

# POVERTY AS A RESULT OF TRANSITION IN WEST BALKAN COUNTRIES

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**Abstract**—West Balkan region gathering Serbia, Montenegro, Albania and Bosnia and Herzegovina is a region with more than 14 millions inhabitants. In past twenty years this region had dramatic changes, from central-planned, communist regimes toward democratic societies. Unfortunately these changes were followed by civil war in former Yugoslavia, leaving problems of poverty and social exclusion very visible. The region of the West Balkans contains more than 2 million unemployed, while the total number of the poor has been on the increase since the second half of 2008. The aim of this paper is to present the scale of poverty and its causes together with the current situation and trends in the West Balkans area.

**Keywords**—West Balkan, Poverty, Financial Crises, Unemployment, Social Exclusion.

## I. INTRODUCTION

EACH country utilizes the line of poverty corresponding to its level of development, social norms and values. However, when poverty is evaluated on global scale, the chosen poverty line must be universal for all countries and expressed in a common unit of measurement. The World Bank has used two international poverty lines for a long time: the lower line, which was defined at \$1, and the upper line that corresponded to \$2 per day per person. Recently, the extreme poverty threshold was raised from \$1 to \$1.25 a day which corresponds to standards of the world's poorest countries. The \$2 a day line still applies for the medium income countries and regions such as Latin America and Eastern Europe. A natural and simple measure of poverty is the head count (HC) or the proportion of the poor in total population of a country, so-called head count ratio (HCR).

Here, the number of the poor is defined as the number of individuals (i) whose income is lower than poverty line ( $y < p$ ). If:

y is income (or consumption),  
i is any individual in a society ( $i=1,2,\dots,n$ ),  
p is poverty line, and  
m is an average income.

Then the poverty ratio is calculated according to the following formula:

$$HCR = \frac{HC}{n} \quad (1)$$

where n is total population.

This method of measurement is widely used as it is simple and easy to calculate. In certain respects, however, it is deficient. Firstly, when the number of poor or poverty ratio is calculated no information is obtained relative to the degree in which the individual income falls below the poverty line. Furthermore, it fails to display any differences in income among the poor although individuals further below the poverty line are known to be 'poorer' than those closer to the line. In order to assess the depth of poverty the measure of deviation of an average income (or consumption) from the poverty line is used. When the average income (or consumption) is divided by the average income (or consumption) of the society the poverty gap ratio (PGR) is obtained, or:

$$PGR = \frac{\sum_{y_i < p} p - y_i}{n \cdot m} \quad (2)$$

The analysis of the level of poverty in West Balkans countries primarily applies the above mentioned indicators, based on the data of the national statistics bases.

Following this approach, Ravallion, Datt and van de Walle (1991), in research for the 1990 *World Development Report* compiled data on national poverty lines across 33 countries and proposed a poverty line of \$1 per day at 1985 Purchasing Power Parity (PPP) as being typical of low-income countries. They estimated that one third of the population of the developing world in 1985 lived below this line. Since then the Bank's researchers have updated the original estimates of global poverty measures in the light of new and often better data. The estimates done for the 2000/01 *World Development Report* (World Bank, 2000) used an international poverty line of \$1.08 a day, at 1993 PPP, based on the original set of national poverty lines (Chen and Ravallion, 2001). In 2004, about one in five people in the developing world—slightly less than one billion people—were deemed to be poor by this standard (Chen and Ravallion, 2007).

The aim of the paper is to analyze level of poverty across the region using data from National Bureaus of Statistics, bringing conclusion about current situation in West Balkan countries as a result of transition process. Data from national sources are useful because after 2002 all countries modify their methodology to EU statistical

practice. Hence, it is possible to make comparative analyze using "national" sources without any problems with data validation.

The paper has three parts, introduction, comparative analysis and country's poverty assessment as separate part where each country is analyzed trough poverty rate. The data are showing similar results across region, meaning that poverty rate had declined until 2008 and after, as a result of financial crisis, started to grow. Also, differences in urban and rural areas referring to poverty rate are similar, leaving rural areas with higher poverty rates.

## II. COMPARATIVE ANALYSIS AMONG WEST BALKAN COUNTRIES

The problem of poverty is evident in the countries of the Western Balkans, especially considering the fact that the economic crisis raises this problem to an even higher level. The common characteristic of all the analysed countries is the differentiation between rural and urban areas. According to an unwritten rule, poverty rate is invariably, occasionally even several times, higher in rural areas. It is consequently not surprising that increasing number of people decide to leave the countryside in order to try their luck in the big cities.

