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**Impact of Social Transfers on Poverty – Case of
Albania from SILC**

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Abstract

Governments implement social transfers as part of their social policy to support vulnerable populations and reduce poverty. They give financial support aiming to improve their standard of living and ensure support for those most affected by poverty. This paper will present some results and analysis for the impact of social transfers on poverty reduction in Albania, a country facing significant socioeconomic challenges since its transition to a market economy.

The present study is based to data from Income and Living Conditions Survey which is conducted by Albania annually from 2017 and which collect data in individual and household level. At risk of poverty is the main indicator which will be analyses for year 2022, based to the methodology of this survey and will be assessing from different perspectives. The article aims to analyse how social transfers may affect poverty reduction in Albania. In order to assess the impact, a regression analysis model of cross section data was composed by including such indicators as, at risk of poverty, social transfers, education level, gender, age household size. The analysis showed that social transfers reduce the percentage of people at risk-of-poverty.

Using data from Income and Living Conditions Survey it assesses the effectiveness of social assistance, unemployment benefits, and pensions in reducing poverty and improving living standards. This comprehensive dataset provides valuable insights into socioeconomic conditions, and the impact of social policies on society's well-being and development.

Keywords: *poverty reduction, social transfers, at risk of poverty*

1. Introduction

Poverty remains a significant challenge in Albania, despite the country's progress since the transition to a market economy. Social transfers, including cash benefits and in-kind assistance, play a crucial role in alleviating poverty. Continued investment and reform in these programs are essential for fostering inclusive growth and improving the living conditions of the most vulnerable populations.

Social welfare policies encompass all the ways in which governments engage with the market economy through taxation and social transfers to enhance overall social welfare.

These policies provide essential support to the poor, who occupy the lower tiers of the income distribution and typically have a smaller share of market income, thereby helping to improve their economic conditions through social transfers.

The purpose of this paper is to study the effectiveness of social transfers and their components, such as social assistance and pension income, in alleviating poverty in Albania. In the literature, numerous studies conducted have assessed the impact of social transfers on poverty reduction (for example Koen Caminada, Kees Goudswaard & Ferry Koster, 2021), also indicate a strong negative correlation between poverty and social transfers (Forster & d'Ercole, 2005). In this paper we will see, in first section social transfers, review of the studies with focus social transfers and poverty, some information and statistics for Albania. In the second section, this paper studies the relationship between social transfers and how is the impact of them in the main indicator at risk of poverty. The third section based on data from the Income and Living Conditions Survey for year 2022, I use logistic regression methodology to see the impact and the efficiency, of social transfers and demographic factor, (as gender, education, age, household size) in reducing poverty. The estimation for the cross-sectional logistic regression model is done for year 2022, the income in these surveys refers to the previous year incomes (N-1) (Eurostat methodology).

It aims to examine how social transfer programs impact poverty reduction and assess their effectiveness in improving the economic conditions of vulnerable populations.

Albania is considered a developing country, characterized by ongoing economic reforms and efforts to enhance social welfare. Since transitioning from a centrally planned economy to a market-oriented one in the 1990s, Albania has made significant progress in various sectors, including education, healthcare, and infrastructure. However, challenges such as income inequality and poverty still persist, prompting the government to implement policies aimed at fostering economic growth and improving living standards for its citizens.

In the literature, Social indicators are an important tool for evaluating a country's level of social development and for assessing the impact of policies (Atkinson, Anthony B. (2003)). The income poverty rate before social transfers is a key EU social indicator that measures the proportion of individuals living below a specified income threshold (set at 60% of the median income) prior to any government social benefits or transfers.

