



Report No. 39737-XX

# Kosovo Poverty Assessment

## Volume I: Accelerating Inclusive Growth to Reduce Widespread Poverty



October 3, 2007

The World Bank  
Europe and Central Asia Region  
Poverty Reduction and Economic  
Management Unit

Statistical Office of Kosovo  
Social Statistics Department  
Living Standard Sector

## CURRENCY AND EQUIVALENT UNITS

(as of October 3, 2007)

Currency Unit = Euro  
1 US\$ = 0.71 Euro

## ABBREVIATIONS

AE	Adult equivalent
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EA	Enumeration Areas
EAR	European Agency for Reconstruction
ECA	Eastern Europe and Central Asia
ECAPOV	Eastern Europe and Central Asia Poverty Database at the World Bank
EU	European Union
EU-8	Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia
HBS	Household Budget Survey
HH	Household
HIES	Household Income and Expenditure Survey
IMF	International Monetary Fund
KDSP	Kosovo Development Strategy and Plan
LIC	Low-income countries
LSMS	Living Standards Measurement Survey
MIC	Middle income countries
MLSW	Ministry of Labor and Social Welfare
PA05	Poverty Assessment 2005
PEIR	Public Expenditure and Institutional Review
PISG	Provisional Institutions of Self Governance
SEE	South Eastern Europe
SIDA	Swedish International Development Cooperation
SOK	Statistical Office of Kosovo
TWGs	Technical Working Groups
UNMIK	UN Mission in Kosovo

## **ACKNOWLEDGEMENTS**

This report is a joint production of Statistical Office of Kosovo staff in the Household Budget Survey unit comprising Bashkim Bellaqa, Bekim Canoli, and Emina Deliu and World Bank technical team comprising Andrew Dabalen and Anna Gueorguieva, supported by Sasun Tsurunyan and Shpend Ahmeti. The report has benefited from the support of UK's Department for International Development which has generously funded the Trust Fund to support the capacity building and analytic activities of the Western Balkan Programmatic Poverty work.

The report would not have been possible without the very close involvement and support of the Social Statistics Department of the Statistical Office of Kosovo.

The team graciously acknowledges the analytic work of the IMF (Macro statistics), EAR and Ministry of Agriculture of the PISG, SOK and Vllaznim Bytyqi (Migration).

The team has benefited from the comments and guidance of Peter Lanjouw (Peer Reviewer), Pierella Paci (Peer Reviewer), Asad Alam, Ardo Hansson, Elisabeth Huybens, Felix Martin, and Kanthan Shankar. The team is grateful to Julian Lampietti, Ruslan Yemtsov, Kinnon Scott, Gero Carletto, Marcus Goldstein, Gabriel Demombynes, Juan Munoz, and Johan Mistiaen for excellent comments and suggestions.

The production of this report benefited enormously from the excellent editing skills of Susana Padilla.



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## EXECUTIVE SUMMARY

1. About 45 percent of the population in Kosovo is poor, with another 18 percent vulnerable to poverty. The persistence of poverty levels in the first half of this decade is not surprising within the context of prevailing macro-economic conditions characterized by slow growth, low incomes and tight expenditure constraints. Without the safety net provided through migration and remittances, the welfare of a large fraction of the population would have been even worse. However, the good news is that poverty is shallow in the sense that many people are just above or just below the poverty line. The shallowness of poverty also implies that a small positive change in incomes, through employment generating growth, can pull many people out of poverty.

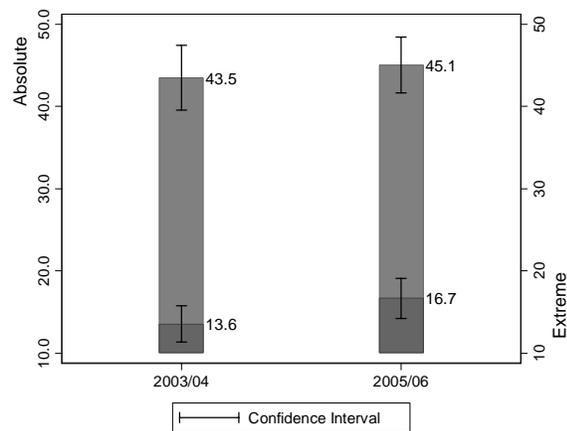
### Living standards have stagnated

2. **Overall economic stagnation is reflected in the lack of progress in improving living standards.** About 15 percent of the population is estimated to be extremely poor, defined as individuals who have difficulty meeting their basic nutritional needs (Figure i). About 45 percent (that is, a little over 2 in 5 Kosovars) report a consumption level below the poverty line, which in 2002 prices is set at 43 Euros per adult equivalent per month. These poverty rates are very high compared to neighboring countries (Figure ii) and unlike many countries in the region, have not changed over time.

3. Only the top 20 percent of the population had a small positive growth in consumption, between 2003 and 2005, while the rest had negative growth. Among the poorest groups, the losses were substantial. The poorest fifth of the population experienced consumption loss of around 10 percent. Examining the changes in consumption separately for urban and rural areas shows that consumption declined for nearly all rural populations, while in urban areas only the bottom fifth of the population reported decreased consumption.

4. In addition to stagnant poverty a large fraction of the population is vulnerable. A shock that reduces incomes by 25 percent could send an additional 18 percent of the population below the poverty line. A similarly positive increase in the incomes of the population can lift as many out of poverty. This reflects the phenomenon that while poverty is widespread, it is shallow in the sense that a large fraction of the population is just around the poverty line. About 40 percent of the vulnerable are estimated to live in Pristina and Prizren.

**Figure i: Absolute and Extreme Poverty Rates**

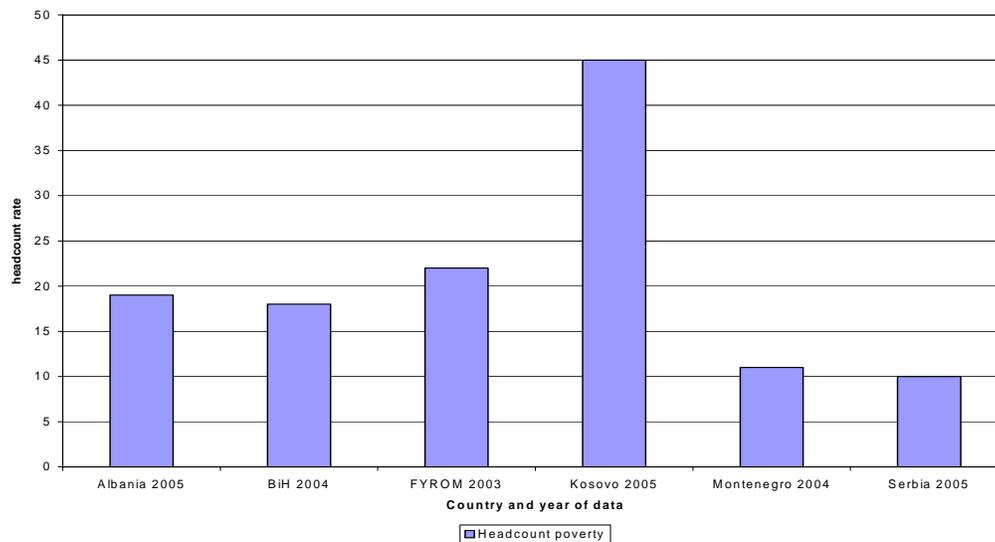


Source: World Bank staff calculations from HBS data.

### Box 1.1: Has Poverty Increased in Kosovo? NO

This report is preceded by two other poverty assessments on Kosovo (World Bank 2001, 2005a). The 2001 report used the Living Standard Measurement Survey (LSMS) of Kosovo and estimated the fraction of the population below the poverty line to be about 50 percent. The 2005 report used the Household Budget Survey conducted in 2002/03 and estimated a poverty rate of 37 percent. In this report, we estimate poverty rate to be about 45 percent. Does this mean that poverty increased? The answer is NO. As explained in volume II of this report, the three data sets are not comparable. In particular, even though the 2005 report and this one use the HBS surveys, changes in how (a) households were asked to remember the period they consumed a reported purchased item (daily, weekly, etc.), and (b) consumption of own-produced items, makes the 2002/03 and subsequent HBS surveys non-comparable. An additional point is that Kosovo appears to be an outlier in the region in terms of the fraction of the population below the poverty line. This should not be surprising given that the GDP per capita is almost half the regional average.

Figure ii: Headcount Poverty in the Western Balkans



Source: Respective World Bank Poverty Assessments.

5. **Finally, inequality – though low – shows signs of being on the increase, especially in rural areas.** Overall, inequality in Kosovo is low. The most commonly reported measure of inequality (the Gini index) is about 30 percent in 2005. In 2003, the same index was measured at 27 percent. As expected, urban inequality is higher than that observed in rural areas. However, over time, urban inequality has remained unchanged at 31 percent, while rural inequality has increased from 25 percent to 28 percent. Other measures of inequality also confirm generally low but rising inequality. For instance, the gap between the richest and the poorest deciles widened during the period. The rising inequality in rural areas accounts for the observed increase in overall inequality. But in rural areas, remittances appear to be driving the increased inequality, since the better off households are observed to receive substantially more remittances.

**The poor are mainly concentrated in large families, among the unemployed and the low skilled**

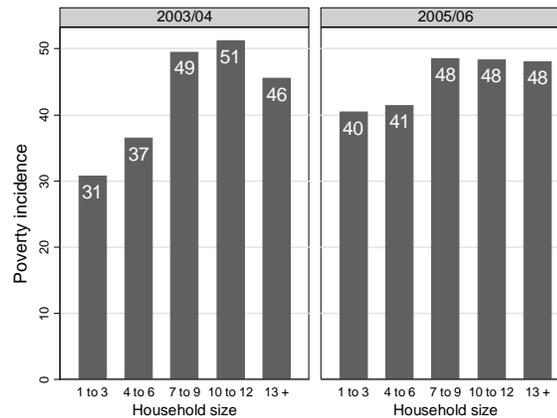
6. **Larger households are on average poorer.** The poverty incidence for households with more than 7 members is at least 7 percentage points higher than households with 1 to 3 members (Figure iii). In addition to household size, the composition of the household introduces additional burden on welfare improvement. Households with more dependents than working adults have higher incidence of poverty compared to households with more adults than dependents.

7. **Households with female heads have higher poverty incidence.** The poverty incidence is estimated to be higher by 4 percentage points for female headed households compared to male heads of households. However, over time, this gap has not widened, which suggests that despite the difficult macro-economic situation, female headed households have not lost ground. The estimated poverty incidence for Serb heads of households has increased over time, though data quality issues which appear to be more serious here than general, imply that the magnitude of the deterioration in these trends should be treated with caution.

8. **The poverty risk is also higher for the unemployed.** Not all the unemployed live in poor households, and not all the employed are free from poverty. The evidence from the surveys suggests that about 70 percent of all the poor are either employed or inactive. However, a comparison of the incidence of poverty between the employed and the unemployed indicates that the latter have a 20 percentage point higher risk than the former (Figure iv). In other words, while the working poor constitute the largest group among all poor, the likelihood (that is, incidence) of being poor is higher if one is unemployed than if one has work. The majority of the employed poor are “per diem” workers and employees in the mining sector.

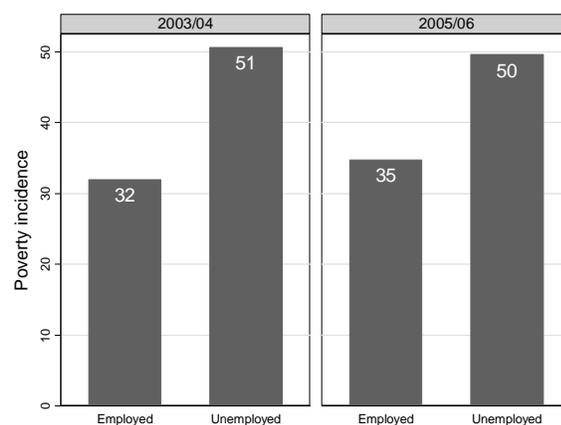
9. **As expected, poverty incidence declines with higher education of the household head.** The poverty incidence for heads of households with tertiary education is 20 percent, but 1 in 2 heads of households with primary education are estimated to live in poverty. The more educated have lower incidence of poverty because they have better employment prospects and better pay. Over

**Figure iii: Poverty Rates by Household Size**



Source: World Bank staff calculations from HBS data.

**Figure iv: Poverty Rates by Labor force status**



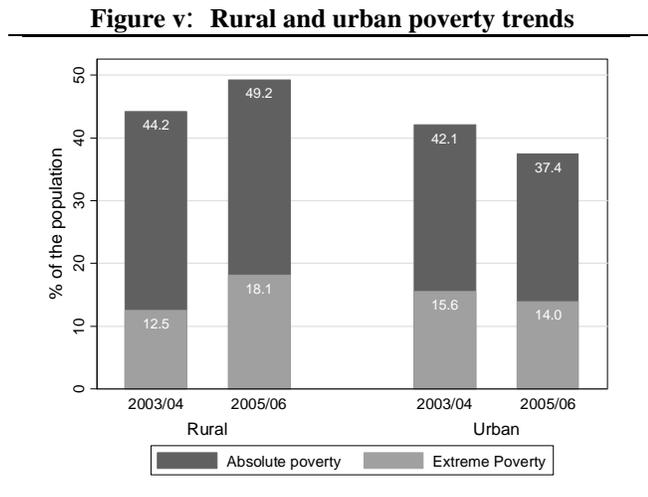
Source: World Bank staff calculations from HBS data.

70 percent of the people with vocational and tertiary education report being salaried employees, compared to 25 percent of secondary educated individuals.

### The poor are concentrated in rural areas and in Mitrovica and Ferizaji

10. **The majority of the poor live in rural areas.** Rural and urban residents faced the same likelihood of poverty, about 42 percent, in 2003. However, by 2005, urban poverty had declined by about 5 percentage points and rural poverty had increased by a similar magnitude (Figure v), so that more than two-third of all the poor now lived in rural areas. Poverty in rural areas is highly correlated with lack of land, livestock or agricultural equipment.

11. **Poverty incidence varies widely across regions.** In 2003, Mitrovica, Ferizaji, Gjakove and Prizren had higher incidence of poverty compared to the rate for all of Kosovo. By 2005, only Mitrovica and Ferizaji maintained that distinction. Pristina, together with Gjilani had one of the lowest poverty rates in 2003. However, while this has worsened by 2005 for Pristina, it was still lower than the average for all of Kosovo. Furthermore, while Pristina has lower incidence of poverty than the Kosovo rate, it ranks as the highest contributor to poverty. Indeed, 3 of every 5 poor people live in only three regions – Pristina, Prizren and Mitrovica.



Source: World Bank staff calculations from HBS data.

### Non-income dimensions of welfare show better outcomes, but are beset by inequities in access to, and low quality, of key public services

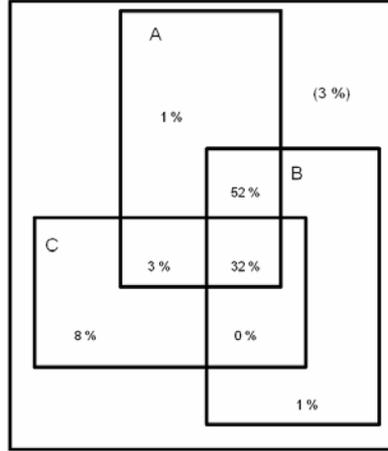
12. Finally, while non-income dimensions show better outcomes, they suffer significant inequities and poor quality. More specifically, there are sizeable differences in access to secondary and tertiary education between the richest and the poorest households. Furthermore, rural families have substantially lower access to central heating and tap water compared to urban families. Also, both quality of water and quality of health services are known to be lower in rural areas.

13. Moreover, a large fraction of the population reports being deprived on multiple dimensions. For instance, about 8 percent are materially poor and have no access to indoor water tap and proper sanitation. Just as many, exactly 9 percent, are poor and have no access to telephone connection or bathroom in the dwelling (Figure vi). These rates are much higher than Romania (or Georgia and Russia) where only 1 percent of the population reported being deprived on multiple dimensions.

14. This brief profile of the poor suggests that a diverse group of households faced hardships during the period under review. Such widespread poverty is not surprising in the context of prevailing macroeconomic conditions.