The problems faced by rural population are either not solved at all or not well enough, so that this scale of poverty represents a logical product of (in)activity of the state. Poverty is far less present in urban areas, for example only 2.6% of urban population in Montenegro is poor. The situation is a bit more disadvantageous in Serbia (4.9%), whereas in Bosnia and Herzegovina and Albania poverty rate in urban areas exceeds 10%. However, both the town and the country saw increase in poverty in 2010. The crisis equally affected both urban and rural areas of the countries at hand so that, in terms of poverty, the future surveys will show a deterioration of an already bad situation. Low educational level of rural population in all West Balkan countries is also a limiting factor.

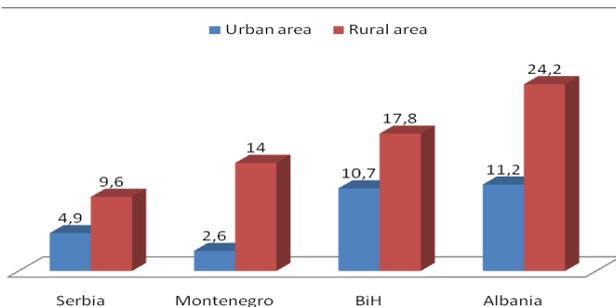


Fig. 1.: Poverty rate in West Balkan countries-differences in area, 2009

Source: Data were calculated using information from official National Bureaus of Statistics across region

Level of poverty is strongly influenced by the level of education via labour market. The access to labour market and superior work places is granted to persons with higher education, although gender differences still play

an important role in this field. The most vulnerable category comprises people with incomplete primary education, as well as those with no further education than primary. The higher the education, the lower the poverty threat. This is confirmed by the Fig. 2., below, indicating that approximately one third of the poor in the countries at hand has not completed primary school. As much as one half of the poor population have not completed secondary education, while people with college and university degrees are the least vulnerable. Consequently, only 1% of people with higher education in Bosnia and Herzegovina is poor, which percentage is slightly higher in Serbia (2.6%) and Albania (5.4%), and alarmingly high in Montenegro. There is also a correlation between poverty and the number of household members. Thus, households with large number of members (five, six or more) are more at risk. This is supported by the data regarding the countries in question. According to the data of National Bureaus of Statistics of these four countries, more than one third of the poor originates from households with five or more members.

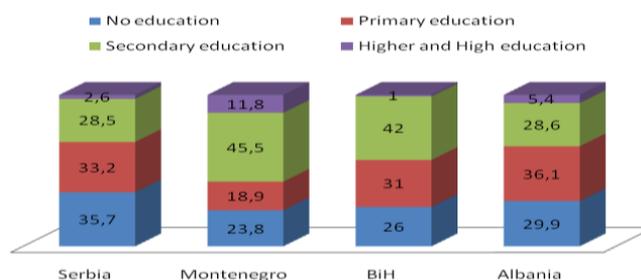


Fig. 2: Percentage of the Poor by Education in Western Balkan Countries, 2009

Source: Data were calculated using information from official National Bureaus of Statistics across region

### 2.1. Case of Serbia

The drop in the standard of living accompanied by the rise of poverty in Serbia in the last decade of the 21<sup>st</sup> century (1990-2000) is primarily a result of a steep fall in economic activities. Gross domestic product, both total and per capita in the year 2000 did not amount to half its value in the 1980s. Such a plummet in economic activity was a consequence of a decade-long political and economic crisis. The most important factor of the increase of poverty is the drop of income per capita, since inequality of income distribution has not changed either in the last decade of the 20<sup>th</sup> century or the first years of the 21<sup>st</sup> century.

In 2000-2002 period, macroeconomic stability was established, gross domestic product showed real growth (by approximately 5% a year) and real wages and other sources of income of citizens increased, which resulted in a rise in consumption and standard of living. However, to certain degree these positive results were due to adequate financial support and means obtained in the processes of state succession and privatisation. In spite of elimination of price disparity during the years of 2001 and 2002, the prices remained relatively stable, the standard of living relatively increased and poverty in Serbia decreased.