2. The concept of Social Transfers

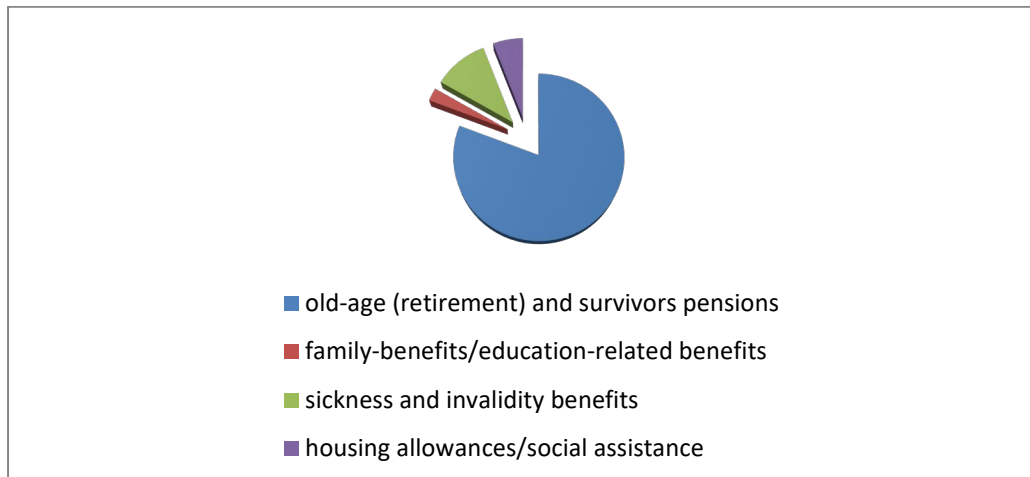
A feature of the expansion of social transfers in developing countries is their emphasis on reaching the extremely poor and the most vulnerable segments of society (Armando Barrientos, Miguel Niño-Zarazúa). This approach aims to provide essential support to those who face the greatest challenges, ensuring that resources are directed where they are needed most. By focusing on these groups, programs can effectively reduce poverty and improve living conditions, promoting greater social equity. Industrialized countries spend a large share of their income on social security, but poverty has not been eradicated (Koen Caminada, Kees Goudswaard and Ferry Koster 2010)

Social transfers are designed to support vulnerable populations and improve their living conditions. In our research, the types of social transfers included in the legislation in Albania and in the data collected from households in the Income and Living Condition Survey (SILC) which is conducted by Albania annually from 2017, are grouped under different definitions such as social assistance programs, **old-age (retirement) and survivors pensions, sickness and invalidity benefits, housing allowances**. The main categories covered by social assistance programs in Albania are detailed below:

1. Financial support provided to low-income families;
2. Direct financial assistance aimed at specific vulnerable groups, such as the elderly and people with disabilities, without any conditions attached;
3. Non-monetary assistance, including food aid and healthcare support, aimed at enhancing the well-being of those in need;
4. Monthly payments to families with children, intended to alleviate child poverty and promote education;
5. Financial support for elderly individuals, ensuring they have a stable income in retirement;
6. Support focused on marginalized groups, including the homeless and those living in extreme poverty, to help them regain stability.

Figure 1 illustrates the weights of type of social transfers, expressed as a ratio of the total transfers, based to the data from SILC 2022. This means each type's weight shows its proportion relative to the overall amount of social transfers provided.

Figure1. Type of social transfers



Source: INSTAT, Income and Living Conditions survey 2022

It is evident that pensions (with a percentage around 80%) play a major role in overall income redistribute and impact in reducing poverty rate. Studies evaluating the impact of social transfers on income inequality and poverty from a macro perspective generally find that social transfers have income inequality and poverty reducing effects. Caminada et al. (2012) The percentage of the population receiving social transfers varies widely by country and the specific social welfare programs in place, in Albania from total population, receive social transfers 24.1 % of population.