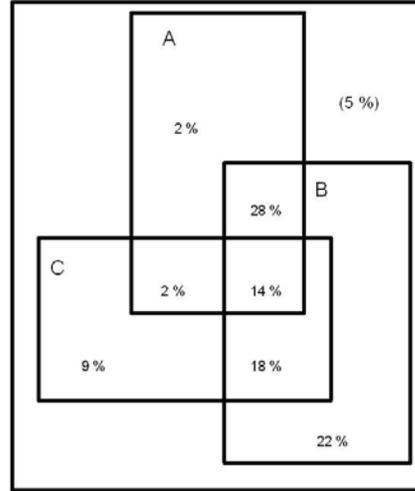
**Figure vi: Venn Diagram of Non-income and Income Poverty**

**A. Water, sanitation and income poverty**



A: Access to inside water tap  
 B: Sanitation: flush toilet  
 C: Poor households

**B. Telephone, housing and income poverty**



A Telephone connection  
 B Bathroom available  
 C Poor household

*Source: World Bank staff calculations from HBS data*

**Macro-economic conditions have not enabled massive poverty reduction**

15. **The current macro-economic conditions provide no prospect for improving living standards.** Economic growth surged in the immediate post-conflict period, buoyed by a large inflow of resources for reconstruction. Since then, and especially in the last 4 years, growth has been slow. This is mainly because industrial output has not yet recovered, and agriculture, which contributes a large share of the GDP and where the majority of the population earns their livelihood, remains a low productivity activity. Agriculture is subsistence-based, faces high input costs and poor infrastructure, and operates under poorly defined property rights. Consequently, yields and acreage have not improved, and neither has output.

16. **This environment has resulted in poor labor market conditions.** About 30 percent of the labor force is estimated to be unemployed, and the conditions are worse for young people. The prevailing poor labor market conditions, no doubt, also partially explain what is suspected to be an increase in the share of informal activity, and possibly the level of under-employment. In addition, unemployment durations are long, and real wages have remained unchanged in the last 4 years (Table 1.4).

**Social assistance programs are inadequate**

17. One of the consequences of the difficult macro-economic conditions is the challenge of balancing huge investment needs and social priorities, especially given a restrictive fiscal rule and conservatism. This has made it difficult to protect many poor people through public support. In their current form, the social assistance programs of Kosovo are characterized by one desirable

feature, which is that the benefits of the program, which is targeted at the poor, reach mostly the poor. Balanced against this good feature are three weaknesses.

18. First, the programs have low coverage, in part because of the tight fiscal space. Specifically, over 75 percent of the poor are not reached by the social assistance program. Second, the value of benefits per recipient household has remained flat between 2002 and 2005. This is understandable given the difficult fiscal conditions. Moreover, given that the overall inflation has also been low or negative, there was probably no erosion in the real value of the benefits, so that this weakness becomes less pressing. Third, also the final weakness, low coverage and low benefits level together have meant that the programs have had little impact on improving the welfare of the population.

### **...but migration and remittances have been effective mechanisms for reducing poverty**

19. At present, about 1 in 5 Kosovars report having at least one household member who is a migrant abroad. Just as many reported having received remittances from abroad. By comparison only 13 percent of the population receives social assistance benefits, which is targeted at the poorest groups. Those with migrants abroad also report higher levels of consumption and are estimated to be less poor. The evidence from the household surveys shows those with a 10 percent higher propensity to migrate abroad report 2 percent more consumption. A comparison of households with migrants abroad and those with similar characteristics but without migrants show that the former have a consumption gain equivalent to 25 percent of the extreme poverty line. The incidence of poverty for the sub-population with migrants is also lower, by 7 percentage points compared to the general population. The higher level of consumption and the lower incidences of poverty for households with migrants are even larger for rural areas. For instance, the incidence of poverty for households with migrants abroad is 20 percentage points lower than similar households in rural areas without migrants.

20. Taken together these findings suggest that without migration poverty incidence would be higher and more concentrated in rural areas. *So any efforts that lead to drastic reductions in the current migration patterns has the potential to worsen the well-being of the Kosovo population, to widen the already emerging rural-urban disparities in well-being, and possibly to lead to instability, especially in the rural areas.*

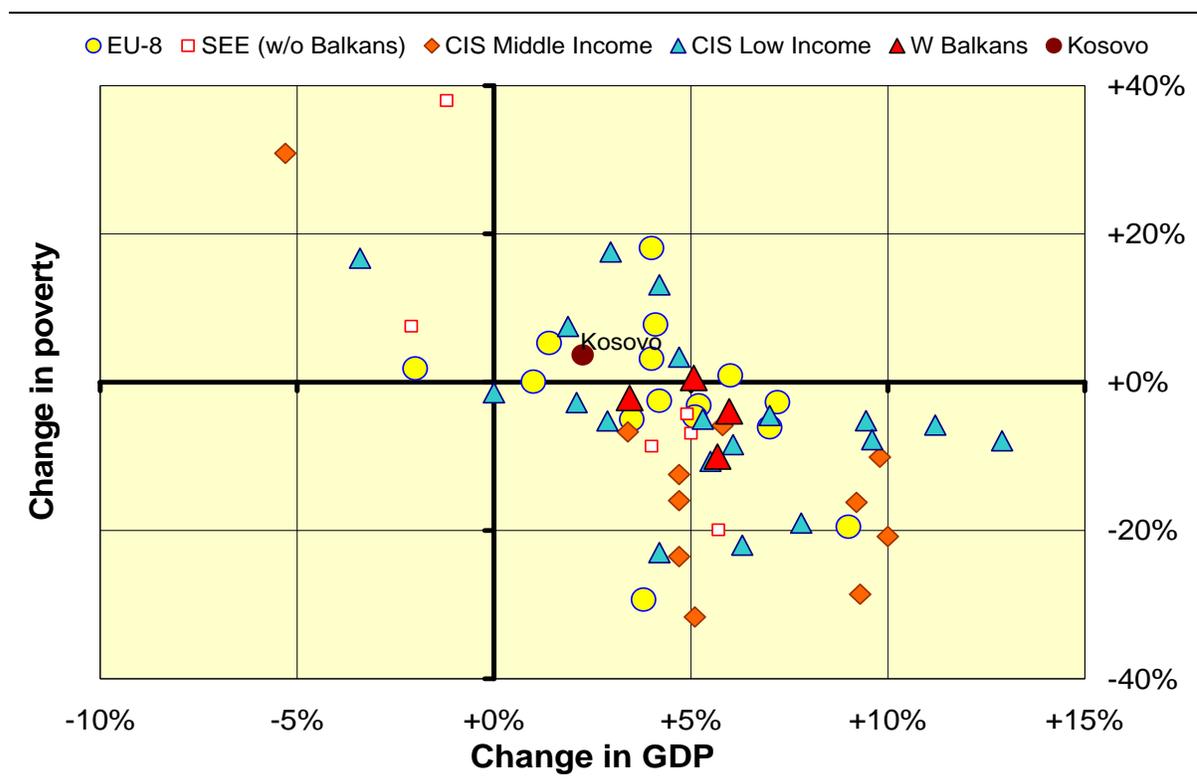
### **Looking to the Future**

21. Consistent with its European aspirations, Kosovo's development goals aim to create an inclusive society through better living standards. This means achieving progress in a number of areas, such as democratic governance, effective decentralization, and encompassing sector strategies. However, this is not going to be easy because Kosovo continues to face challenges common to all fragile states: huge backlog of investment needs and limited government resources to meet them, fractured societal relations, and weak security. It will be necessary to prioritize actions that will lead to rapid improvements in the welfare of population in order to strengthen social cohesion and ensure lasting peace. While all of this is of course contingent on the resolution of final status negotiations, the analysis in this report points to four areas through which welfare gains can be made.

22. **First, generating high and sustained growth is crucial.** As noted above, poverty is widespread and many more people are vulnerable to small shocks. When a large fraction of the population is just around the poverty line and inequality is low, we would expect that the sensitivity of poverty to growth (growth elasticity of poverty) will be very high. In the Western

Balkans, Albania provides the clearest example of how high and sustained growth can reduce poverty on a large scale. In early 2000, about a quarter of Albania's population was poor, and inequality was low. However, with a 6 percent growth rate per year between 2002 and 2005, poverty declined from 25 percent in 2002 to about 18.5 percent in 2005, implying a growth-poverty elasticity of -1.5. In addition to Albania, many countries around the world with living conditions situations similar to Kosovo's – widespread but shallow poverty and low inequality – had been able to reduce poverty on a mass scale when they have been able to generate high and inclusive growth (Figure vii provides a sample of such countries). To see the promise of growth for Kosovo's poverty reduction prospects, note that a sustained 5 percent growth in GDP for the next 5 years, combined with growth-poverty elasticity like that of Albania, would imply 38 percent poverty reduction, or a decline of absolute poverty from 45 percent to 28 percent. With such a growth rate and growth-poverty elasticity like that estimated for middle-income Commonwealth of Independent States (CIS) countries of -3.1, poverty would decline by 75 percent or from 45 percent to 11 percent in those 5 years.

Figure vii: Relationship between Growth and Poverty Reduction



Source: World Bank staff calculations from the World Bank ECAPOV database.

23. While growth is essential, it only makes a big difference in poverty reduction, if it is inclusive. The logical question would be to ask for the sources of such growth. While such analysis is outside the scope of this report, a common experience of many countries which have had successful large scale poverty reductions through growth has been the implementation of strategies that lead to **high employment-generating growth**. In the case of Kosovo, crucial sectors where employment generation would be expected to be high and conducive to poverty reduction include transport and communications infrastructure, construction, services, and improving the investment climate for small and medium enterprises especially by making

available affordable and reliable electricity. Such inclusive growth is crucial because simulations in this report show that policies that generate employment are highly correlated with poverty reduction. For instance, a 10 percent reduction in the prevailing unemployment in the population is associated with a 6 percentage point reduction in poverty. Given that majority of the poor are working poor, such growth would provide double dividends in welfare if it can generate employment and improve wages.

24. In addition, it will be critical to improve **urban infrastructure and services**. Such an action recognizes that urban areas are central to economic growth. In fact the evidence from the flow of internal migrants suggests that the poor may already be moving to urban areas to pursue better opportunities. And urban areas are doing slightly better, despite the much higher flows of remittances to rural areas. Aside from taking pressure off the need for international migration, urban renewal will also go a long way to solving some intractable problems in rural development. In particular, larger rural-urban migration flows could reduce further land fragmentation, improve agricultural labor productivity and improve rural welfare.

25. Sustainable growth eventually must be underpinned by a well-educated, adaptable and healthy work force. The evidence suggests that Kosovo's performance with regard to access to primary and secondary education is reasonably high. Almost 9 in 10 children of primary education age and about 3 in 4 children of secondary education age are enrolled. However, these results mask three potential obstacles to establishing a well-educated population. One problem is the existence of large disparities in enrollment rates, especially in secondary and higher education, between the poorest and richest on one hand and between urban and rural households on the other. The second hurdle is that traditional values that limit girls' education are still prevalent in rural areas. As a result, one observes that secondary enrollment rate for girls is 20 percentage points lower than the rate for boys for secondary age children in rural areas. The final problem is the widespread belief that while enrollment rates may be reasonably high, the quality of schooling is generally poor. As a consequence, learning outcomes for many children are often so low that they drop out early. Simple simulations in this report show that more education is correlated with less poverty. Therefore a general improvement in the quality of education and access to secondary and higher education, especially for the poor and rural girls, will have to be considered as a long term strategy for sustaining high growth.

26. **Second, in the near future, maintaining migration flows is essential to protecting livelihoods and stability.** The main reason to make this argument is that generating high, sustained and shared growth - that is, growth that generates high-employment - which could enable a large fraction of the population to earn their way out of poverty, and therefore, serve as an effective strategy for mass poverty reduction is unlikely to be attained in the short term. For example, to reduce the current unemployment rate by half (from 40 to 20 percent) in the next 10 years, assuming an annual labor force participation growth rate of 1.9 percent and growth to productive employment elasticity of 1.6, Kosovo would need to grow at about 6 percent per year. Given the current investment climate and backlog of investments in infrastructure needed to jumpstart high growth, such a strategy is likely to be realized only in the medium to long term.

27. By comparison migration remains, by far, one of the most effective mechanisms for reducing poverty in Kosovo. Moreover, unlike growth, the impact is immediate. The need to maintain migration as a mechanism for protecting welfare levels in the medium term may require the Kosovo government taking the bold step of entering into a framework for continued migration flow with key recipient countries. Such a framework can be bilateral or regional (say with several or all EU member states). It could include incentives for migrants to eventually return home through portability of pensions and other entitlements (World Bank, 2006c).

28. For as long as migration flows continue, Kosovo can rely on the remittances that are associated with it to protect a sizeable fraction of its population from poverty. But clearly a development strategy that is over-reliant on remittances is neither desirable nor sustainable. The reasons are numerous, but three are worth noting. One is that migrants change. Over time, as migrants settle in their host countries, ties to their “home” country will tend to decline. This deterioration in “attachment” accelerates rapidly in subsequent generations. The other reason is that host country policies change. This is particularly poignant for Kosovo, since a number of countries in the European Union that were major recipients of migrants from Kosovo have either shut their borders or have threatened to do so. The final reason is that remittances, which are essentially private transfers, cannot be effective substitutes for more reliable, domestically generated resources to finance public investments in infrastructure, human capital, social services, and so on. This means that there is a need, eventually, to transition out of high dependence on migration and remittances.

29. **Third, improving the targeting of the social assistance program will add to the gains, albeit small.** The social assistance programs are modest in size, which is understandable given the fiscal situation. In addition, the social assistance program is well-targeted: about 50 percent of the funds go to the poorest fifth of the population. However, about 25 percent of the non-poor receive benefits. Not all these non-poor are necessarily ineligible given the high vulnerability of the population. However, if these are truly ineligible individuals, this is where marginal gains can be achieved. Over time, however, as fiscal constraints ease, the coverage of the social assistance will also need to be expanded in order to provide meaningful protection.

30. Fiscal constraints will ease with growth, and that is clearly the preferred option to expanding social protection programs. But that is not the only option. Kosovo is currently preparing its medium term expenditure framework, which will be presented for funding at a donor conference later in the year. A logical question to ask is, if the budget envelope expands and there are more resources to spend on social protection, which program should the government expand. To get an idea, we looked at the size of poverty reduction implied by three possible actions: a) increasing the size of pensions (mostly basic pensions) by 10 Euros a month, b) increasing the size of social assistance benefits by 5 Euros a month for current recipients, and c) expanding the social assistance program to all the extreme poor and giving each new recipient the median value of current social assistance benefits. It is to be noted that a similar policy was not attempted for pensions because nearly all the eligible now receive it. The results (Table i) show that expanding the social assistance program to the population of extreme poor will reduce extreme poverty by half (from about 15 to 8 percent). There are two additional points to note regarding the results in Table i. One is that the estimated costs should be considered lower bound since likely additional administrative costs are not included. The other is that the impact of all three actions on absolute poverty is not large. This means that, in addition to expansion, benefit levels may have to rise for a large impact on poverty to be achieved.

## **Conclusion**

31. Poverty in Kosovo is widespread and has remained persistent in the first half of this decade. The evidence suggests that poverty is higher among those who live in families that are large, have many unemployed members, and have low education levels. The poor are also geographically concentrated in rural areas and a few regions. The main message of this report is that the slow and volatile growth was doubly disadvantageous. The first disadvantage was that it did not enable a significant fraction of the population to earn their way out of poverty. The second disadvantage was that by constraining the government’s revenue base, it made it difficult for many families to receive adequate public protection against shocks. Therefore, to improve

welfare in the future, the report recommends a focus on generating high and sustainable growth - by improving urban services and infrastructure and addressing inequities in the access to secondary and higher education for the poorest population – transitioning out of over-reliance on migration, and improving the targeting and expansion of the social assistance program if the revenue base of the government improves over time.

**Table i: Proposed Policies and Their Cost and Poverty Impact**

Proposed policies:	Cost		Absolute Poverty		Extreme Poverty	
	Est. number of recipients	Marginal Cost (Euros/ month)	Recipients	All	Recipients	All
<b>Social Assistance</b>			(percentage points)		(percentage points)	
Increase transfer by 5 Euros	43,356	216,780	-0.8	-0.1	-2.3	-0.3
Extend to all extreme poor	37,076	2,345,328	-1.6	-0.4	-34.2	-8.3
<b>Pensions</b>						
Increase transfer by 10 Euros	127,742	1,277,423	-3.6	-1.1	-2.1	-0.7

*Source:* World Bank staff calculations from HBS data. *Notes:* 100 percent propensity to consume out of transfer income assumed. The estimated number of recipients under social assistance (column 2) refers to households. Under pensions it is individuals.

# CHAPTER 1: MACROECONOMIC AND SOCIAL CONTEXT

*The average annual growth rate of real GDP between 2002 and 2006 is estimated at less than one and half percent. Potential sources of growth, especially in mining and energy and agriculture, would benefit enormously from new and modern technology. However, inefficient legacies and uncertain property rights continue to hamper the flow of foreign direct investment. Therefore, the outlook for the economy does not seem bright in the medium term.*

1.1 Since the cessation of hostilities in 1999, Kosovo has made progress in improving infrastructure, providing public services and laying the foundations for strengthening state institutions. In 2006, talks began on the resolution of its status. While the status talks continue and await final resolution, the Kosovo authorities had started preparing a Kosovo Development Strategy and Plan (KDSP) to work on the vision and coordination of sector strategies, covering such sectors as agriculture and rural, health, education, infrastructure, gender, and water and sanitation. Since the overall development plan is to improve the welfare of the population, poverty reduction is expected to be an integral part of each of these sector strategies. A focus on poverty reduction in the sector strategies is crucial because, the recent poverty assessment indicated that poverty in Kosovo is widespread and affects disproportionate number of rural residents, children, the elderly, female-headed households, and non-Serb minorities. Furthermore, educational and health outcomes are low, while exposure to health risks is widespread. Moreover, Kosovo continues to face challenges common to all fragile states; huge backlog of investment needs and limited government resources to meet them, fractured societal relations, and weak security. To strengthen social cohesion and ensure lasting peace, public policy making need to focus on developing a strategy to reduce poverty as a matter of urgency. The KDSP can benefit significantly from incorporating the findings of such assessments in its sectoral strategies.