However, the poverty level has remained relatively high while exceptionally large percentage of population still borders on poverty. In 2002, Serbia started conducting the Standard of Living Survey, obtaining poverty data through internationally renowned methodology with the expertise of the World Bank. For the first time poverty in Serbia was defined with a household as the basic aggregate to measure poverty and the total poverty line for standardized four-member household was calculated at \$222 per month, that is \$72 per month per consumer unit.

Those first two surveys conducted in 2002 and 2003 [2] showed that some million people lived below absolute poverty line. In other words, 14% of the population were poor. The Standard of Living Survey supported by the World Bank was conducted till 2007 [3], when it was substituted by Household Consumption Survey. When poverty rate is concerned, the period from 2006 to 2010 can be divided into two phases. The first phase concerns the period up to the second half of 2008, when poverty rates maintained the decreasing tendency initiated at the beginning of the new century. In 2006 there was 8.8% of the poor in Serbia, which was reduced to 8.3% in 2007. The lowest poverty rate, 6.1%, was recorded in 2008. From then on, due to the influence of the World Economic Crisis, begins the second phase – the phase of poverty rate growth, which amounted to 6.9% in 2009, whereas, according to the preliminary results of the National Bureau of Statistics, it totaled 9.2% in 2010.

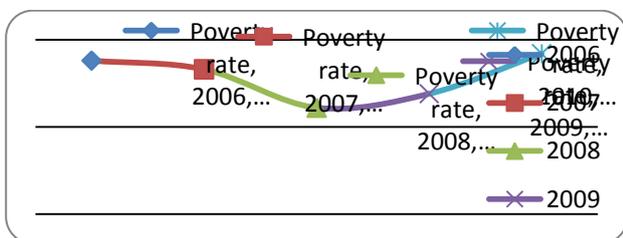


Fig. 3: Poverty rate in Serbia, 2006-2010

Source: Data were calculated using information from official National Bureau of Statistics

In terms of regional distribution of poverty in Serbia, the largest number of poor was recorded in central Serbia, while the smallest occurred in Belgrade. The Survey of the National Bureau of Statistics did not take into consideration the Autonomous Province of Kosovo and Metohia. The citizens of Serbian capital were least faced with poverty, so there was only 3.8% of the poor in 2009, which is, nevertheless, an increase in comparison to 2.9% in 2008 and 2.4% in 2007. The rise in the poverty rate in Belgrade was caused, among other factors, by the economic crisis which affected Serbia as a whole. Poverty rate in Vojvodina was 10.7% in 2006 only to show a falling trend in the following years. The problem of poverty is most acute in central Serbia, where it peaked at 9.3% of poor citizens in 2009. Poverty data for 2010 is still unavailable, but an increase in poverty is expected in all the regions.

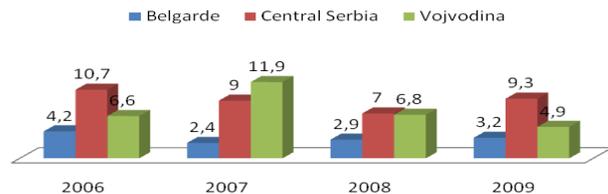


Fig. 4: Poverty across region in Serbia, 2006-2009

Source: Data were calculated using information from official National Bureau of Statistics

Poverty in children and the young is another considerable problem that Serbia encounters. As many as 9.3% of the children are poor, every ninth child. This percentage is even more alarming when we consider the fact that poverty in children in Serbia has had a growing tendency since 2008. When it comes to refugees and internally displaced persons, who were forced to leave their homes due to war operations in former Yugoslavia and the Autonomous Province of Kosovo and Metohia respectively, the situation is grave if not alarming. According to the Commissariat for Refugees assessment, there are 278,000 refugees and over 200,000 internally displaced persons from Kosovo in Metohia in Serbia. Out of this number, as many as 18,500 refugees are housed in collective centers. Although there are no valid and precise data considering poverty of these groups, it is estimated that poverty in refugees and internally displaced persons is twice as large as that of the rest of the population. It is also interesting to note that nearly half (49.2%) of Roma population is poor, but only 6.4% of Roma in Serbia live in extreme poverty.

## 2.2. The case of Montenegro

Before the proclamation of state sovereignty and independence, the Republic of Montenegro was part of the State Union of Serbia and Montenegro, which is why poverty causes in these two, now independent states, were approximately the same. Similarly to Serbia, poverty in Montenegro has two distinctive phases. The first stage is characterized by the decrease of poverty, which continued until the first effects of the World Economic Crisis. In this period, poverty rate constantly fell from 11.3% in 2006 to 8% in 2007. The lowest poverty rate in Montenegro in this period was recorded in 2008 and totaled 4.9%. The second stage is characterized by increase of poverty, caused primarily by the World Economic Crisis and the fall of all economic indicators. Thus, in 2009 there were 6% of poor, which percentage, according to the UNDP preliminary results for 2010, grew to almost 11% in 2010.

