indicator of living conditions. All income values are calculated annually and are aggregated at household level.

The SILC methodology is complex and takes into account the same form of calculation as referred to Eurostat guideline (Eurostat, 2017). However, adjustments and changes are realized regarding the specifics of the country conducting the survey. This relates to the calculation of gross and net income where the taxation and insurance system changes, or other specifics related to transfers, social payments and pensions. Equivalised disposable income is calculated as the total disposable income of the household divided by its equivalent size.

Equivalent household size refers to the OECD (OECD, 2008) modified scale and is calculated taking into account the number of adults in household (14 years and over) and children under 14 years old. The first adult of the household, 14 years old and over is counted as 1.0 person; other persons aged 14 or over are counted 0.5 persons and every household member who is 13 years old or younger is counted as 0.3 persons.

The function for the weight in the household size is:

$$W_{OECD} = 1A + 0.50A + 0.3CH$$

The income of a household with two adults and two children under 14 years old is divided with a weight of $1 + 0.5 + (2 \times 0.3) = 2.1$; of a household with two adults is divided with $1 + 0.5 = 1.5$; of a household with two adults and two children above 14 years old is divided with $(1 + 0.5 + (2 \times 0.5)) = 2.5$, etc. Disposable income of the household is divided by the equivalent size of the household, obtaining equivalised disposable income per person and ranking from the lowest value to the highest value.

From EU-SILC the poverty line is calculated by taking into account what is known as the relative poverty line widely used as the official poverty line for measuring poverty in European countries, 60 percent of the median of the equivalised disposable income per person.

In this way, people who fall below the poverty line are defined as individuals whose equivalised disposable income is below the poverty line. This is also the monetary poverty line.

3. COMPARABILITY BETWEEN SILC AND LSMS

There are a number of differences and methodological differences in the two surveys that normal bring different expectations in variables and indicators, as shown in Table 1.

Table 1: Comparability SILC vs. LSMS

	LSMS	SILC
Sample	Representative in 4 Regions and the last survey at 12 Prefectures	Representative in 12 Prefecture and 3 Regions
	No panel survey	Panel survey
	Cross sectional	Cross sectional and longitudinal
Questionnaire	Household questionnaire and individual questionnaire for all members (except employment and communication section)	Household questionnaire and Individual questionnaire for all household members 16 year and over
	Standard and comparable in years.	Standard for core variables. Comparability of variables and individuals. A new module every year
Monetary Poverty	Absolute poverty line based in household consumptions	Relative poverty line based on equivalised income
Non- monetary Poverty	Unmet Basic Needs	Material Deprivation
Periodicity	Every three years	Every year
Comparability	Not comparable with EU countries	Comparable with EU countries

4. CONCLUSION

There are significant changes in the design, sampling, calculation methodology, and indicators produced by both sources. The SILC survey will be an innovation and a wide information source, enabling comparability over the years, as well as with European countries.

The two sources of information do not have comparability because through LSMS is calculated the absolute poverty line and through SILC is calculated the relative poverty line. Both surveys are multidimensional for the variety of indicators and for the information they collect.

The purpose of both surveys is to calculate wellbeing, living standard and poverty. However, different users using these two sources should consider that there is no comparative basis between them. Changes in methodology are essential and produced indicators, such as absolute and relative poverty, are two different concepts, although both measure poverty.

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