1.2 This note provides estimates of trends in poverty and inequality using the Household Budget Survey data which is implemented by the Statistical Office of Kosovo every year. It updates the information on the size, scope and determinants of poverty which was last done using the data collected in 2002. This chapter provides a short description of the macroeconomic developments. Chapter 2 looks at poverty trends and decomposition. Chapter 3 presents the profile of the poor and factors that determine the risk of being poor. Chapter 4 provides a discussion of the social protection system and its effect on poverty outcomes. It also examines the role played by migration and remittances in shielding household against poverty. Chapter 5 concludes with recommendations for poverty monitoring.

## A. GDP GROWTH HAS BEEN POOR

1.3 **Recent growth has been low, but data quality is an issue.** For a brief period following the end to the conflict, growth surged on account of massive reconstruction efforts financed by huge inflows from donors and Kosovar diaspora. GDP growth was estimated at 21 percent in 2000, mostly due to large inflows of foreign assistance for reconstruction activities, and private investments in response to significant trade reforms. But estimated real GDP growth between 2002 and 2005 has been slow and volatile. Real GDP growth was negative in 2002 and 2003. This was followed by a positive upturn in 2004 due to expansionary fiscal stance. The revised estimates place the growth in 2005 at close to zero (at 0.5 percent) and 3 percent growth in 2006.

The prediction is for growth to decline to 2.3 percent in 2007 (Table 1.1). Average real GDP growth was around 1.5 percent in the 5 years between 2002 and 2007. This slow expansion is due to a combination of low investment and the ongoing withdrawal of the international community in Kosovo.

**Table 1.1: Macroeconomic Trends**

	2002e	2003e	2004r	2005r	2006r	Proj. 2007p
<b>National Accounts</b>						
Real GDP growth	-0.1	-0.5	2.5	0.5	3.3	2.3
GDP per head (in 2002 Euros)	1,141	1,147	1,156	1,143	1,161	1,168
Investment (in 2002 mil Euros)	634	594	635	627	677	772
<b>External Accounts</b>						
Current account balance (% GDP) <sup>2</sup>	-50.1	-41.6	-39.5	-40.7	-42.2	-40.5
Foreign assistance (% of GDP) <sup>3</sup>	42.7	32.4	25.5	22.6	20.7	16.2
Workers' remittances (millions of Euros) <sup>4</sup>	35	125	215	262	300	342
<b>Prices</b>						
CPI Inflation	3.6	1.3	-1.4	-1.4	1.5	2.0

*Source:* IMF (2007) and World Bank and IMF staff estimates. IMF estimates subject to revision. *Notes:* e = estimate, r = revision in 2007, p = projection. 2/ Before donor grants. 3/ Total foreign assistance excluding capital transfers 4/ Including pensions from abroad.

1.4 Currently, both the IMF and EAR provide GDP estimates. Numerous revisions of the estimates reflect both inadequacy of data and methodological differences. A key difference is whether to treat UNMIK as a resident contributor to GDP. IMF estimates treat UNMIK as resident, while EAR produces estimates which treat UNMIK as resident and non-resident. As a result, GDP estimate which treat UNMIK as resident was 21 percent and 16 percent higher in 2002 and 2003, respectively, than estimates that treat UNMIK as non-resident. Treating UNMIK as non-resident also explains the negative growth rates in earlier years as UNMIK downsizes. Problems with computation of the CPI add to the difficulties. Table 1.2 shows the scale of the differences.

1.5 Changes in consumption can also be affected by assumptions made about population growth and extra adjustments made to certain consumption items. For instance, in projecting private consumption part of the GDP, IMF assumes a population growth of 1.7 percent per year. It also includes car purchases in consumption, and makes extra adjustments to electricity and food reported from the household surveys. In this report, no adjustments are made to electricity and food expenditures, and car purchases which are infrequent and whose benefits are enjoyed over a long period are not included (Table A.1). There are also differences with previous SOK estimates of consumption: for instance, in SOK (2006b) household expenditure was estimated to have increased by about 5 percent annually because it includes semi-durables and durables in estimating consumption, whereas in this report these goods are excluded as the annual consumption of their benefits cannot be estimated.

**Table 1.2 : Alternative Estimates of GDP for Kosovo**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
GPD at current prices (million Euro)			
Including Donor's sector: EAR	2 589.9	2 505.0	?
IMF estimate	2423.9	2414.7	2434.3
Without Donor's sector	2 139,2	2 157,4	2 008,2
GDP per capita at current prices (Euro)			
Including Donor's sector	1 363,1	1 296,4	1239,0
IMF estimate			1294
Without Donor's sector	1 125,9	1 116,5	1021,9
GDP real growth rate (%)			
Including Donor's sector		-5.9	+2.8
IMF estimates		-0.6	+4.1
Without Donor's sector		-1.9	+ 7.1
CPI changes (%)			-1.6

*Source:* Kosovo National Accounts, Consultant report. March 2006.

## **B. AGRICULTURAL GROWTH HAS BEEN SLUGGISH**

1.6 **Poor output is explained in part by sluggish agricultural growth.** Agriculture remains the main sector, and largest employer, in Kosovo. In 2004, it accounted for 25 percent of Kosovo's GDP, 16 percent of the value of total exports and between 25 to 35 percent of all employment, mostly in the informal sector (AMP, 2006). While its recorded share of GDP has declined to 19 percent in 2005, this is not believed to be a reflection of productivity gains in the sector. Rather, the evidence appears to point to a recovery in other sectors, especially services. Sluggish agricultural growth is partly a hangover from the war damage such as the destruction of infrastructure, machinery and livestock, and loss of traditional export markets. As a result, estimates of agricultural output show sharp increases in food imports between 2000 and 2003, which have declined only slightly between 2004 and 2005, while exports have increased from a very low base between 2004 and 2005.

1.7 Land devoted to crop production has remained stable. According to the SOK Agricultural Household Survey, agricultural land use remained at the same level of about 360,000 ha in 2004 and 2005. Livestock ownership also does not show an increase. Kosovo's agriculture is dominated by grains (49 percent of crop land is devoted to grains), and characterized by small farm size (about 65 percent of all farms are less than 3 hectares), absence of advisory services, and low productivity all of which constrain its contribution to growth. Acreage under crops peaked in 2004 (also the only year estimated GDP growth was higher than the average for the period) but declined by about 14 percent in 2005 (Table 1.3).

1.8 In addition, yields do not indicate an improvement over the last two years. Agricultural yields declined or remained relatively flat between 2004 and 2005, although it must be noted that two years is too short to draw conclusions, given the importance of weather risk to agriculture. While yields for grains held steady, the biggest declines were especially notable for fruits and vegetables (Table 1.3). When farmers were asked why they left the land fallow, about 30 percent reported low economic profitability, which suggests low productivity agriculture. Not surprisingly, the agricultural production is still predominantly subsistence oriented so that smaller farms reported that 70 percent of output is devoted to households needs in 2005. Even farms in the upper end of the size distribution still designate over 50 percent of their production for

domestic use (SOK, 2005a). That said, it is important to keep in mind that there are few distortions in Kosovo agriculture so that what is emerging is built on comparative advantage.

**Table 1.3: Macroeconomic and Agricultural Sector Indicators**

	2001	2002	2003	2004	2005
<b>Agricultural output</b> <sup>2</sup>					
Food imports	283	300	330	193	
Food exports	1.5	3.8	7.6	10.3	
Total ag surface <sup>3</sup>	209,058	196,883	n/a	220,506	190,479
Wheat, ag surface	75,070	70,000	n/a	77,783	80,127
Maize, ag surface	75,038	69,000	n/a	100,970	74,079
Vegetable, ag surface	28,000	28,220	n/a	14,419	14,140
<b>Labor market indicators</b> <sup>1</sup>					
Registered unemployment		282.3	282.3	302	319.7
Workers' remittances		341	341	345	347
<b>Agricultural Household Surveys</b>					
<b>2004 and 2005</b> <sup>4,5</sup>					
Household size				7.7	7.8
Agricultural population (million)	1.3			1.3	1.3
Agricultural Land (000s)			291	264.9	260.1
Average yield (000s) <sup>6</sup>					
Grains				3.1	3.4
Vegetables				16.2	12.6
Fodder Crops				4.5	5.8
Fruits				9.7	5.1
<b>Livestock Numbers</b>					
Cattle (in thousands)		347	318	351.8	335.2
Poultry (in million)		2.2	3.1	2.6	2.2

Source: <sup>1</sup> WB 2006 Interim Strategy; <sup>2</sup> AMP Agricultural Development Plan; <sup>3</sup> Agricultural Statistical Office-MAFRD (total excludes forage and fruits). <sup>4</sup> SOK Agricultural Household Survey, 2005. Household size 2004 is from the 2004 report, thus not adjusted for changes in the weighting procedure. <sup>5</sup> Agricultural household survey data for the last two years is not comparable to 2001 and 2002 data because of change in methodology. <sup>6</sup> Average yield was calculated by taking the unweighted average of yields reported in Tables 4.1 and 12 in SOK Agricultural Household Survey, 2005. Yields are in kg/hectare, while land is in hectares.

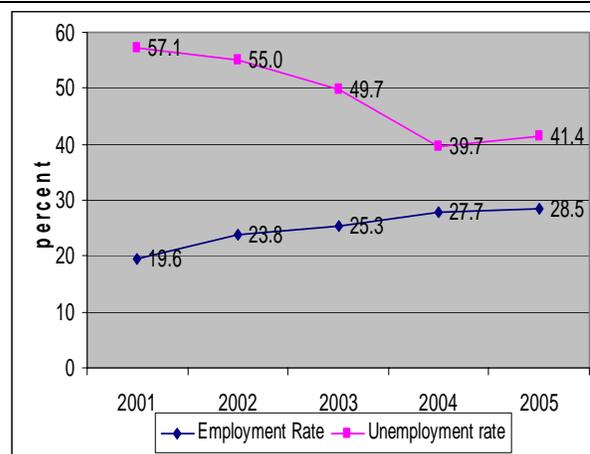
### C. DISAPPOINTING LABOR MARKET PERFORMANCE

1.9 **Sluggish growth has resulted in poor labor market performance in the last two years** (Figure 1.1 and Figure 1.2). Overall unemployment rate rose from about 40 percent in 2004 to 42 percent in 2005 (SOK, 2006a). According to the Labor Force Survey conducted by the Statistical Office of Kosovo (SOK, 2006a, 2005b), the unemployment rate among male workers stayed around 30 percent in both years, but 60 percent among female workers. The number of registered unemployed rose from 282,000 in 2002 to 319,000 in 2005 according to official administrative records of registered unemployment (World Bank, 2006). Across age groups, the highest unemployment was among the youth (15-24 year olds) – 67 and 65 percent in 02/03 and 04/05 respectively. Finally, unemployment durations are long – that is, over 80 percent of the unemployed are in such a status for a year or longer.

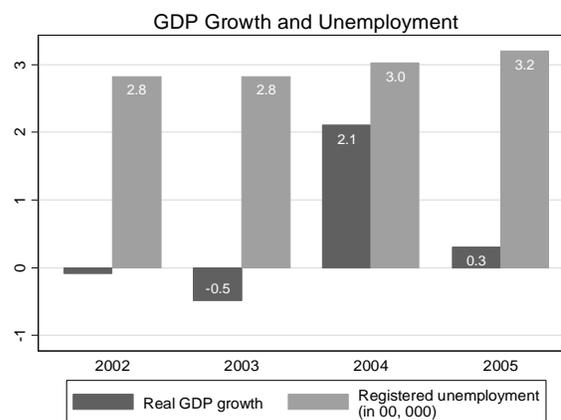
1.10 **Finally, wages remained unchanged throughout the period.** Average real monthly wages reported by wage earners in the household remained flat between 2002 and 2005. The

experience is the same whether one looks separately at salaried, professional or manufacturing workers (Table 1.4).

**Figure 1.1: Employment and Unemployment Rates, 2001-2005**



**Figure 1.2: Registered Unemployment and GDP growth rate**



Source: LFS 2001-2005, SOK calculations. World Bank 2006 Interim Strategy.

#### D. LOW PROSPECTS FOR POVERTY REDUCTION

**1.11 The prevailing macroeconomic conditions do not provide the platform for significant poverty reduction.** The prospect for improved growth is uncertain. According to the IMF, the economy's poor fundamentals and continued donor withdrawal is expected to slow down growth for some time to come. Poor infrastructure and energy are expected to be major bottlenecks. On the positive side, the possible resolution of the status could provide positive signal for clearer property rights and improve the investment climate.

**Table 1.4: Real Mean Monthly Wages and Number of Observations**

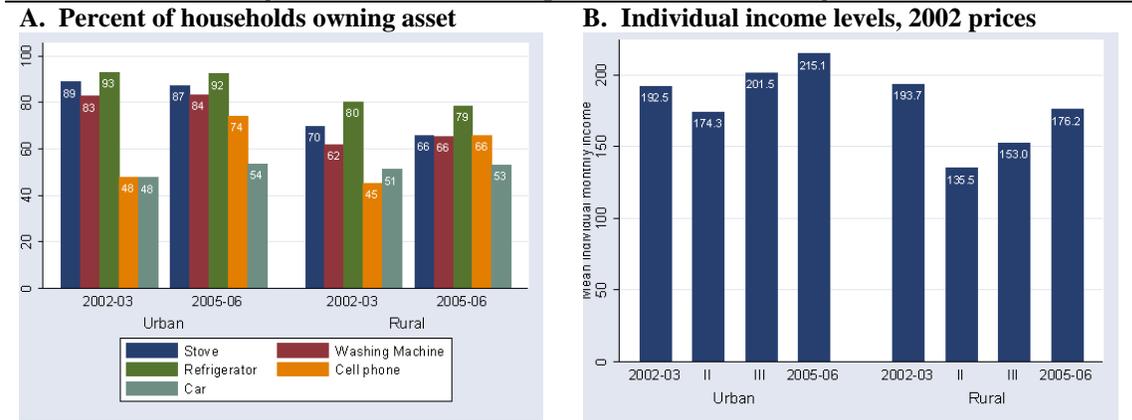
	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Total	218.4	214.7	219	209.4
Number of observations	(1184)	(1590)	(1689)	(1820)
Male	220	219.8	225.7	213.2
Female	211.2	197.2	195.5	193.9
Salaried employee	218.6	214.4	222.6	219.5
Number of observations	(1124)	(1566)	(1577)	(1577)
Professional	229.6	239.6	249.9	232.3
Manufacturing	204.3	204.6	196.4	210.6
Other	234.6	206.9	204.3	213.1
Per-diem worker	215.5	227.6	168.1	153.5
Number of observations	60	24	112	243

Source: World Bank staff calculations from HBS data. Notes: Cash wages and salaries, net of tax, only for salaried and per-diem workers, in 2002 prices. included only. Definition of wages changed in 2005 to be restricted to earned in Kosovo and income categories increased from 8 to 13 categories from 2002 to 2005.

**1.12 Moreover, a quick look at households' asset holdings does not provide clear evidence of positive welfare changes.** The proportion of households owning cars and cell-phones increased during the period (Figure 1.3). The increase is evident in both rural and urban areas, but was faster in urban areas. An additional observation is that relatively high proportion

of the households report owning such durable goods as refrigerators, cars, cell phones and washing machines, confirming further that poverty in Kosovo may be widespread but it is shallow. Household income levels appear to have increased between 2002 and 2005 in urban areas and decreased in rural<sup>1</sup>. This provides mixed and inconclusive evidence for the direction of changes in the poverty rate in Kosovo, since a large fraction of the population lives in rural areas.

**Figure 1.3: Asset ownership and income levels using HBS data**



*Source:* World Bank staff calculations from HBS data. *Notes:* Income is defined as cash wages net of tax, wages in kind, income from per diem work, rent, dividend, interest, social welfare benefits, pensions from Kosovo.

1.13 To conclude, after a boost to growth from reconstruction finance in the initial stages of the post-conflict period, growth has slowed down considerably. Industrial recovery is still uncertain and agriculture, where many earn their living, has become dominated by subsistence orientation. As a result, the labor market prospects for many families have been gloomy. Lack of opportunities to earn one’s way out of poverty have led to widespread and stagnant poverty, as the next chapter documents.

<sup>1</sup> These figures need to be treated with caution because of concerns about sample weights for the HBS. See Chapter 2.