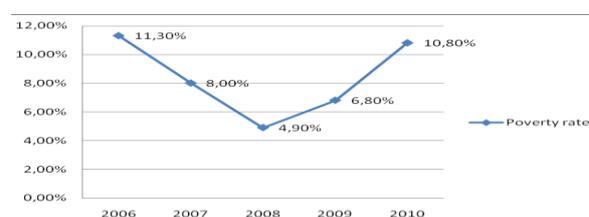


Fig. 5: Poverty rate in Montenegro, 2006-2010

Source: Data were calculated using information from official National Bureau of Statistics

When poverty is considered by regions, or areas in Montenegro, it can be observed that the northern part of the country is significantly poorer than the southern. Only 4% of citizens of Podgorica were poor in 2009, when the poverty rate in the northern part of Montenegro amounted to 13.2%. The southern, coastal part is, expectably, characterized by a lower poverty rate, resembling the situation of central Montenegro.

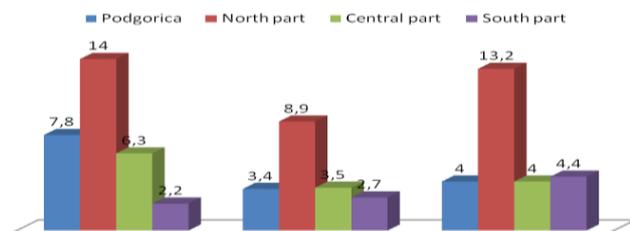


Fig. 6: Poverty across region in Montenegro, 2006-2009

Source: Data were calculated using information from official National Bureau of Statistics

The problem of poverty in children and young population under the age of 15 occurs in Montenegro as well as in Serbia. As many as 11.1% of children were poor in 2009, which is a 4% increase in comparison to the previous year. The problem is even bigger when we consider the fact that this indicator shows a rising trend. Some of the poorest households are those whose head is unemployed and poverty rate in such households amounted to 21.9% in 2009, which is a dramatic increase from 8.2% in the previous year. This can be considered as a consequence of not only the economic crisis but inadequately implemented social policy of the state as well.

On the other hand, the poverty rate in households whose head is employed was 3.9%, which is also a deterioration in comparison to the previous year when this rate was 2.7%. When households whose head is a pensioner are concerned, poverty rate in 2009 was 5.5%, which is an increase when compared to 2008, when it was 3.9%. The most unfavorable situation in 2009 was that of households whose head belonged to the category of other inactive persons, where poverty rate amounted to 19.7%. However, this is an improvement in relation to the previous year, 2008, when poverty rate for such households reached 29.2%. Moreover, it should be emphasized that individuals employed in public and private sector were least faced with the risk of poverty (poverty rate is 3.3% in public and 2.9% in private sector), while individuals employed in the sector of agriculture were far more vulnerable (14.5%)

### 2.3. The case of Bosnia and Herzegovina

In the course of the war in Bosnia and Herzegovina some 250,000 people lost their lives, while more than half of pre-war population, which counted 4.4 million people, were either internally displaced or took refuge in

exile. The war resulted in substantial damage to the country's productive as well as infrastructural capacities, severing trade channels and interrupting economic reforms. Direct material damage suffered in the course of the war is estimated at between \$50-70 billion, 15-20 billion of which concerns industrial objects[1]. In addition to that, in the post-war period, all the governments focused on implementation of the Dayton Treaty, lagging behind with reforms necessary for economic recovery and increased employment.

Due to insufficient tax revenue, the current welfare system cannot provide care for the considerable number of poor. Rights to benefits are not equal to all, so that invalids of war receive more generous and regular payments than other categories of disabled persons. Discrimination on regional grounds is also present. Contrary to other parts of the country, poor municipalities in two entities do not allocate welfare means on account of limited budget resources. The fact that social policy is defined at one, and implemented at another level additionally aggravates the problem. This is particularly evident in border municipalities of the entities which lack the basic infrastructure, not to mention welfare and care for the poor. In addition to all these problems, there is no adequate control in the process of granting the rights to benefits, so it is necessary to revise previously granted rights.