3. Social Transfers and poverty reduction

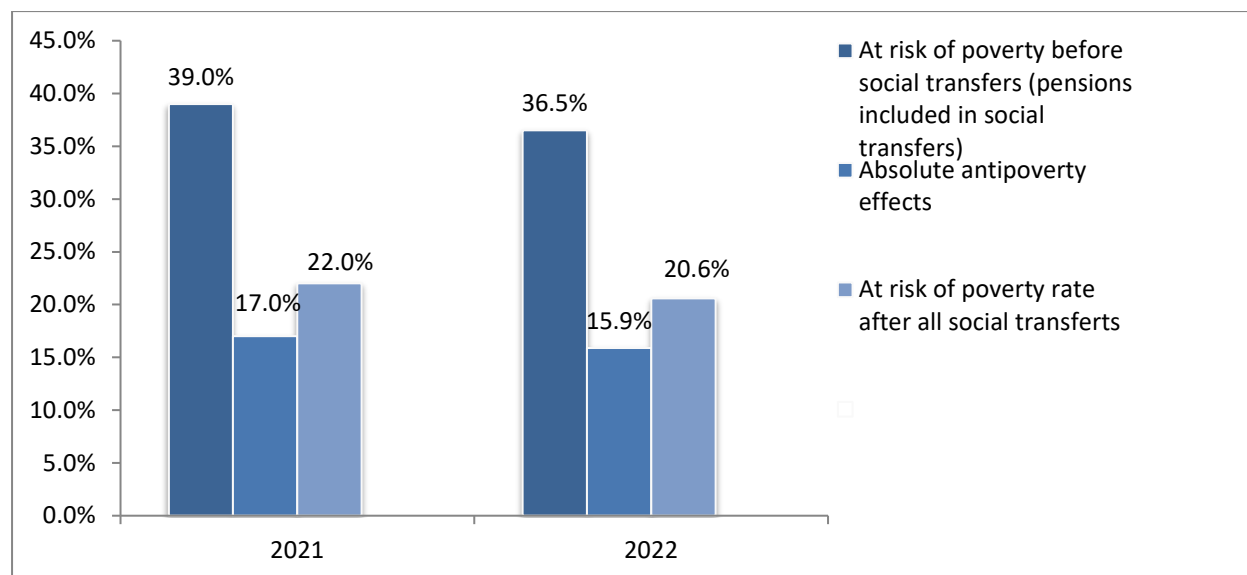
SILC survey data contain information at household and individual-level about demography, education, employment, income, social transfers. Using data form Income and Living Condition survey we will see the impact of social transfers in reducing poverty. The at-risk-of-poverty (AROP) rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers. The at-risk-of-poverty threshold for year 2022 in Albania is 225.931 All and for 2021 is 191.791 All. I used this thresholds for 2021, 2022 (60 % of median) for the calculation of the indicator at risk of poverty before social transfers (pensions included in social transfers) so pensions also excluded from the income and also at risk of poverty before social transfers (pensions excluded in social transfers) so pensions included in the income.

I have estimated both indicators to examine the impact of social transfers on the poverty.

The review of many studies has the focus on the relationship between social spending and poverty reduction (**K., Goudswaard, K., Caminda & Koster, F. 2012**). Some types of government spending have direct, immediate impacts on poverty (e.g., social transfers), while others only have more indirect, medium-term effects (e.g., health, education, and infrastructure spending) (Anderson et al., 2018). An indicator used to measure changes in the at-risk-of-poverty rate before and after social transfers is absolute antipoverty effect, which express the difference between the at-risk-of-poverty rate before and after social transfers (in percentage points) (Rasa Miežienė Sandra Krutulien,(2019). This difference provides a straightforward and quantitative measure of the absolute antipoverty effect, helping to evaluate the impact of social policies on poverty reduction. The study of **Rasa Miežienė** and **Sandra Krutulien** shown that social transfers are an effective tool for poverty reduction in EU countries also showed that social protection transfers reduce the percentage of people at risk-of-poverty in all countries. Authors **Raziye Selim, Suat Küçükçifçi** analysed the effect of social transfers on income inequality and poverty in Türkiye. The authors found that the social transfers in Türkiye have a decreasing effect on income inequality and the instruments that are effective in reducing the income inequality identified by this research was pension income.

Figure 2 show the result for data from years 2021- 2022. The graph shows lower percentages after social transfers for both years, it indicates that social policies are helping to reduce poverty also in figure 1, are shown the absolute antipoverty effects. The at-risk-of-poverty rate after social transfers in both years is decrease; social transfers are effective in reducing poverty risk.