## **CHAPTER 2: POVERTY TRENDS AND DECOMPOSITION**

*About 45 percent of the population of Kosovo remained in poverty during the period under review. An additional 18 percent were vulnerable to poverty. Furthermore, 15 percent of the population was estimated as extremely poor. While population wide poverty rates remained unchanged, measured urban poverty declined, while rural poverty increased. The evidence suggests that in urban areas, positive growth in consumption was widely shared, while in rural areas, only the top fifth of the population gained. As a result, measured inequality in the population and in rural areas increased.*

### **A. A NOTE ON DATA QUALITY AND APPROACH**

2.1 This report draws on the Household Budget Survey (HBS) data for much of its content. HBS is a core survey of the Statistical Office of Kosovo (SOK). It provides a sustainable start to monitoring poverty and inequality. However, using the last 4 surveys of the HBS to analyze poverty and inequality presents practical problems. Therefore, it is useful to begin the analysis with a discussion of the challenges and how this analysis has approached them.

2.2 **The first major uncertainty concerns representativeness of the samples.** Kosovo has not had a reliable census since 1981. Therefore, the current surveys still use the 1981 population frame as the starting point for selecting areas, and therefore households, to include in the sample. However, much has changed since then. Some areas that were highly populated may not be so now and some that had few people may have many more. Without further action, the first introduces large sampling error while the latter introduces bias. For instance, the estimated population from the surveys shows a dramatic decline from 2 million in 2002/03 to 1.5 million in 2005/06, which is not consistent with alternative data sources (Box 2.1). Since there is no clear knowledge of the reference population it is difficult to correct for these problems. Therefore, it is probable that the sample data and statistics obtained from it contain unquantifiable bias.

#### **Box 2.1: Estimating the Population of Kosovo**

There is no single source that provides an accurate count of the population. We rely on two sources to estimate the population total and urban and rural ratios. First, we use the school enrollment data to estimate the overall population. Between 2002/03 and 2005/06, total primary and secondary school enrollment ranged from 410,000 to 422,000. About 380,000 of these were enrolled in primary – ages 6-14. Using the population pyramid of neighboring Albania, and applying the ratio of this age group in the Albanian population, we estimate the population to be about 2 million. We combine this with estimates of the rural population from the Agricultural Household Survey (AHS) conducted by the SOK to estimate the implied rural and urban distribution. This survey first listed all the 1400 villages in Kosovo. Then it took a sample of these villages and listed all the dwellings. They estimated the rural population to be about 1.3 million. Together, this means that rural share is about 65 percent and urban is about 35 percent.

2.3 **The second challenge concerns comparability of the surveys.** The first survey in the series, conducted in the 2002/03, asked households to record daily expenditures on an open-ended diary. In subsequent years, households were given a list, admittedly encompassing expenditure items reported in the first survey. However, they were also asked to record weekly, not daily

expenditures. Moreover, the list has expanded over time, although only by a few items. The second significant change was how the consumption of own-produced goods was reported. In the first survey, it was left to the households to report each item. In subsequent surveys, they were aggregated into a few categories. Rather than report how much wheat was produced for own consumption, households were asked to report grain crops, or fruit and fruit products, and so on. In addition, rather than ask quantities consumed, they were asked to report the value in Euros of the production they have set aside for own use. Furthermore, for own produced consumption, the period of recall changed from daily in the first survey to a month in subsequent surveys. The reason why these changes matter is that moving from a short recall to a longer recall has the tendency to understate consumption and overstate poverty rates (Box 2.2).

**Box 2.2: Challenges of Using HBS Data for Poverty Analysis**

The Kosovo Household Budget Survey (HBS) began in June of 2002 and has been administered on a monthly basis by the Statistical Office of Kosovo since then. It has become a core survey in Kosovo's efforts to build a long term monitoring and evaluation system and is fully funded by the government. The survey data, however, poses several practical problems for a reliable estimation of welfare in the first half of 2000s in Kosovo. Two issues warrant a careful use of the results:

*1. An outdated sampling frame introduces large sampling errors.*

As any other micro survey, the HBS relies on a representative sample of the population in order to obtain unbiased estimates of the population statistics. In order to do that, a reliable frame from which to draw the sample is needed. Kosovo's latest reliable census dates back to 1981. The sampling frame (a list of enumeration areas (EAs)) was supplied by SOK and the sampling was done by Statistics Sweden under a project funded by the Swedish International Development Cooperation Agency (SIDA) (Andersson, 2002b). The quality of the list of EAs is questionable: the distinction between urban and rural is purely administrative; the classification of ethnicity does not follow strict rules, and the description of the geographical boundaries of the EAs is outdated (Andersson, 2002a). Finally, survey administration to ensure quality was heavily limited because of lack of resources at SOK and thus misclassified EAs were skipped (Andersson, 2002c), relisting of large EAs was incomplete and field control of enumerators is lacking. There are also issues of undercoverage. Therefore, the HBS demographic statistics each year seem to be from different underlying populations. For instance, the estimate for total population based on the HBS is 2.1 million in 2002-03 and 1.5 in 2005-06. Such decline is not realistic and contradicts evidence from school enrollment administrative data that population remained relatively stable.

*2. Problems of data comparability.*

Finding how poverty changed in Kosovo using HBS data is not straightforward. There are two changes across surveys that make data non-comparable and require special methodologies to correct comparability, which are discussed in Volume II. The first change is the move from diary to recall method of expenditure collection, starting in 2003. The second change in survey design introduced was the redefinition of consumption items, effectively shortening or increasing the list. One such change, the third change, is the aggregation of consumption of own production from a long list (85 items) to a short one (12) and changing the recall period from daily to a month at the same time. The aggregation of consumption items affects what respondents remember and a shift from a longer list to shorter list is likely to lead to lower reported consumption, and therefore higher poverty.

2.4 **To resolve these issues we follow three steps.** First, we use the best estimates on the population distribution from other surveys and administrative data to adjust sample weights. We adjust the weights so that the rural to urban ratio remain stable, and call these adjusted weights, post-stratified weights. All our results are therefore weighted using the post-stratified weights.

2.5 **Second, we make three decisions to handle the comparability issue.** The first decision is to compare only 2003/04 and 2005/06 data for the purposes of examining trends. We dropped 2002/03 because it is the least comparable to the other three surveys. For example, it used an

open-ended diary, contained substantially many more items, and had the most expansive definition of own produced goods. We also exclude 2004/05 but the decision is a lot harder. In all aspects, the survey is comparable to 2003/04 and 2005/06. It provided households with the same list of food and non-food items, defined consumption of own production the same way and used the same recall period. That said, we find that the consumption is much higher in 2004/05 compared to the year before or after. Specifically, non-food consumption is about 30 and 18 percent higher compared to 2003/04 and 2005/06, respectively (Table A.1). As a consequence, the poverty rates are much lower and the trends show more volatility. There is no clear explanation for this huge jump in consumption in 2004/05. Therefore, we excluded it in the analysis of the trends.

**2.6 The first decision implies establishing the baseline poverty as that obtained for the 2003/04 data.** Ideally it would be useful then to obtain the poverty line using the cost of basic needs approach using the same survey. But the surveys after 2002/03 stopped collecting quantity information that is essential for calculating the poverty line. So the second decision was to use the poverty line obtained in 2002/03 and used in the most recent poverty assessment (World Bank 2005), adjusted for price changes.

**2.7 The final decision involved undertaking a number of sensitivity analysis.** In order to try and use all the surveys, several methods for comparing non-comparable data that are available in the literature were applied to the Kosovo data. In all, four different methods are used. A detailed discussion of these methods and the results obtained from applying them to the Kosovo HBS data is the subject of Volume II of this report. With that as a background, the rest of this report looks at the poverty outcomes using the 2003/04 and 2005/06 data sets.

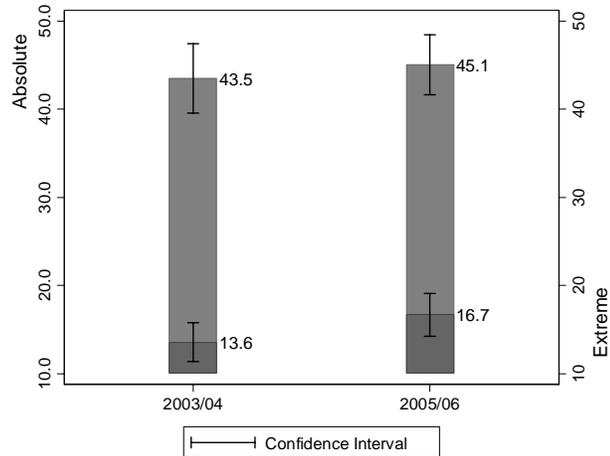
## **B. THERE WAS NO CHANGE IN POVERTY**

**2.8 Consistent with sluggish economic activity, the evidence from the household budget survey points to no change in the poverty rate.** The poverty rate is around 45 percent in both 2003/4 and 2005/6 (Figure 2.1). The results from several methodologies (see Volume II), which attempt to correct for a number of weaknesses in the data support an unchanging poverty rate. Surprisingly, there is a very large drop in the poverty rate between 2003 and 2004, but it is unlikely that this is capturing a real change in the welfare of the population. More likely, sampling and non-sampling (survey administration) problems contributed to the observed drop (see Box 2-2 for details). Other measures of poverty support stagnating poverty. The poverty gap remained around 12 to 13 percent, and severity of poverty was about 5 percent (Table A.9).

**2.9** There was also no change in the fraction of the extremely poor. The extreme poor, defined as individuals who have difficulty meeting basic caloric needs, comprised 13 percent of the population in 2003, but about 16 percent in 2005. The apparent increase is driven almost entirely by a large and improbable increase in the proportion of the extreme poor among household heads who report being Serbian (see Box 3.1). The extreme poverty rate among heads of households who are Albanian rose from about 13 percent to 15 percent during this period, while the rate among Serb heads of households rose from 9 percent to 44 percent in the same period (Table 3.1).

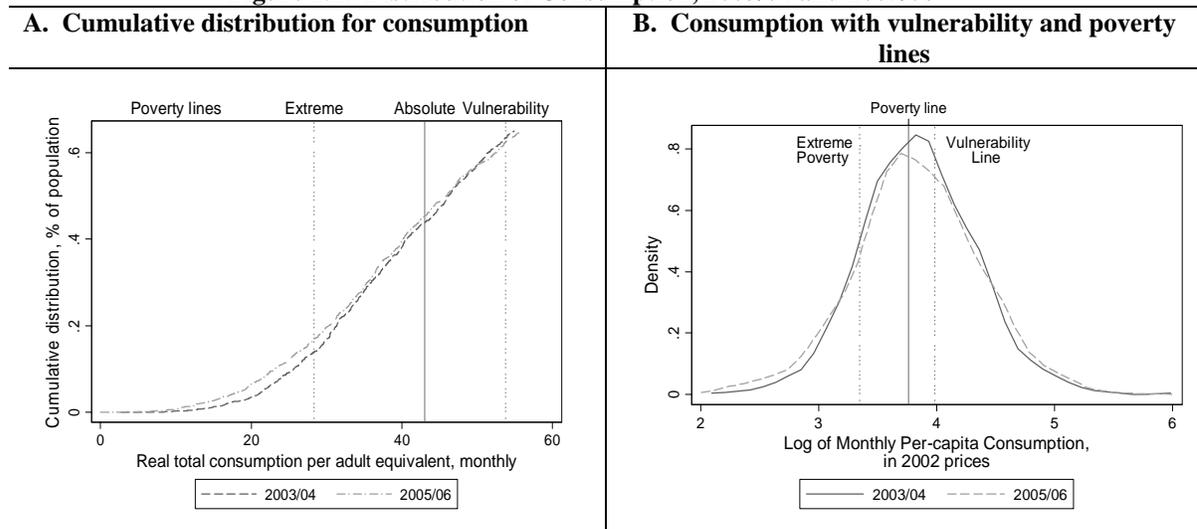
2.10 **In addition to widespread poverty, vulnerability is high.** Although widespread, poverty in Kosovo is shallow. One way to gauge the shallowness of poverty is to look at other measures of poverty that are sensitive to the location of the poor in the distribution of welfare measure. For instance, the poverty gap is sensitive to the distance of the poor to the poverty line. It measures the per capita consumption shortfall of the poor, as a fraction of the poverty line, and at 12 to 13 percent in this period it is low. Severity of poverty, which is sensitive to both distance to the poverty line and inequality among the poor, is also low, and is estimated at about 5 percent. Another way to measure shallowness of poverty is to estimate the fraction of the population that is just around the poverty line. Figure 2.2 (panel A) shows that a shock that reduces the consumption of those who are now considered non-poor by 25 percent would send an additional 18 percent of the population into poverty. In other words, if the poverty line was 25 percent higher, the poverty rate would be about 63 percent, and not 45 percent.

**Figure 2.1: Absolute and extreme poverty for 2003/04 and 2005/06**



Source: World Bank staff estimates from HBS data.

**Figure 2.2: Distribution of Consumption, 2003/04 and 2005/06**

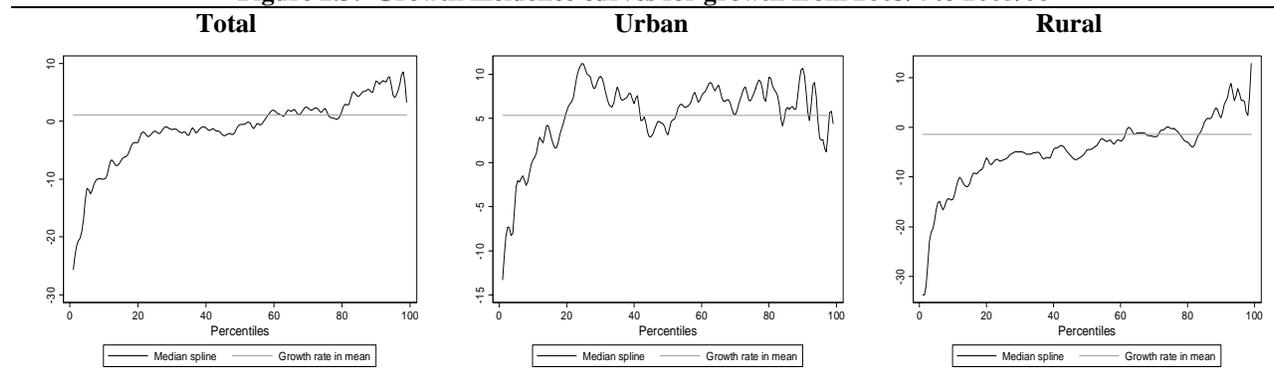


Source: World Bank staff calculations from HBS data. Poverty lines are population-weighted averages for the two survey years.

2.11 **The consumption growth was negative for the majority of the population.** Changes in consumption for each percentile (groups of households ranked by per capita consumption) of the consumption distribution shows that the bottom four quintiles had negative growth between 2003 and 2005. Moreover, a visual inspection of the gains to the top quintile shows only modest rates, roughly in the order of 5 percent on average.

2.12 **However, urban populations gained and the growth was more evenly distributed.** Figure 2.3, Panel B shows the changes in consumption for each percentile. It indicates that gains for all urban groups, except perhaps the lowest 5 percentile or so were positive. The evidence also suggests that the size of the gains observed for percentiles which gained in the bottom half of the distribution were of roughly the same magnitude as the gains experienced by those in the top half of the distribution. In other words, the gains (for those who gained) were between 5 to 10 percent, regardless of the percentile rank.

**Figure 2.3: Growth incidence curves for growth from 2003/4 to 2005/06**



Source: World Bank staff calculations from HBS data.

2.13 **But, in rural areas only the top quintile of the population gained.** The gains for first three quintiles (up to 60<sup>th</sup> percentile) were negative, while zero for the fourth quintile (Figure 2.3 Panel C). The consumption losses appear to be quite substantial for the bottom quintile. They report greater than 10 percent loss. We also observe more than 20 percent loss for some population groups in lower percentile ranks. The graph also gives a hint as to why we observe poverty reduction in urban areas and not in rural. In the former, two of the four deciles that are considered poor had positive gains, allowing some of these groups to escape poverty, while in rural areas there was erosion in consumption positions for poor deciles. Since at least 60 percent of the Kosovo population is still rural, it is not surprising that there was overall stagnation in poverty.

**Table 2.1: Decomposition of Poverty: 2003/04 Compared to 2005/06**

	<u>Change</u>	<u>Growth</u>	<u>Redistribution</u>	<u>Interaction</u>
<u>Total</u>				
Poverty headcount (P0)	1.6	-0.8	2.5	-0.1
Poverty gap (P1)	1.4	-0.4	1.7	0
Poverty severity (P2)	1.2	-0.2	1.3	0
<u>Urban</u>				
Poverty headcount (P0)	-4.7	-3.3	-0.1	-1.3
Poverty gap (P1)	-1.2	-1.5	0.2	0.1
Poverty severity (P2)	-0.2	-0.7	0.5	0
<u>Rural</u>				
Poverty headcount (P0)	5	1.4	3.7	-0.1
Poverty gap (P1)	2.8	0.5	2.3	0
Poverty severity (P2)	1.9	0.2	1.6	0

Source: World Bank Staff calculations from HBS data.