Insufficient influence on system institutions is both a consequence and a cause of poverty. The poor either do not communicate or do not know how to communicate with institutions which make decisions and allocate financial means. This reduces their chances to step out of the vicious circle of poverty and take proactive part in defining policy and measures adapted to their needs.

Poverty in Bosnia and Herzegovina is, as has already been mentioned, a consequence of war devastation and large number of refugees and internally displaced persons. Surveys on Household Expenditure were conducted in 2004 and 2007, omitting information relating to income. Consequently the source of income and income from employment remain unknown. For this reason it is impossible to compare expenditure data with income data. Shortcomings of this method of measurement do not end here, but extend to the methodology of calculation of poverty line and the fact that the Survey is conducted every three years.

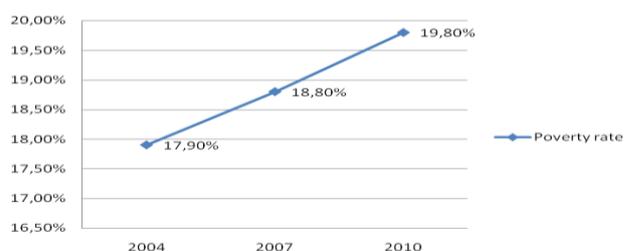


Fig. 7: Poverty rate in Bosnia and Herzegovina, 2004-2010

Source: Data were calculated using information from official National Bureau of Statistics

The Fig. 7., above, suggests that poverty increased in 2007 compared to 2004 from 17.9% to 18.6%. In 2004-

2007 period, a significant economic growth was recorded together with improvements of key indicators of the labor market, such as unemployment rate, for instance. Nevertheless, according to preliminary and still unofficial data, the growing trend of poverty rate continued in 2010, amounting to some 20%. Such poverty rate is undoubtedly a consequence of the influence that national together with the world economic crisis had on Bosnia and Herzegovina and the fall of all economic indicators. Furthermore, the results show that the poverty rate simultaneously increased in the Republika Srpska increased (from 17.5% in 2004 to 20.2 % in 2007) and decreased in the Federation of Bosnia and Herzegovina (from 18.5% in 2004 to 17.4% in 2007), which is odd, to say the least, considering the fact that economic results in the Republika Srpska are better than those in the Federation. These logical inconsistencies in official poverty data in Bosnia and Herzegovina directly result from shortcomings of the conducted Surveys.

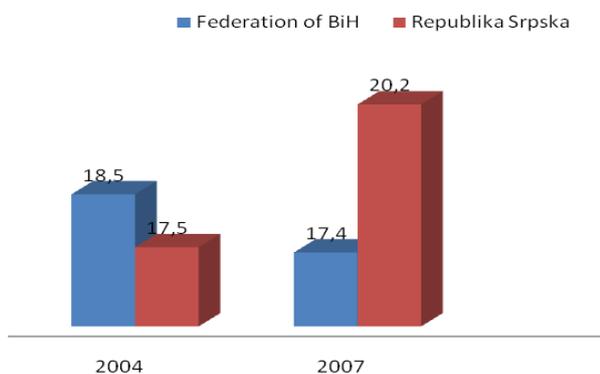


Fig. 8: Poverty rate across entities in Bosnia and Herzegovina, Source: Data were calculated using information from official National Bureau of Statistics

Poverty in Bosnia and Herzegovina has been and still remains a problem so serious that not even a rather high economic growth in the years preceding the World Economic Crisis could remedy it effectively. On this account it is necessary for the state to define and consistently implement a Poverty Reduction Strategy which would consider the real situations in entities.

### 2.3. The case of Albania

Similarly to all the other countries in the Western Balkans, Albania was faced with serious economic problems, the need for social changes and substantial instability in every aspect. However, Albania's situation is different from that of former Yugoslav republics, where economic problems and poverty were caused by the breakup of SFR Yugoslavia. This, however, does not imply that there were no problems in this country. Quite contrary, Albania is one of the poorest countries in Europe, which has, admittedly, recently made progress in many fields.