Figure 2. Absolute antipoverty effect



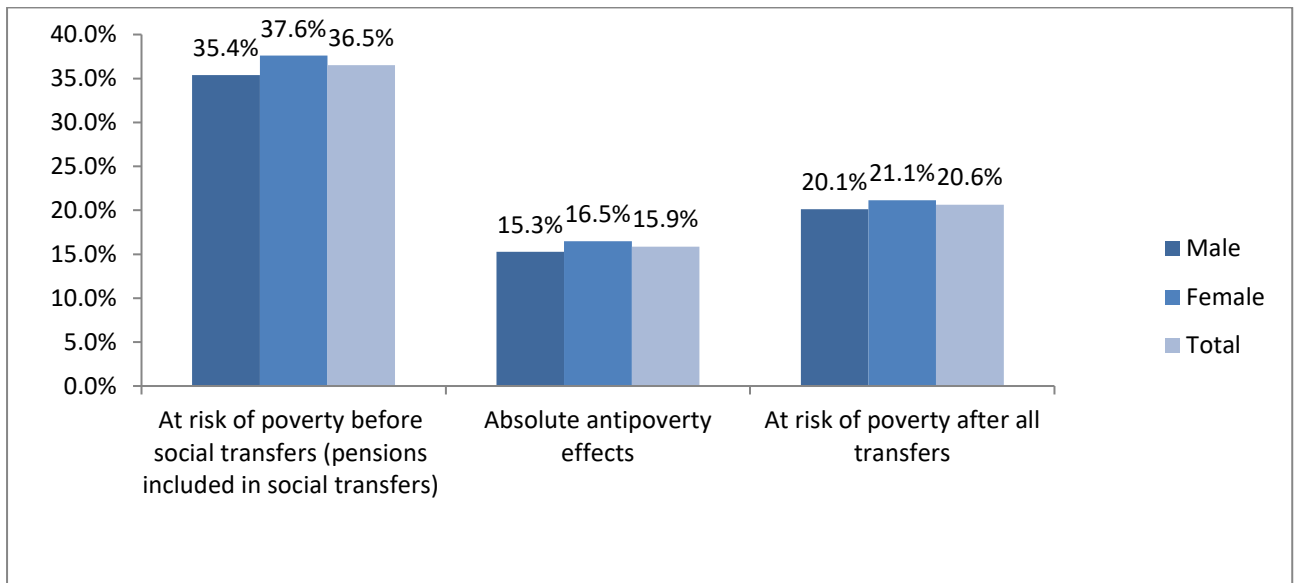
Source: INSTAT, Income and Living Conditions survey 2021,2022, Author's calculations.

4. Impact of social transfers

Poverty by demographic factors refers to how poverty rates differ among various demographic groups based on characteristics. Specifically focusing on gender, involves examining how

poverty status, before social transfers, absolute antipoverty effects and at risk of poverty after all social transfers vary between males and females and considering the implications of these differences. Figure 3 show, the lower percentage of males at risk of poverty after social transfers, compared to females, indicates that while social support helps both genders, other factor may hinder women from fully escaping poverty.

Figure 3. Absolute antipoverty effects by gender

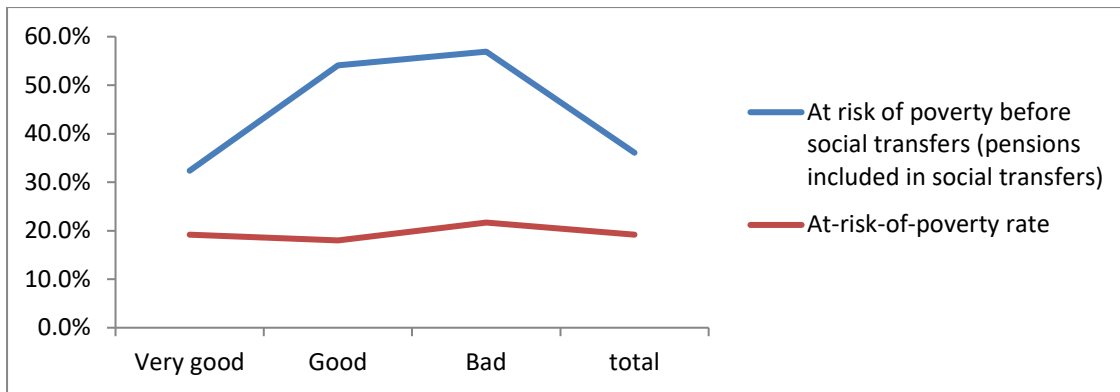


Source: INSTAT, Income and Living Conditions survey 2022, Author's calculations.

General health measured through indicators such as self-reported health status. The concept of self-perceived health is indeed subjective, as it relies solely on an individual's personal assessment of their own health status.

Figure 4 below shows the impact of social transfers on main indicators at risk of poverty by general health of individual of age 16 and over. According to SILC data 2022, is estimated general health as very good, good and bad for the population 16 and over. The impact is very high especially to the individual that has bad health condition as we see in figure 4. This means that sickness and invalidity benefits have a good impact.