2.14 **A decomposition of the changes in poverty suggests that redistribution played a larger role than growth in the observed poverty trends.** Table 2.1 shows the proportion of the observed trends that is accounted for by growth, changes in the distribution and a residual. The decomposition is done for headcount, poverty gap and poverty gap squared. Note that between 2003 and 2005, estimated headcount increased by about 1.6 percentage point. Table 2.1 suggests that, if the shape of the distribution stayed the same – that is, inequality did not change between 2003 and 2005 - then headcount poverty would have declined by 0.8 percentage point on account of the growth in mean consumption. This means that about 16,000 people could have escaped poverty. Instead, we observe an increase in poverty because redistribution within the population leads to a 2.5 percentage point increase in headcount poverty, which offset and exceeded the expected benefits from growth. Put differently, the table suggests that in addition to poor growth, there was a rise in inequality in Kosovo during this period.

2.15 Table 2.2 provides a summary of the changes across the distribution. It shows that between 2003 and 2005, mean of per capita consumption grew by about 1 percent, but that those at the median had close to no growth at all. In fact, the mean growth of per capita consumption for each percentile was negative (Table 2.2, row 3). More importantly, the per capita consumption of the 44 percentile group – that is, the fraction of the population who were classified as poor in 2003 – experienced some of the largest losses, a 5.8 percent reduction.

**Table 2.2: Growth Rates in Per Capita Consumption**

Growth rate in mean	1.13
Growth rate at median	-0.50
Mean percentile growth rate	-1.28
Poverty line	43
Corresponding percentile	43
Rate of pro-poor growth	-5.78

*Source:* World Bank staff calculations from HBS data.

2.16 **In urban areas, growth accounted for a significant reduction in poverty, while in rural areas redistribution accounts for the increase in poverty.** About 3.3 percentage point reduction in the observed reduction in urban poverty is accounted for by growth. Moreover, any redistribution that may have taken place appears to have had no adverse effect on poverty. By contrast, almost 4 of the 5 percentage point increase in rural poverty, was due to a change in the shape of the distribution (Table 2.1)

**Table 2.3: Inequality Indices for 2003/04 and 2005/06**

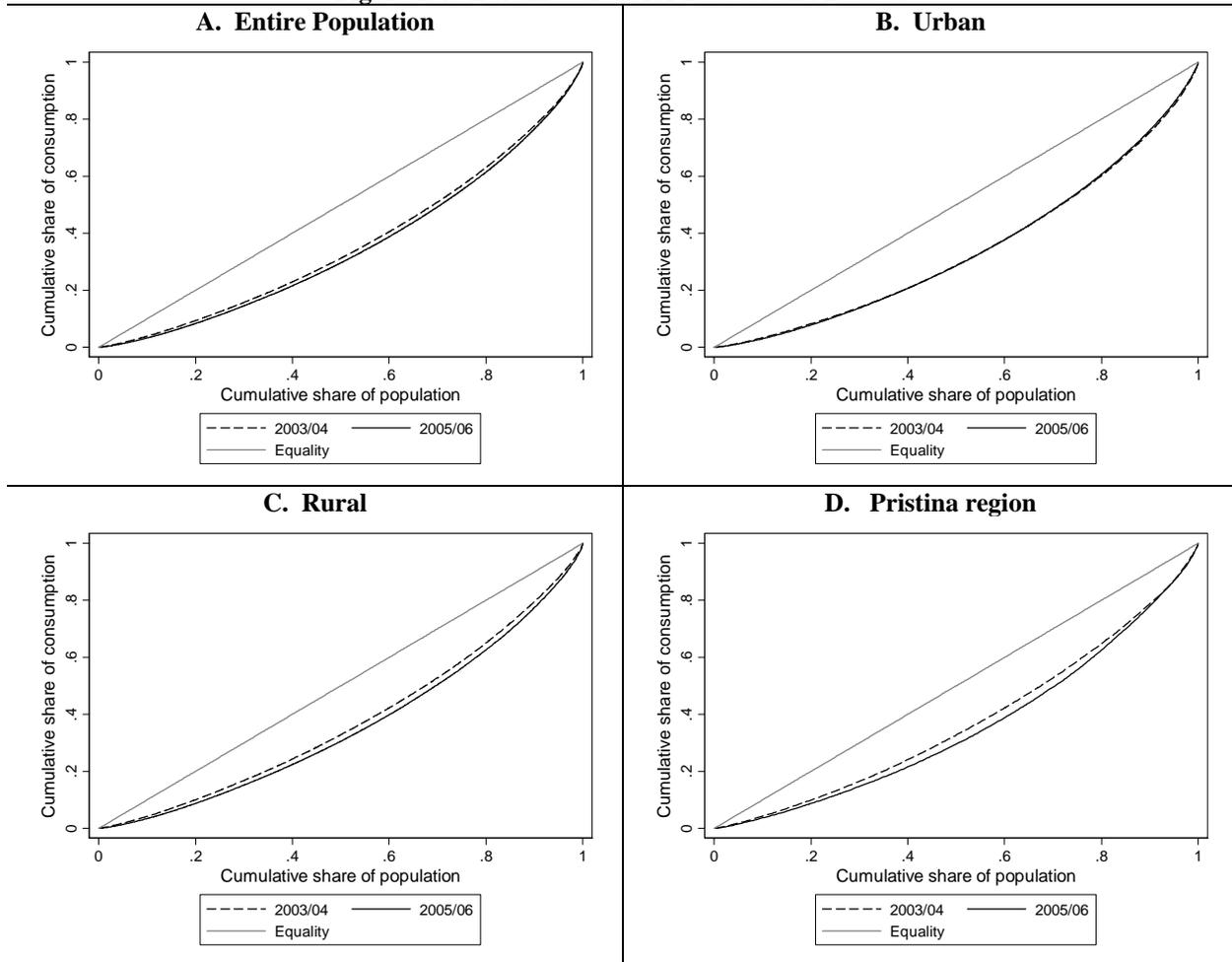
	Total		Urban		Rural	
	2003/04	2005/06	2003/04	2005/06	2003/04	2005/06
Percentile ratio p90/p10	3.33	3.96	4.05	4.42	3.09	3.68
p75/p25	1.89	1.97	2.14	2.06	1.78	1.9
Generalized Entropy, GE(0)	0.12	0.15	0.16	0.17	0.1	0.14
GE(1)	0.13	0.16	0.17	0.16	0.1	0.14
Gini coefficient	0.27	0.3	0.31	0.31	0.25	0.28

*Source:* World Bank staff calculations from HBS data.

2.17 **In addition to stagnating poverty, there was a slight increase in inequality.** As discussed above, there are two avenues for the observed redistribution to lead to more inequality. First, while most of the urban population had positive growth, majority of the rural population had negative growth. Second, in rural areas, where at least two thirds of the population lives, those ranked at the bottom of the consumption distribution had substantial negative losses, while the top quintile had positive growth. The net result should be an increase in inequality, which is what we observe (Table 2.3 and Figure 2.4). The results show that the Gini coefficient rose by about 4 percentage points between 2003 and 2005. Other measures of inequality also show an

increase. Moreover, inequality in rural areas rose higher than that in urban areas, even though inequality in urban areas is higher than in rural areas. Specifically, as the visual representation of gains and losses showed (Figure 2.3), the ratio of the richest to the poorest household rose sharply in rural areas (Table 2.3).

**Figure 2.4: Lorenz Curves for 2003/04 and 2005/06**



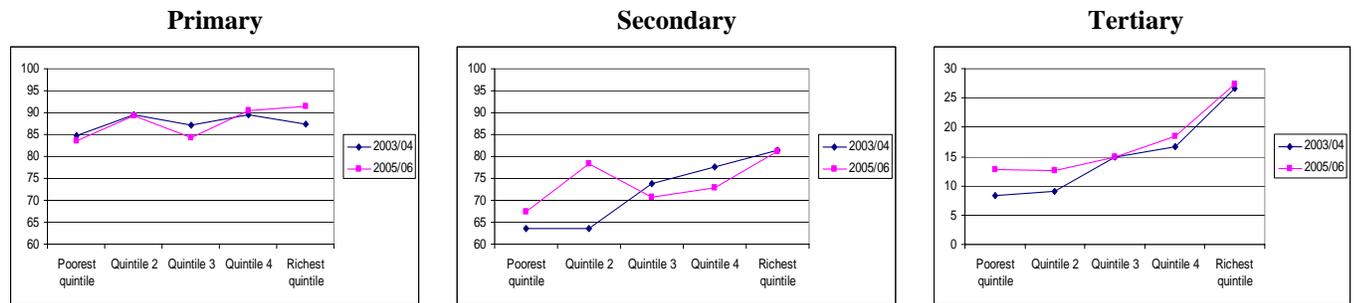
Source: World Bank staff calculations from HBS data.

### C. NON-INCOME DIMENSIONS OF POVERTY

**2.18 Non-income dimensions of welfare show better outcomes.** Although the trends in income poverty have been disappointing, there is almost universal enrollment in primary education. There are no significant male-female disparities in primary enrollment, and differences between poor and non-poor or rural and urban are also negligible. Enrollments in secondary education are also within the range of rates estimated for countries in the region. However, the tertiary enrollment rates are slightly lower than the rates estimated for countries in the region, except Albania. For instance, net enrollment rates for the 20-24 year olds was about 17 percent in 2005. By comparison, it was 24 percent in Bosnia. The enrollment for 20-29 year olds is 10 percent for Kosovo, while it is 13 percent in Albania (Table B.50). In addition, a relatively high proportion of the population report living in safe dwellings (with walls of brick,

blocks or cement) (Table B.31), dwellings with electricity and indoor water taps (Figure 2.6 and Table B.29).

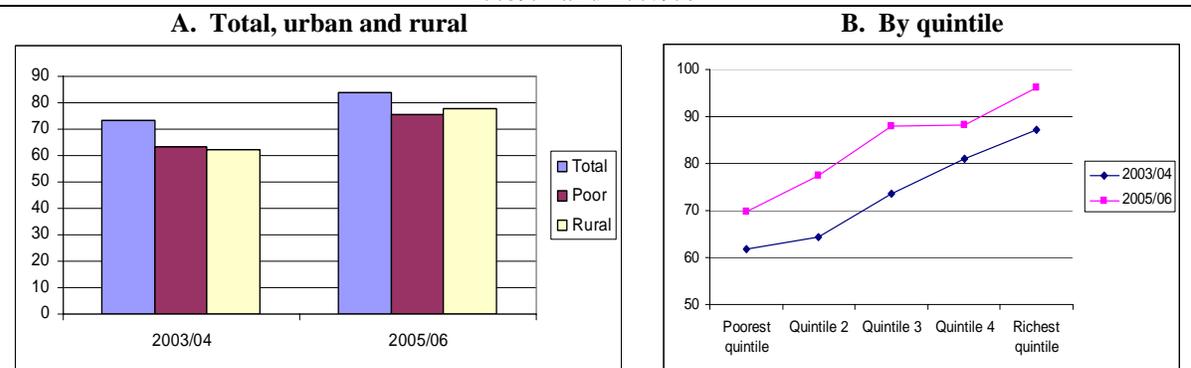
**Figure 2.5: Net Enrollment Rates**



Source: World Bank staff calculations from HBS data. Net enrollment rates = Total enrolled students aged 6-14/children in that age group. In 2002/03 questionnaire, the question about enrollment was asked for children over 7. In later surveys this was changed to 6 year-olds. The age groups used are: primary 7-14 in 2002/03, primary 6-15 starting 2003/04; secondary 16-18; tertiary 20-24.

**2.19 Despite these positive outcomes, there are two major areas of weakness in basic services. First, significant inequities exist in access to basic services.** In education, net enrollment in secondary education is on average about 70 percent. However, the enrollment rate for the richest quintile is about 20 percentage points higher than the poorest quintile. The disparity in enrollment is much larger in tertiary, where the net enrollment rates for the richest quintile are twice as high as those of the poorest quintile. In health, childhood immunizations and inadequate nutrition, especially among the minority groups (Roma, Askalja and Egyptians), show poor outcomes (World Bank, 2006a). Similarly huge disparities in access to indoor water tap are observed between the richest and poorest quintiles (Figure 2.6).

**Figure 2.6: Access to water: Percent of people living in dwellings with indoor water tap, 2003/04 and 2005/06**



Source: World Bank staff calculations from HBS data. The questions about housing are not the same for 2002/03 and later surveys. The number of categories decreases from over 20 to 9.

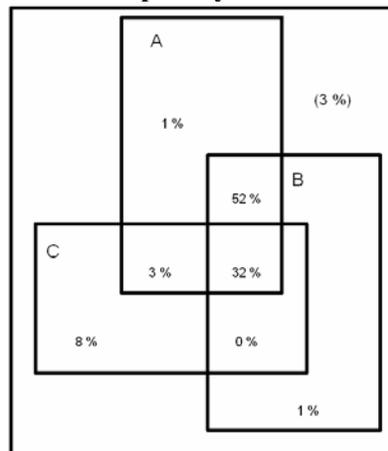
**2.20 Second, near-universal access has not been accompanied with equally good quality of services.** Although HBS surveys are unable to capture these issues, it is commonly understood the quality of basic services is poor. In education, there are efforts to modernize the curriculum and to make teaching profession competitive. Yet, overcrowding, especially in urban schools is common, a large fraction of teachers are not professionally qualified and there is no standard or

externally referenced assessments (World Bank, 2006a). Therefore, there is no way to know what children learn in schools. On electricity, there are known problems of inadequate supply, especially during peak demand, and water quality is uneven across the wealth gradient and rural/urban divisions. On water, quality differences are especially stark between rural and urban areas. In 2003, 70 percent of water samples from rural areas were found to have bacteriological contamination while only 8 percent of samples from urban areas did. In addition, chemical contamination was observed for 46 percent of rural samples compare to 4 percent of urban (World Bank, 2006a).

2.21 **Finally, about 9 percent of the population is deprived on multiple dimensions.** About 32 percent of the population is poor and have access to both indoor water tap and proper sanitation. That means the additional 15 percent poor have access to either water tap or proper sanitation but not both. But the most deprived are those who are materially poor and in addition have no access to indoor water and proper sanitation. The evidence from the HBS suggests that about 8 percent are poor and in addition have no access to water tap inside the dwelling or proper sanitation (flush toilet). Similarly, 9 percent of the population is poor and do not have access to telephone connection or bathroom (Figure 2.7). By comparison, a recent study showed that only 1 percent of the populations in Russia, Georgia and neighboring Romania were deprived on multiple dimensions (World Bank, 2005b).

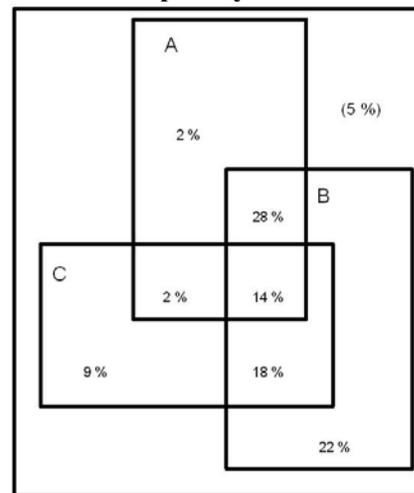
**Figure 2.7: Venn Diagram of Non-income and Income Poverty**

**A. Water, sanitation and income poverty**



A: Access to inside water tap  
 B: Sanitation: flush toilet  
 C: Poor households

**B. Telephone, housing and income poverty**



A Telephone connection  
 B Bathroom available  
 C Poor household

Source: World Bank staff calculations from HBS data.

2.22 To conclude, the evidence documented in this chapter indicates that income poverty remained widespread and persistent between 2003 and 2005. The decomposition of the poverty trend showed that changes in inequality had a much larger impact on the observed poverty outcomes than growth. Furthermore, these changes in inequality also partially explain the observed differences in urban and rural areas. We also found that while non-income dimensions of poverty show better outcomes, unequal access and poor quality are common. Finally, we found that a large fraction of the population is deprived on multiple dimensions.



## CHAPTER 3: POVERTY PROFILE AND POVERTY RISK

*The incidence of poverty is higher for larger households, especially those with many dependents, and families with many unemployed members. There is also evidence that households headed by Serbs and females have higher risk of poverty, although for the former data quality issues are of concern. As in many other situations, higher levels of schooling are associated with lower levels of poverty. Finally, we find that geographically, poverty incidence is higher for rural residents and populations living in Mitrovica and Ferizaji.*

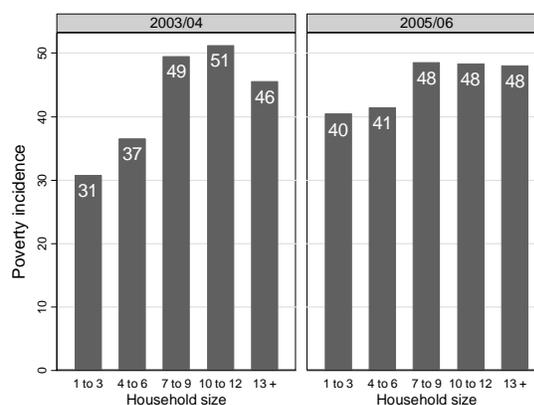
3.1 This chapter provides a brief description of the observable characteristics of the poor. It focuses on their human capital endowments, their demographic structure, their location in space, and their performance in the labor market. It pays special attention to the rural poor. First, the discussion will focus on the incidence of poverty. Then, it looks at factors that determine the risk of falling into poverty.