Inadequate development of the industrial sector, absence of modern equipment, unresolved property rights, shortage of energy, together with outdated and

deficient infrastructure have all contributed to Albania's disadvantageous position. These factors have led to extremely modest level of foreign investment in Albanian economy, so that almost 24% of the population lives below poverty line. According to the research conducted by the Albanian Bureau of Statistics, the World Bank and the United Nations Development Programme (UNDP), poverty rate in Albania is on the decline. Surveys conducted on three-year bases indicate that in 2002 25.4% of Albanian population were poor. Poverty decreased so that the next survey showed that poverty rate in 2005 and 2008 was 18.5% and 12.4% respectively. This is a consequence of economic growth which was no less than 7.1% in the 2005-2008 period, and totalled 6% in 2009.

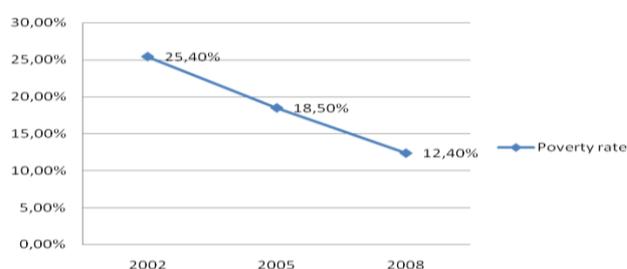


Fig. 9: Poverty rate in Albania, 2002-2008

Source: Data were calculated using information from official National Bureaus of Statistics

### III. CONCLUSION

Looking from the aspect of numbers, poverty is on the rise in the countries of Western Balkans. The World Economic Crisis has brought a positive and encouraging trend – the trend of poverty reduction – to a halt. The analysed countries cannot boast extensive means to allocate on alleviating the consequences of the crisis on common man. Poverty causes are quite similar in all the analysed countries of the West Balkans. They are all characterised by similar non-market oriented policy in the past and implementation of transition towards market oriented economy. All these countries, except for Albania, had war activities on their territories and large numbers of refugees and internally displaced persons. Poverty was just a logical consequence of the listed causes.

Until the Crisis emerged, poverty was a problem whose solution was looming around the corner. Success rate in dealing with it was high and one year after another the countries boasted increasingly smaller numbers of the poor. However, this should be taken with caution as official national data on poverty did not always match and were usually lower than those of the EU. Whether due to inadequate research and survey, or because of the desire to appear better and more successful in the eyes of the EU, the countries published unrealistic data.

The main objective of economic reforms in the Western Balkans is the creation of a modern export-oriented market economy, which relies on the private sector and is able to achieve dynamic economic growth and create numerous new jobs. In this economy, new opportunities for employment and economic growth will

be the result of increased domestic and external demand, while enhancing the competitiveness of enterprises and the efficient use of available resources. To successfully meet this goal, it is necessary that the economy has a clear ownership structure, strong system of corporate governance and better management.

Labor market is the main channel through which economic growth affects poverty. Relatively low employment rate, high unemployment and its continuous growth, large hidden employment in the private sector and low labor mobility are all present in the labor market in the Western Balkans at the moment. A major problem in the labor market is the underground economy, which leads to labor market segmentation into formal and informal market, i.e., gray market. It means, the employed in the informal economy are poor, making the most of the employees.

Based on the foregoing, it can be concluded that investment in human capital and education is one of the important ways out of poverty, since the labor market rewards higher education. In relation to employment policies, they should be based on four strategic pillars, namely:

- 1) *developing entrepreneurship,*
- 2) *improving job skills of unemployed workers,*
- 3) *improving the adaptability and mobility of the labor force and unemployment and*
- 4) *creating equal opportunities for employment of women and men.*
- 5) *increasing employment opportunities through increased education of the population, and to acquire higher and better qualifications for acquiring a higher level of education, particularly in under-educated group.*
- 6) *In both cases, investments are needed for:*
- 7) *the extension of compulsory education to nine years;*
- 8) *opening of the education system for the inclusion of marginalized groups;*
- 9) *reorganization of vocational education in line with new economic needs;*
- 10) *open system enabling adults to acquire new skills*
- 11) *It is also necessary to increase the efficiency of the education sector, through:*
- 12) *higher efficiency of education, the achievement of a higher quality of education;*
- 13) *strengthening the role of parents and students, through strengthening the capabilities of customer service in the education system;*

- 14) *considering the possibility of introducing compulsory pre-school education. This is especially important for successful inclusion of disadvantaged children in the regular education system;*
- 15) *optimizing the network of primary and secondary schools, in order to rationalize resources to free up funds for other material requirements of schools;*
- 16) *school equipment quality, ensuring effective teaching and creating the opportunity for knowledge transfer.*

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