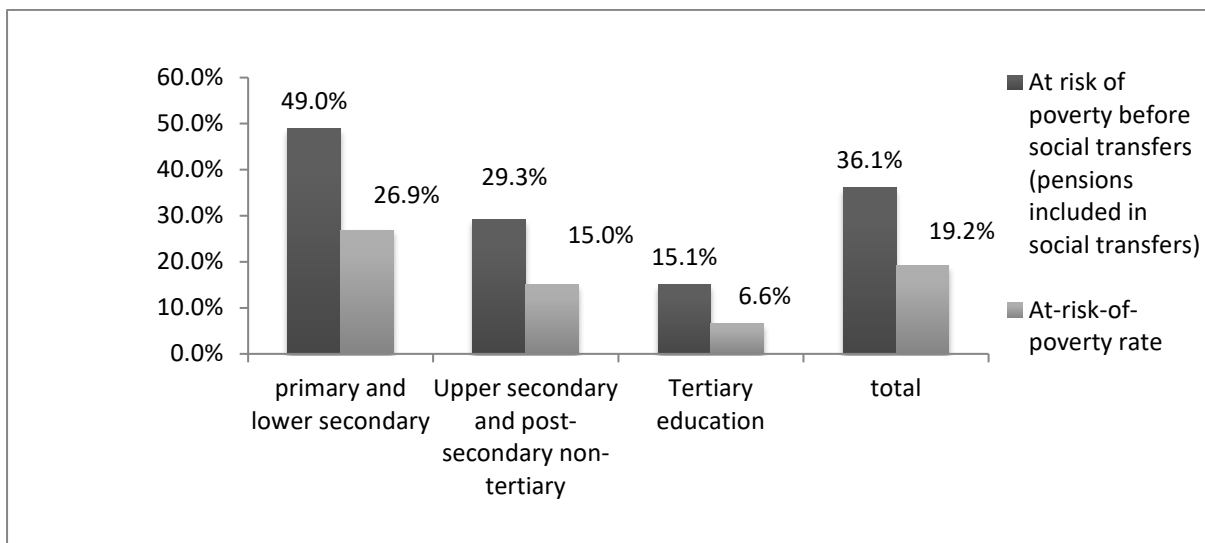
Figure 4. At risk of poverty before and after social transfers by general health



Source: INSTAT, Income and Living Conditions survey 2022, Author's calculations.

Also in figure 5 we can see and analyses how social transfers impact poverty risk across different educational categories for the population 16 and over. We identify that a higher education levels correlate with a lower risk of poverty before and after transfers.

Figure 5. At risk of poverty before and after social transfers by education level



Source: INSTAT, Income and Living Conditions survey 2022, Author's calculations.

All education levels show a decrease in the "At Risk of Poverty" percentage, it suggests that social transfers are effective in reducing poverty risk. Categories of primary and lower secondary educational as we see in figure 4, still have high poverty risk after transfers, which mean that this category need more policy intervention.

5. Regression - Estimation Results

The main indicator for social cohesion is the at-risk-of-poverty rate after social transfers. This rate is defined as the share of persons with an equivalized disposable income below the risk-

of-poverty threshold, which is set at 60 percent of the national median equivalized disposable income. To account for household size and economies of scale within the household, household incomes are equivalised using the modified Organisation for Economic Co-operation and Development (OECD) scale (assigning a value of 1 to the household head, 0.5 to any other adult and 0.3 for each child aged under14). For this study, Income and Living Conditions survey 2022 (SILC) is used as the data source, SILC 2022 covered 21795 individuals.

I apply logistic regression analysis for 2022 SILC Survey. According to the logistic regression analysis, social transfers have the effect of reducing the probability of being poor in Albania. The poor, who are at the bottom of the income distribution with a lower share of the market income, are supported with social transfers.

The estimated for the cross-sectional logistic regression model is done for year 2022. In table 1 are the variables used in first model of regression and their definitions.

Table 1 Variable and their Definitions

Variable	Definition
Social transfers	Total transfers
Education level	1=primary and lower secondary(1-2),2= Upper secondary and post-secondary non-tertiary(3-4), 3=Tertiary education(5-8)
Gender	1=Male, 0= Female
Employment status	1 Employed 0 Unemployed
General health	1-very good, 2- good, 3- bad
Age groups	1. Age group 0-17 years old 2. 18-64 years old 3. 65+
HHSIZE	Household size

The selected variables were analyzed to determine their correlation with the at-risk-of-poverty status of individuals. This evaluation involved examining the relationships between each variable. The findings of this analysis are comprehensively summarized in Table 2, which presents the correlation coefficients and highlights the strength and direction of the relationships observed. This summary facilitates a clearer understanding of how each variable interacts with the at risk of poverty, providing valuable insights for further interpretation.