### A. DEMOGRAPHIC CHARACTERISTICS OF POOR HOUSEHOLDS

3.2 **Larger households are, on average, poorer.** Households that have over 6 family members have a poverty incidence of nearly 50 percent, compared to 30 percent incidence for households half the size or smaller (1 to 3 members). Over time the rate for larger households has remained unchanged, while that for the smaller households has increased, reflecting poor prospects for the whole population during the period (Figure 3.1 and Table B.5).

3.3 **In addition to size, household structure introduces its own drag on welfare improvement.** Households with only dependents, that is, those composed of only children and elderly, had 40 percent poverty incidence in 2003. By comparison households with no dependents have a poverty incidence of 29 percent. Over time, the incidence of poverty for households with more elderly or more dependent has worsened. For instance, in 2003, the poverty rate for mostly elderly households, defined as households with more than half their members being elderly, was about the same as the Kosovo average or the average for households with no elderly. However, in 2005, we observe a significantly higher poverty rate for mostly elderly households. Similarly, the difference in the poverty incidence between households with higher and lower dependency ratios has widened over time (Table B.8 and Table B.9).

**Figure 3.1: Poverty Rates by Household Size**



Source: World Bank staff calculations from HBS data.

3.4 **Poverty incidence is also higher among female headed households, compared to households headed by males.** The incidence of poverty among female headed households was 47 percent in 2003, while that for male headed households was 43. Over time, incidence of

poverty has risen in both, by the same order of magnitude, so that the gap has remained unchanged (Table B.7).

3.5 Areas with predominantly large Serb ethnic group and households whose head is identified as Serbian appear to have experienced more hardship, although data quality is of concern. To create a representative sample of households, the Kosovo HBS survey stratifies its sample into Albanian and Serbian areas. The classification of areas into predominantly Serbs or Albanians ethnic population is based on the 1981 Census and is relatively arbitrary. In addition, only about 300 households from the predominantly Serb areas are surveyed each year. Thus the results for ethnicities are more imprecise. With that background the results indicate that the poverty headcount for Serb areas and Serb-headed households seems to have skyrocketed between 2003 and 2005 (see Figure b3.1 and Box 3.1 below).

**Table 3.1: Absolute and Extreme Poverty Rates by Ethnicity of the Household Head.**

	Absolute		Extreme	
	<u>2003/04</u>	<u>2005/06</u>	<u>2003/04</u>	<u>2005/06</u>
Total	43.5	45.1	13.3	16.6
Albanian	43.6	42.5	13.4	14.7
Serbian	34.7	81.8	8.6	43.5
Other	54.3	51.8	18.5	22.7

*Source:* World Bank staff calculations from HBS data.

## B. LABOR MARKET CHARACTERISTICS OF THE POOR

3.6 **The unemployed are more likely to be poor and their condition has grown worse over time.** The unemployment rate of the poor is about 55 percent in 2005/06 according to the HBS (Table 3.2), and about 17 percent of those who are poor and unemployed are heads of households. In the population, about 16 percent of heads of households are unemployed individuals and this share has remained stable during the period. Therefore, the poverty incidence among the unemployed heads was almost 50 percent, and this has not increased over time.

**Table 3.2: Poverty and Unemployment**

	<u>2003/04</u>	<u>2005/06</u>
Poverty rate of the unemployed	50.6	49.6
Poverty rate of the employed	31.9	34.7
Unemployment rate of the poor	59.7	54.5
Unemployment rate of the non-poor	41.8	41.3

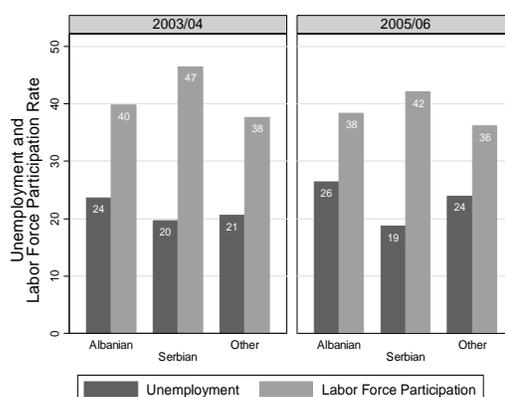
*Source:* World Bank staff calculations from HBS data. *Notes:* Only ages 15-64 and in the labor force.

3.7 **Another group with high incidence of poverty is the per diem workers.** About 70 percent of the poor are either employed (salaried or self) or inactive. Among the employed, the per diem workers (probably casual laborers who are paid a wage for specific tasks) have the highest poverty incidence (Table B.11 and Table B.12). This group, together with heads of households who are self-employed and in the mining sector, make up a significant fraction of the working poor (Table B.51).

### Box 3.1: Three Hypotheses for Deteriorating Conditions among Serb Household

The poverty rates among households who are classified as Serbs appear to show a sharp rise in poverty between 2003 and 2005. There are three possible hypotheses for these increases. The first is that Serb areas have become enclaves, isolated economies, which are experiencing gloomier economic prospects within a largely stagnant Kosovo economy. The second is that many better off Serbian households have left for the Republic of Serbia and those left behind are mostly the very poor. Finally, there is the possibility that data quality from mostly Serb statistical areas are poor because the Statistical office does not have much control over the enumerators in the Serbian areas. It is quite possible that all three hypotheses apply. That said, the size of the increase in the poverty rate appears improbably high because neither the conventionally accepted levels of out-migration of Serbs from Kosovo nor their welfare ranking in Kosovo would support these numbers. Furthermore labor force status and wages in predominantly Serb areas do not appear to be very different (see below).

**Figure b3.1: Unemployment and Labor Force Participation Rates by Ethnicity**



Source: World Bank staff calculations from HBS data. Notes: Self-reported unemployment.

**Table b3.1: Poverty Rates, Labor Force Status and Wages of the Serbian Population**

	2003/04	2005/06
Serbian population only		
Poverty rate of the unemployed	43.8	84.9
Poverty rate of the employed	30.0	77.0
Unemployment rate of the poor	40.8	30.3
Unemployment rate of the non-poor	27.4	20.6
Wages (in 2002 prices)		
Albanian	215.2	215.6
Serbian	241.8	181.2
Other	181.6	182.0

Source: World Bank staff calculations from HBS data. Notes: Self-reported ethnicity and unemployment.

**3.8 Self-employed agricultural households face average poverty rates but are the third biggest contributors to poverty.** About 40 percent of households headed by self-employed agricultural workers are poor, which makes the poverty incidence in this group slightly below the average for the country. However, this group is quite large as it makes up over 10 percent of all poor (Table B.51).

## C. EDUCATIONAL ATTAINMENT AND POVERTY INCIDENCE

**3.9 Poverty incidence declines rapidly with higher education of the household head.** About 43 percent of heads of households have completed secondary school or higher. The poverty incidence is highest among those living in households with heads who have not completed primary school (Table B.10). Most of the poor, however, have either primary or secondary education (Table B.52). The poverty incidence falls sharply for households headed by university educated individuals, down to about 20 percent.

**3.10 As expected, the more educated have lower incidence of poverty because they have better employment prospects and better pay.** Around 70 percent of people with vocational and tertiary education are salaried employees. By comparison, only 27.7 percent of individuals with secondary education have such jobs, while 41.1 percent report being unemployed. Also a higher

proportion of secondary educated individuals report working as “per diem” or “other” workers (Table 3.3). There are also differences in pay. Between 2002 and 2005, real wages of salaried employees have remained steady while those for “per diem” and “other” workers have declined (Table 1.4).

**Table 3.3: Employment and Education, 2005/06**

	Uncompleted Primary	Primary	Secondary	Vocational	Tertiary
Employer	0.3	0.1	1.4	1.1	3.6
Salaried employee	3	6.2	27.7	70.6	69
Subsistence farmer	3.6	7	5.6	2.4	1.1
Per-diem worker	1.8	3.9	4.3	1.6	1.3
Unemployed	16.9	32.1	41.1	15.1	16.6
Housekeeper	55.2	43.8	10.3	2.6	1
Other	19.2	6.8	9.7	6.6	7.3
Total	100	100	100	100	100

*Source:* World Bank staff calculations from HBS data. Weighted figures for 15-64 year-olds. Students excluded from the calculations.

#### D. INCIDENCE OF POVERTY ACROSS SPACE

**3.11 Poverty incidence varies widely across space.** In addition to ethnicity, the data is stratified into 7 regions and urban and rural. We use the 7 regions defined in the surveys to obtain the incidence of poverty across space. In 2003, the incidence of poverty was highest in Mitrovica, followed by Ferizaji, Gjakove and Prizreni (Table 3.4). The poverty incidence in all four was higher than the national headcount. By 2005, only Mitrovica (with a large Serbian population) and Ferizaji had poverty incidence higher than the national headcount. Mitrovica has a larger share of rural population (over 70 percent ) and larger fraction of non-Albanian ethnic groups, such as Serbs (over 10 percent) (Table B.53 and Table B.54). Pristina, which had one of the lowest incidences of poverty, experienced an increase in poverty during the period. This suggests either that a larger proportion of the poor in other urban or rural areas are drawn to the region or that its non-migrant population did not do well during the period.

**Table 3.4: Poverty Rates and Contribution by Region in Kosovo, 2003-2006**

	Poverty headcount rate		Distribution of the poor	
	2003-04	2005-06	2003-04	2005-06
	Gjakova	48.9	45.3	11.5
Cjilani	32.5	23.5	7.9	5.6
Mitrovica	59	69.7	22.7	22.6
Peja	37.8	40.1	9.6	10.2
Prizreni	48.3	40.5	15.3	15.8
Prishtina	34.3	40.6	22.5	19.8
Ferizaji	49.8	54.4	10.5	13.3
Total	43.7	45	100	100

*Source:* World Bank staff calculations from HBS data.

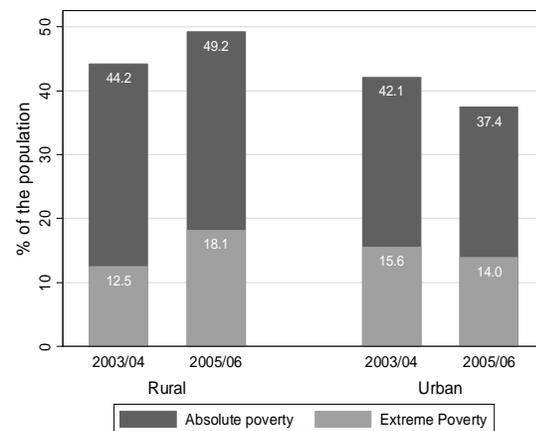
**3.12** The HBS data asks respondents to report members of the household who were born outside their municipality of residence (a proxy for migration). It does not ask how long ago they moved to their current residence or which municipality they moved from. So while the available information does not allow a clear distinction between these processes, it can provide the more likely one. Table B.47 shows the estimated share of the resident population in each municipality, the share of the population that reported being born outside their current municipality and the distribution of the poor with a member born outside the municipality. Mitrovica, Prizren, Peja

and Pristina have the highest shares of the population born outside their current municipality. In other words, these four municipalities received about 3 out of every 4 “internal migrant”. But when we look at the poverty status of the “migrant” population and where they live, we find that one-third lives in Mitrovica, about a quarter live in Prizren, and an additional 16 percent live in Ferizaj. Only 7 percent of the “migrant” poor live in Pristina.

**3.13 The lack of overall progress in poverty reduction masks the divergence between rural and urban areas.** In 2003, rural and urban poverty rates were about the same: 44 and 42 percent respectively. By 2005, urban poverty had declined by 5 percentage points, while rural poverty had increased by a similar magnitude (Figure 3.2). As a result, more than two-thirds of all the poor live in rural areas, and this share has declined only slightly over the period.

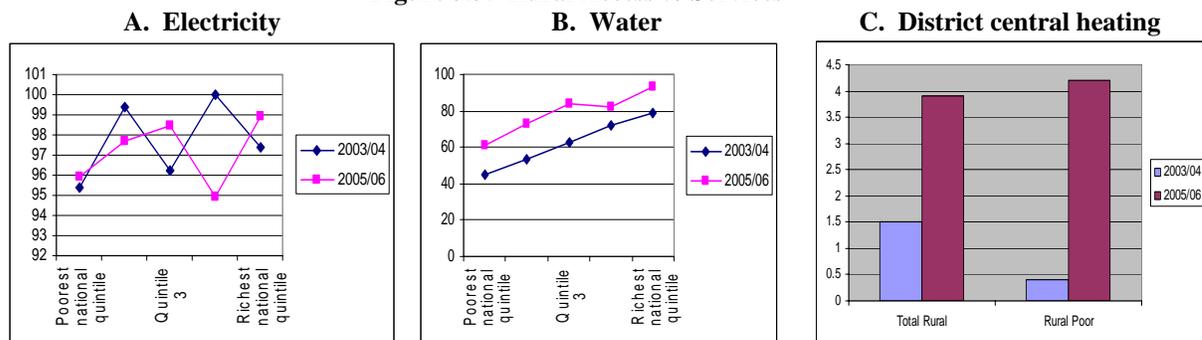
**3.14** Individuals without productive agricultural assets have the highest estimated incidence of poverty in the rural population. In 2002 and again in 2005, households in rural areas were asked to report whether they owned any land. In between these two years, no such information is available, so it is not possible to track changes in the incidence of poverty between 2002 and 2005 because the consumption data for these two years is not comparable. Instead, we report the poverty incidence for 2005. About 10 percent of households in rural areas reported being landless and we find that nearly 7 of every 10 households in this group are classified as poor in 2005 (Table B.13). In addition, those who reported having no livestock, or agricultural equipment such as tractors, ploughs or trailers, also exhibit higher than average incidence of poverty (Table B.14 and Table B.15).

**Figure 3.2: Rural and Urban Poverty Trends**



Source: World Bank staff calculations from HBS data.

**Figure 3.3: Rural Access to Services**

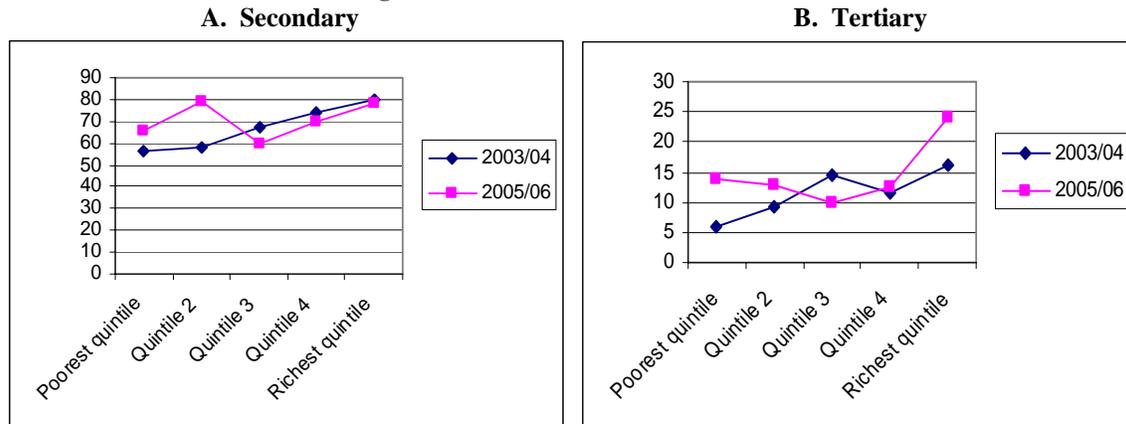


Source: World Bank staff calculations from HBS data.

**3.15 On the non-income dimensions of welfare, rural populations have worse outcomes in access to indoor water tap and central heating.** Access to indoor water tap appears to have improved in rural areas, but it is still comparatively lower than urban areas. Figure 3.3 (panel B) shows that access to safe water in rural areas has increased for all quintiles between 2003 and 2005. While this is a positive development, inequality of access between the richest and the poorest quintiles are large. Only 60 percent of the poorest quintile have indoor water tap

compared to 80 percent of the richest quintile. Moreover, these rates are still lower than those in urban areas. On central heating, less than 10 percent of the rural population report living in a dwelling with central heating, while in urban areas, there is near universal access. The gap in secondary enrollment rates between rural and urban areas was about 20 percentage points in 2003/04 and fell down to about 10 in 2005/06. For tertiary education, this differential was about 15 percent in 2003/04 and 10 in 2005/06.

**Figure 3.4: Rural net enrollment rates**



Source: World Bank staff calculations from HBS data.

### E. WHY ARE PEOPLE POOR AND WHO IS AT HIGH RISK OF POVERTY?

3.16 The preceding discussion looked at poverty trends and profile of the poor between 2003 and 2005. There are two reasons to extend the analysis beyond a look at trends and profiles. First, by definition the poverty profile is a simple correlation between an observable characteristic and poverty status. These correlations do not tell us the independent effect of the observable characteristic that is correlated with poverty status. As an example, a high correlation between poverty and primary education, often does not tell us how much of that correlation is due to the fact that those who have only primary education are also likely to be more unemployed or, even if employed, they are likely to receive lower wages. Therefore, there is a need to understand the link between an observable characteristic and poverty status, when the impact of all the other variables has been “netted” out.

3.17 The second reason to extend the analysis is that a documentation of trends and profiles tells us about what happened in the past, but not what is likely to happen in the future. Past patterns, of course, provide useful information for what to expect in the future. Nonetheless, poverty reducing policies are more interested in what happens in the future. For instance, what happens to the poverty outcomes in the population if certain variables (say fertility, educational attainment, etc.) change from current patterns? Such a thought experiment is all the more interesting, especially if it can be influenced by policy making. The two extensions strengthen the policy content of the analysis of profiles.

3.18 In this section, we extend the preceding analysis in this direction. First we estimate a consumption model in order to understand the magnitude of the consumption shortfall for households with specific characteristics. This first stage highlights the variables that explain the observed differences in consumption. The multivariate nature of the model means that we can infer the size of the shortfall that is attributed to the specific variable of interest. In the second step, we estimate the probability that a household with such observed characteristics will fall into

poverty, by taking into consideration their predicted consumption and variance of their consumption (that is, from the unexplained part of consumption). The third step is to select some variables of policy interest, change their values and predict the likely magnitude of the change in the poverty incidence (for a complete discussion of the methods, see El-laithy, Lokshin and Banerji, 2003). The results of the multivariate poverty profile are consistent with the preceding results. Table B.49 presents the results of the consumption model separately for each year.

3.19 First, the key demographic variables appear to be household structure and labor market fortunes of the household members. Households with larger dependents have about 10 percent less consumption, and this gap has been steady during the period, while the households with more unemployed members have 4 to 8 percent less consumption. On the other hand, households with a female head do not appear to have measurably less consumption than male headed households, once we control for other observable characteristics. Finally, households with Serb heads of households appear to report less consumption in the most recent years, suggesting perhaps that their situations might have eroded (but Box 3.1).

3.20 Second, the measured link between education and consumption are in line with the results from the poverty profile. To look at the effect of education on consumption, we use the highest education attained in the household rather than the head of the household because we find that the former explains the condition of the household better. The model uses secondary education as the comparison group. The results show that all households whose highest education attained is primary or less have at least 12 percent less consumption, while those whose highest education attained is vocational or tertiary have at least 12 percent more consumption.

3.21 Third, the poverty profile indicated that per diem workers have one of the highest incidences of poverty. The results in Table B.49 confirm that households whose main source of income is “per diem” have about 33 percent less consumption than households whose main source of income is remittances. In addition, we find that those whose main source of income is social assistance have one of the highest consumption shortfall compared to those relying on remittances.

3.22 Finally, once we control for location, human capital and demographic characteristics of households, we find that urban households do not have measurably higher consumption than rural households. However, the results confirm that urban households have done better over time as we noted in the evolution of poverty. In 2003, urban households had about 11 percent less consumption than rural households, which has disappeared by 2005. Regionally, Mitrovica, Gjakove and Ferizaji have 18 to 20 percent less consumption than Pristina, and Gjilani has 20 percent more.

3.23 In the second stage of our extended analysis, we use the predicted consumption from the above consumption model together with the unexplained part of consumption (the error term) to obtain the probability of falling into poverty for each household. We can then average these probabilities across groups (say primary educated, rural, etc.) to obtain average probability of being poor for that group. In effect this becomes the average risk of falling into poverty for a group. Then we can use the same model to see how a change in a policy variable changes the risk of falling into poverty. Table 3.5 summarizes the results using the 2005 data.

3.24 The first column of Table 3.5 shows a few policy experiments. For demographic variables, one question to ask is what would happen to poverty risk if female headed households had the same opportunities as male heads of households. Another one attempts to predict the change in poverty risk if the number of dependents were reduced in the households where

dependency ratio is higher than the median. Since there is universal primary education, the more interesting education policy questions focus on the changes in poverty risk if secondary education became universal or available to the poorest quintile. The final set of questions looks at how poverty risk might change if rural populations received the same opportunities as urban and all the regions received the opportunities found in Pristina. A discussion of the specific policies that would be required to realize these thought experiments is beyond the scope of this report. It is enough to think about what is the likely impact on poverty risk if these goals were to be achieved.

**Table 3.5: Impact of Changes in Household Characteristics on Poverty (in percentage points)**

	<i>Absolute poverty rate</i>	<i>Predicted probability of being absolute poor</i>	<i>Change in predicted probability of being absolute poor</i>	<i>Extreme poverty rate</i>	<i>Predicted probability of being extreme poor</i>	<i>Change in extreme poverty rate</i>
<b><i>Demographic characteristics</i></b>						
Female headed households to male headed households	49	44.6	-0.9	18.4	20.6	-0.6
Dependency ratio greater than median to median	49.1	47.4	-4.3	18.9	47.4	-3
Dependency ratio greater than median reduced by 25 percent	49.1	47.4	-7	18.9	21.2	-4.8
<b><i>Education (max education in household)</i></b>						
Change Primary to secondary	64.2	62.2	-10.1	28.5	33.2	-8.4
Change to Secondary for poorest quintile	100	67.9	-2.6	83.5	39.1	-3.3
Change Primary to tertiary	64.2	62.2	-27.4	28.5	33.2	-19.9
<b><i>Labor market characteristics</i></b>						
One less unemployed in HH	47.7	48.3	-1.3	18.7	21.5	-0.9
10% less unemployment	47.7	48.3	-5.9	18.7	21.5	-3.9
<b><i>Spatial dimension (urban and Pristina are reference)</i></b>						
Rural	49.2	47.9	-1.5	18.1	21.4	-1
Gjakova	45.3	46.7	-13.2	13.5	19	-7.4
Gjilani	23.5	24.1	14.1	5.4	8.1	7.3
Mitrovica	69.7	65.3	-16.4	33.5	35.3	-13.7
Peja	40.1	37	-3	18.7	13.6	-1.6
Prizreni	40.5	42.9	-2.2	10.2	16.3	-1.3
Ferizaji	54.4	53.8	-14.7	21.6	25.5	-9.8

*Source:* World Bank staff calculations from HBS data. Note that the change in extreme poverty rate for households with highest education of “None, cannot read/write” is higher than the observed poverty rate because the change = predicted poverty risk – simulated poverty risk, and the predicted in this case is higher than the observed.

3.25 The second column of Table 3.5 is the poverty incidence for the group targeted by the policy change, as computed from the poverty profile. This can be thought of as an empirical probability of poverty for the group. Column 3 is the predicted probability using the consumption model, and as the results show there is close similarity between the two. Column 4 shows what would happen to the predicted probability of being poor if the policy changes in column 1 were achieved, using the absolute poverty line. The last three columns do the same for extreme poverty.

**3.26 Policies that improve opportunities in lagging regions, improve access to secondary education, and create employment have the largest impact in reducing poverty risk.** The risk of poverty would decline by about 15 percentage points if three regions, Gjakove, Mitrovica, and Ferizaji, who together comprise 40 percent of the population, were to close their gap with Pristina. This would be the same as reducing the national level poverty rate in 2005 from 45 to 36 (that is  $45 - 0.4 * 15$ ). Were all primary educated individuals to receive secondary education, the poverty risk for that group would be reduced by 10 percentage points. The decrease would be even larger if the same group were to receive tertiary education. However, no significant reduction in poverty risk is predicted if the poorest quintile received secondary education. This does not mean that secondary education is not important or relevant for this group. It simply means that under the specific conditions, other interventions may have more impact. A 10 percent reduction in the number of the unemployed in every household would reduce the poverty risk by 6 percentage points.

**3.27** In conclusion, this chapter has shown that the poor tend to be concentrated in households that are large, are elderly, have more dependents, more unemployed, and located in rural areas and, regionally, in Mitrovica and Ferizaji. The chapter also looked at determinants of poverty risk, or the factors that increase the likelihood of falling into poverty. It found that labor market success of household members, demographic structure (dependency ratio), education and region of residence are preeminent factors. In particular, the policy experiments indicate that policies that generate employment, improve opportunities in lagging regions and raise the educational attainment of the population have the largest effects on reducing the poverty risk.



## **CHAPTER 4: PUBLIC TRANSFERS, REMITTANCES AND POVERTY**

*The social protection programs in Kosovo have low coverage, but its social assistance program, the explicitly anti-poverty program, is well-targeted. However, the modest size of the programs and the flat benefits per recipient households over time has resulted in only a modest impact on poverty. The results for private transfers are quite different. First, compared to the coverage of social assistance programs, substantially more households have migrants and receive remittances. Second, the impact of migration and remittances on welfare has been large. In rural areas, estimated differences in poverty outcomes between households with migrants and those without is almost 20 percentage points. However, migration might also have contributed to observed inequality in rural areas.*

4.1 The discussion thus far has highlighted that about 45 percent of the population in Kosovo lived in poverty between 2003 and 2005, and some 15 percent were extremely poor. A significant fraction remains vulnerable to the slightest of economic downturns. Furthermore, over time, while the same fraction continued to be poor, inequality has widened. In this context, an affordable social protection system that has a wide reach and is well targeted can become an essential instrument to help the poor and vulnerable populations shield themselves from severe hardships.

### **A. COMPOSITION AND TRENDS OF SOCIAL PROTECTION TRANSFERS**

4.2 The current social protection system comprises a three-pillar basic pension system, special schemes for war invalids and their next of kin, early retirement for miners to accelerate restructuring of the sector, disability benefits, social assistance benefits, employment assistance programs, and direct and indirect subsidies for narrowly defined vulnerable groups (World Bank, 2006a).

4.3 The *basic pension* is a flat-rate monthly benefit available to all residents of Kosovo and Kosovar refugees living outside the territory, aged 65 and over, irrespective of prior contributions. The benefit is set to equal the extreme poverty line (the food basket) and it is adjusted annually to reflect changes in costs. Pensions are not targeted to poor families. The *social assistance* benefit is narrowly targeted on a subset of poor and extremely poor households. It was introduced in 2002 and revised in December 2003. Those eligible fall into two categories: (1) families without resources where no one is capable of work, or expected to make themselves available for work (single mothers, children); and (2) families with at least one child under 5, or caring for an orphan under 15 years. Under the second category, additional members of the household who are capable of working are not eligible as they are required to register as unemployed. Furthermore, eligible families cannot possess income generating assets that exceed 0.5 hectares of land. Also, if eligible families have outside sources of cash that exceed the social assistance benefit then they receive no benefits, but if the outside source is less than social assistance, they receive the difference (World Bank, 2006a).

4.4 The HBS data used in this report does not distinguish the different types of pension or social assistance programs. However, it is important to note that over 75 percent of the social protection system is devoted to basic pension (three-pillars) and social assistance benefits. Although the early retirement program for the mining sector is expected to expand substantially

compared to its level in 2003, it is still only a small share of the aggregate social protection system. Therefore, it must be kept in mind that most of the conclusions given here probably apply to the two largest programs. Table 4.1 reports the evolution of the number of recipients and total benefits for the pension and social assistance programs from administrative and survey data. The two data sources tell the same story.

**Table 4.1: Pension and Social Assistance Programs, Official and HBS Estimated Number of Recipients and Total Value Disbursed**

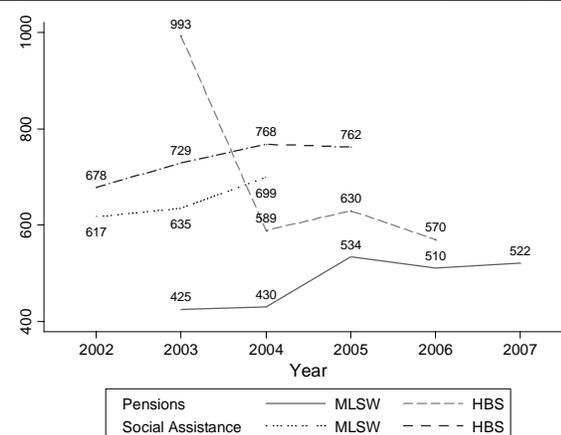
<b>1. Number of recipients:</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>A: Pension</b> <sup>1</sup>						
Official figures		116,387	143,045	158,600	169,000	171,400
HBS estimates		68,307	115,871	111,200	127,742	
<b>B: Social assistance</b> <sup>2</sup>						
Official figures	52,329	50,724	46,441			
HBS estimates	28,917	36,088	45,420	43,356		
<b>2. Benefits: Total disbursement</b> <sup>3</sup>						
<b>A: Pension</b>						
Official figures		49,495	61,572	84,711	86,268	89,450
HBS estimates		67,799	68,277	70,052	72,788	
<b>B: Social Assistance</b>						
Official figures	32,293	32,217	32,480			
HBS estimates	19,615	26,323	34,880	33,048		

*Source:* MLSW figures from PEIR (2006) and World Bank staff calculations from HBS 2002/2006. *Notes:* <sup>1</sup> Number of individuals. <sup>2</sup> Number of households. <sup>3</sup> In thousands of Euros. *Notes:* Official (MLSW) figures for 2002-2004 are actuals and predicted for 2005-2007. The HBS estimated payout is in real 2002 Euro prices. HBS pensions refers to old-age, disability and war invalid pensions.

4.5 **First, the social protection system expanded at a fast pace, but the expansion may be slowing down.** Both data sources indicate a sharp rise in the number of recipients between 2003 and 2006, and then a slowdown thereafter. The administrative data shows that the number of pension recipients expanded at 6 percent per year between 2004 and 2006, while the HBS estimates a 3 percent annual growth during the same period. By contrast, the number of social assistance recipients is estimated to have declined from about 52,000 to about 46,000 when using administrative records. The HBS also estimates about 46,000 recipients of social assistance in the most recent year, which may be the result of an earlier expansion.

4.6 **Second, the value of benefits per recipient household has remained flat over time.** Figure 4.1 shows trends in the estimated benefit per recipient household. Again, except perhaps for the 2003 pension estimate, the administrative and the survey data show similar benefit levels and trends. In general, pension benefits

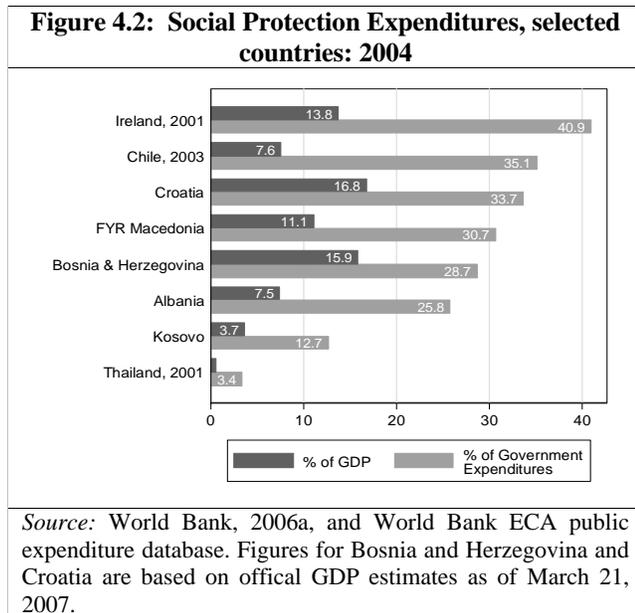
**Figure 4.1: Estimated Annual Benefits per Recipient**



*Source:* MLSW figures: World Bank (2006a). HBS: World Bank staff calculations from HBS data.

per recipient household appear to be lower than social assistance benefits per recipient household. Moreover, both programs show no growth in benefits per recipient household between 2003 and 2006.

4.7 **Finally, Kosovo’s social protection spending is lower than similar public programs in the region.** Figure 4.2 shows the share of social protection programs in per cent of GDP and total government expenditures in some Southeast European countries and high growth middle income countries from other regions. Whether one chooses to look at per cent of GDP or share of government spending, Kosovo’s social protection programs are the lowest. This reflects both economic and fiscal constraints. The revenue base is limited by low growth and borrowing options are limited.



4.8 The evolution of the social protection spending has to be seen in the context of the recent history of Kosovo. The initial expansion was motivated by the size of the population made vulnerable by conflict and economic disruption. On pension alone, there are special programs for war invalids, disabled (no doubt partly due to conflict), and early retirees for mining. There is evidence that recipients list of the disability pension has expanded sharply since 2004 (World Bank, 2006a). However, at present and in the near future, while the need for social protection may be great given the poverty outcomes, expansion will be constrained by a tight budget envelope. This means that existing social protection programs will have to be well targeted and efficient in order to have a larger impact on poverty outcomes.

## B. IMPACT OF SOCIAL PROTECTION PROGRAMS ON POVERTY

4.9 **A key feature of the social protection programs is their low coverage.** The top panel of Table 4.2 summarizes the estimated fraction of the population that receives pensions and social assistance. Social assistance covers about 13 percent of the population and this has not changed over time. Furthermore, equal fractions of the urban and rural populations are covered. The program covers about 33 percent of the poorest fifth of the population, and additional 16 percent in the second poorest quintile. The pattern of coverage across quintiles means that only about 23 percent of the poor and about 34 percent of the extreme poor population is reached by the social assistance program. The different types of pensions benefit about 6 percent of the population. The distribution of pension coverage across urban/rural and quintiles is also similar, as it should be, since there are multiple criteria for pension eligibility.