Table 2 Correlation of Different Variables with Poverty Status

Variable	Pearson's Correlation Coefficient
Social transfers	-0.065
Education level	-0.181
Gender	.013
Employment status	-.150
General health	.003
Age groups	-.130
HHSIZE	.141

** Correlation is significant at the 0.01 level (2-tailed).

Given that the analysis revealed a relatively low correlation between general health and the at-risk-of-poverty status, we made the decision to exclude these variables from further consideration in our study. This choice was based on the understanding that a weak correlation suggests that general health may not significantly contribute to explaining variations in poverty risk. Consequently, we opted to streamline our analysis by focusing on variables that demonstrated stronger relationships with poverty status, thereby enhancing the robustness and relevance of our findings. This strategic decision aims to ensure that the remaining variables included in the analysis provide more meaningful insights into the factors influencing poverty.

To confirm the relevance of these variables logistic regressions were run with the selected variables as independent variables and at risk of poverty rate as dependent variables. The results are reproduced in Table 3.

Table 3 Selected Variables through Logistic Regression

Dependent Variable	At Risk of poverty rate	
	Coefficient	Standard Error
Variables		
Social transfers	-0.405	0.063
Education level	-0.722	0.032
Gender	-0.213	0.039
Employment status	-1.056	0.047
Age groups	-0.502	0.055
HHSIZE	0.143	0.012
Constant	1.127	0.154

Log pseudolikelihood	17433.939
Number of observations	21795

* Significant at one percent significance level

The results from the logistic regression show that all of the selected variables significantly explain the variations in the dependent variables, at risk of poverty rate.

The final model's equation is:

$$\textit{At risk of poverty rate} = 1.127 - 0.405*\textit{social transfers} - 0.722*\textit{Education level} - 0.213*\textit{Gender} - 1.056*\textit{Employment status} - 0.502*\textit{Age groups} + 0.143*\textit{HHSIZE}$$

For each unit increase in social transfers, the at-risk-of-poverty rate decreases by 0.405, indicating that higher social transfers are associated with lower poverty risk. Each additional level of education (e.g., moving from primary to secondary) is associated with a decrease of 0.722 in the at-risk-of-poverty rate, suggesting that higher education significantly reduces poverty risk. Gender variable is coded (e.g., 0 for female, 1 for male), then being male is associated with a decrease of 0.213 in the at-risk-of-poverty rate compared to females, suggesting gender differences in poverty risk. Each unit increase in employment status (coded, 0 for unemployed, 1 for employed) results in an decrease of 1.056 in the at-risk-of-poverty rate. Being employed significantly decreases the risk of poverty. Stable employment usually provides a regular income, benefits, and job security.

Older individuals may have more work experience, leading to higher earnings and job stability. This can reduce their risk of poverty compared to younger age groups, who may still be in entry-level positions or facing job market challenges.

For each additional person in the household, the at-risk-of-poverty rate increases by 0.143. This suggests that larger households may face greater challenges related to poverty.

Overall, the equation shows that social transfers, education level and employment status are significant factors in reducing the risk of poverty, while increases in household size and potentially lower-quality employment are associated with increased risk. Gender also plays a role, with males potentially experiencing a slightly lower risk compared to females, depending on how the variable is define.

Conclusion

The research has confirmed the findings from previous studies, a strong negative correlation between poverty and social transfers and social transfers reduce the percentage of people at risk-of-poverty. Based on the regression analysis, social transfers, education level and employment status are significant factors in reducing the risk of poverty.

Despite their positive impact, challenges such as coverage gaps, sustainability concerns, and potential dependency issues persist. Overall, social transfers are essential for fostering social inclusion and promoting sustainable development. The analysis showed that social transfers reduce the percentage of people at risk-of-poverty and this show that the social policies are efficient.

EU-SILC data provides a comprehensive framework for assessing the effectiveness of social transfers in alleviating poverty. Based on these indicators, policymakers have access to valuable information that enables them to develop and refine social policies aimed at promoting social inclusion and effectively reducing poverty levels. Overall, while challenges remain, the positive effects of social transfers on poverty reduction are evident, making them an essential component of Albania's social safety net. Social transfers reduce the percentage of people at risk of poverty.

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