4.10 **And very good targeting of the social assistance program.** The bottom panel of Table 4.2 shows the distribution of the recipients, that is, the location of the recipient population across space (urban/rural) and welfare ranking (consumption quintiles). First, note that there is no bias towards urban or rural populations. The fractions of the recipients in rural and urban areas are in line with rural and urban population shares. Since over two-thirds of the poor live in rural areas, they are also in line with the distribution of the poor. The leakage of funds used to be only a bit

worse in rural areas – in 2003/04 about 23 percent of the social assistance recipients were non-poor compared to 11 percent in urban areas—but is currently at par with urban at about 22 percent (Figure D.1). Second, nearly 70 percent of the recipients are poor, and only at most 6 percent are in the richest quintile. Third, given that a large fraction of the population is vulnerable, the results in the table suggest that almost 90 percent of the recipients are either poor or vulnerable, which suggest an excellent targeting effectiveness. Moreover, because the welfare ranking is done on consumption that does not net out the social assistance benefit used for consumption, the targeting effectiveness is probably even better than reported here.

**Table 4.2: Social Assistance and Pensions: Coverage and Incidence by Urban/Rural and Quintile, percent of individuals**

	<i>Social Assistance</i>		<i>Pensions</i>	
	<u>2003/04</u>	<u>2005/06</u>	<u>2003/04</u>	<u>2005/06</u>
<b>Coverage (% of population)</b>	11.2	13.2	5.8	6.4
Urban	9.7	11.1	5.7	6.3
Rural	11.9	14.4	5.8	6.4
Poorest quintile	28.9	32.6	4.5	7.1
Quintile 2	13.2	16.2	7.1	6
Quintile 3	9.2	9.6	5.8	6.5
Quintile 4	3.3	3.8	6.7	6
Richest quintile	1.3	3.9	5.1	6.4
<b>Beneficiary incidence (distribution of recipients)</b>	100	100	100	100
Urban	30.4	29.3	34.4	34.5
Rural	69.6	70.7	65.6	65.5
Poorest quintile	51.7	49.2	15.7	22.2
Quintile 2	23.6	24.5	23.9	18.9
Quintile 3	16.5	14.5	19.5	20.3
Quintile 4	5.9	5.8	23	18.8
Richest quintile	2.3	6	18	19.9

*Source:* World Bank staff calculations from HBS data. *Notes:* Pensions include all types of pensions (basic, disability, war invalid, etc).

4.11 The modest size of the benefit levels and low coverage of the social protection programs suggests that the social protection programs have had low impact on well-being. In the absence of the social assistance, poverty would be higher by about 2 percentage points. It would be even higher in the absence of pensions, by about 4 percentage points (Table 4.3). Assuming that there is no overlap between the pension and social assistance recipients, the simulations suggest that poverty was reduced by about 6 percentage points (or 14 percent). Similarly, in the absence of social assistance or pensions, extreme poverty would have

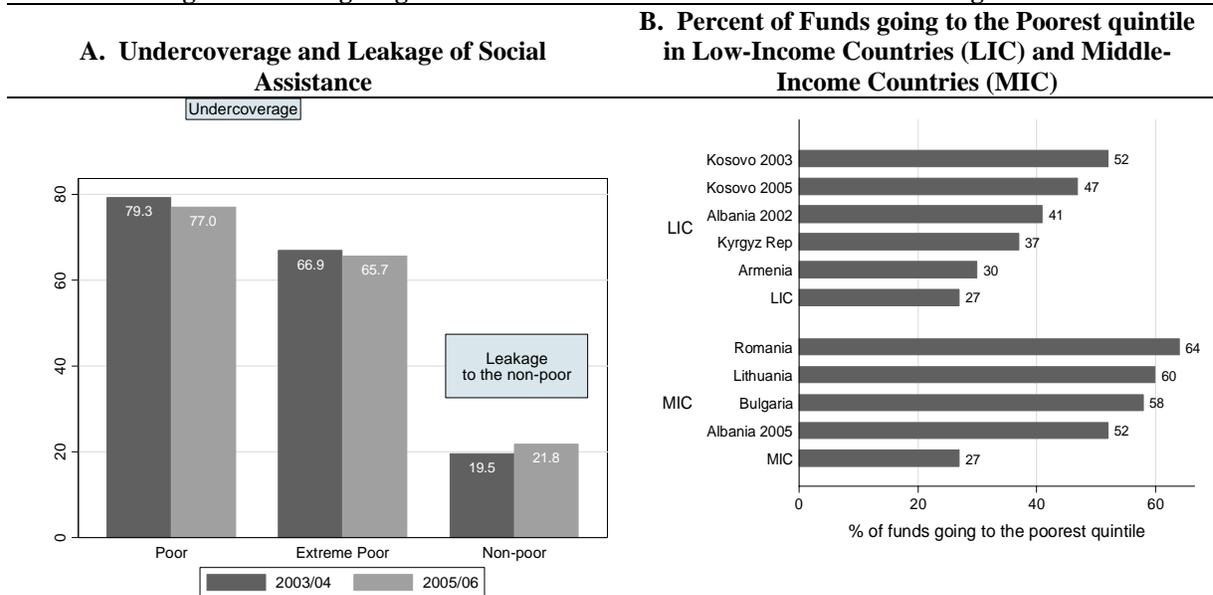
**Table 4.3: Adequacy and Simulations.**

	<b>Social assistance</b>		<b>Pensions</b>	
	<u>2003/04</u>	<u>2005/06</u>	<u>2003/04</u>	<u>2005/06</u>
<b>Adequacy</b>				
Monthly transfer	60.8	63.5	64.4	63
<b>Poverty rates</b>				
Current/post-transfer state				
Absolute poverty rate	43.5	45.1	43.5	45.1
Extreme poverty rate	13.6	16.7	13.6	16.7
Pre-transfer simulation				
Absolute poverty rate	44.9	46.5	47.6	49.6
Extreme poverty rate	17.2	20	18.6	21.7

*Source:* World Bank staff calculations from HBS data. *Notes:* 100% marginal propensity to consume from transfer assumed. Real 2002 Euros. Population-weighted.

been higher by 4 and 5 percentage points, respectively (about 40 percent). Between the two programs, the larger impact on poverty reduction has come from pensions. The simulation of poverty rates with and without social protection programs assumes that the programs have had no influence on the decisions of the participating households, especially with regard to labor supply. Accounting for these behavioral changes would complicate the analysis, and is beyond the scope of this report. It would probably lead to even lower impact of the programs than stated here. However, the quick simulation is useful to gauge the potential size of the impact, even if they may reflect the highest possible impact (the upper bound).

**Figure 4.3: Targeting Performance of the Kosovo Social Assistance Program**



Source: World Bank staff calculations from HBS data.  
Notes: Undercoverage is the percent of individuals that are poor but not covered. Leakage is the percent of individual recipients that are not poor.

Source: World Bank staff calculations from HBS data and World Bank (2005).

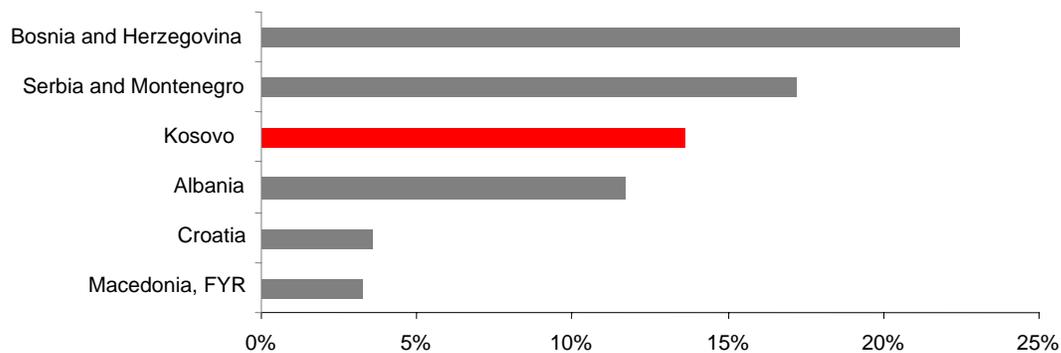
### C. SIZE AND DISTRIBUTION OF REMITTANCES

4.12 The formal social protection programs are complemented, and often dwarfed by the private transfers. While these take many forms – in-kind and informal transfers for mutual insurance between households, social work services by NGOs, kinship based support networks, and so on – remittances are some of the largest and most widespread of these transfers. Kosovo is the 3<sup>rd</sup> highest remittance recipient in the Western Balkans, when the rank is measured as share of remittances in GDP (Figure 4.4). It is the 11<sup>th</sup> highest in the world (Figure D.2). Because nearly all of these remittances flow to households, we would expect that they would have significant impact on household welfare. Although HBS does not collect detailed information on migration and remittances on a routine basis, it fielded a module on the extent of external migration and the value of remittances received by households in Kosovo in 2005. This section draws on these data to estimate the size of remittances and their impact on poverty.

4.13 **Nearly a quarter of Kosovars have migrants abroad.** The number of international migrants is estimated at about 400,000 individuals, and is in line with independent estimates of the size of migrants from Kosovo in OECD countries. Using census and survey data collected from all OECD destination countries, Docquier and Marfouk (2006) estimated the population of

migrants from Serbia, Montenegro and Kosovo at about 2 million. Assuming the rates of migration are the same, then apportioning this total according to shares of total population in Serbia, Montenegro and Kosovo suggests 400,000 migrants from Kosovo<sup>2</sup>. The majority of the migrants come from rural areas. For instance, while 1 in 3 (30 percent) of all households with international migrants live in urban areas, the remaining 70 live in rural areas. Regionally, almost 1 in 5 households with international migrants are residents in Mitrovica, Prizreni and Gjakove (Table 4.4).

**Figure 4.4: Remittances as a share of GDP in the Western Balkans**



Source: Global Economic Prospects 2006: Economic Implications of Remittances and Migration, World Bank.

**4.14 The share of the population which receives remittances is substantially higher than the fraction receiving social assistance.** As noted in Table 4.2, about 13 percent of the population was covered by the social assistance program. By comparison, an estimated 20 percent received remittances (Table 4.4). The spatial distribution of recipient population mimics the pattern observed for sources of migrants: over 70 percent of the recipients live in rural areas, and Mitrovica and Prizreni report having the highest fraction of population receiving remittance.

**Table 4.4: Migration and Remittances, 2005**

	All	Migrant	Remittances
Poverty rate	37.2	30.4	29.8
% of population	100	25.9	21.4
<b>Urban/rural Distribution</b>			
Urban	36.2	28.7	27.6
Rural	63.8	71.3	72.4
<b>Regional Distribution</b>			
Gjakova	11.5	17.1	15.5
Cjilani	12	10.2	12.4
Mitrovica	15.1	20.6	20.4
Peja	11.2	13.2	11.3
Prizreni	15.7	18.1	20.1
Prishtina	23.3	13.2	12.2
Ferizaji	11.2	7.6	8.1
Total	100	100	100

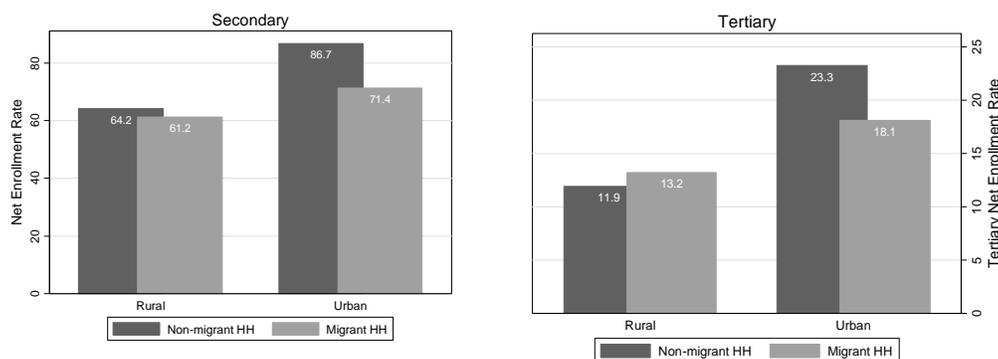
Source: World Bank staff calculations from HBS 2005 population-weighted data. Notes: <sup>1</sup> In 2002 Euros and per adult equivalent.

<sup>2</sup> Population of Serbia, Montenegro and Kosovo is 8 million, 0.7 million and 2 million respectively, for a total of 10.7 million. This means that Kosovo's share is about 19 percent of the total population  $(=(2/10.7)*100)$ . So its migrant share is  $0.19*2 \text{ million}=380,000$ .

## D. IMPACT OF MIGRATION ON POVERTY

4.15 **Households with migrants or receiving remittances do not appear to demand more education.** Judging from the comparison of enrollment rates, there is no evidence that remittances are used for investment in education. There is a large observed difference in enrollment rates between general population and sub-populations with migrants or receiving remittances for urban areas, but none in rural areas. Net enrollments are about 10 percent lower for sub-populations with migrants or receiving remittances in urban areas (Figure D.1). Separate enrollment rates for male and female children also confirm lower rates for sub-populations with migrants or receiving remittances in urban areas (Figure 4.5). However, by comparing the general urban population to the sub-population of urban residents with migrants, the raw differences may lead to the misleading conclusion that having a migrant reduces enrollment rates. Doing a more careful comparison, that is comparing urban sub-populations with migrants to urban sub-population without migrants but who have the same or nearly the same observable characteristics, shows no difference in enrollment rates (Table 4.5).

**Figure 4.5: Enrollment Rates for Households with a Migrant and without a Migrant, 2005**



Source: World Bank staff estimates from HBS data.

4.16 **Households with migrants have higher consumption.** The median value of remittances is 2000 Euros per year, and the mean is higher at 2600 Euros. The average value of remittances to rural areas is about 2800 Euros, compared to about 1500 Euros for urban areas Table 4.6, (panel A). These values are about 3 times higher than the average values from social protection programs to recipient households shown in Figure 4.1. Moreover, self-reported use of remittances shows that the latter are overwhelmingly used for consumption. The survey data indicates that sub-populations with migrants or receiving remittances report 9 percent more consumption per adult equivalent per month, but no higher consumption of food (Table 4.4).

**Table 4.5: Propensity Score Matching Results for Secondary Enrollment Rates**

	<i>Outcome: Secondary Net Enrollment Rates.</i>	<i>Difference</i>	<i>T-stat</i>
Urban	Unmatched	-0.09	-3.19
	Average Treatment effect for the Treated (ATT)	-0.04	-0.93
Rural	Unmatched	-0.03	-1.07
	Average Treatment effect for the Treated (ATT)	-0.01	-0.12

Source: World Bank staff calculations from HBS data for 2005. Propensity score method used is single nearest member.

4.17 Comparing the mean differences in consumption between the sub-population with migrants and the general population is not necessarily an accurate indication that having a migrant is what brought about the difference. It is quite possible that households with migrants would have had higher consumption anyway, perhaps because there is something about these households that makes them successful, which survey data does not collect. So one way to estimate the true difference in consumption is to compare the sub-population with migrants with a sub-population that does not have migrants but has the same observable characteristics. The estimation has two stages. In the first stage, one estimates the probability of having a migrant abroad on the basis of observable characteristics for that household including education, location, demographic structure, and so on in order to obtain the propensity to migrate (that is, a propensity score). In the second stage, a household with a migrant abroad is matched with another household without a migrant abroad but has the same probability of having a migrant abroad (or very close if there is no exact match).

4.18 Once the matches are done for all households with migrants abroad, the mean difference in consumption or any outcome of interest is calculated. The estimation strategy can be done separately for rural and urban as is done here for Kosovo. Figure D.4 shows the quality of matches for Kosovo, and urban and rural sub-populations. The results show that for migrant households predicted to have a very high propensity to migrate, those with propensity score of 50 percent or higher, there are not very good matches from the sub-population without migrants. For those predicted to have a low propensity to migrate and do migrate, there are very good matches.

**Table 4.6: Remittances from Abroad in 2005 by Recipient Households, cash and in-kind for the last 12 months**

A. Mean Remittances and their use			B. Mean Remittances by quintiles in urban and rural areas	
	<i>Remittances</i>			
Mean	2603.2			
Median	2000			
Urban	2179.4			
Rural	2805.7			
Poor	1487.1			
Extreme Poor	1341.6			
<b>Remittance Use</b>	<b>All or major part</b>	<b>Minor part</b>		
Consumption	82.5	10.6		
Durables	1.7	0.9		
Home construction	5.4	3.1		
Savings	2.5	13.6		
Other	3.3	7.3		

Source: World Bank staff calculations from HBS data.

4.19 **The matched results confirm a statistically significant difference in consumption between households with migrants and those without.** The results suggests that the difference in consumption between those with migrants and those without for urban population is about 1.2 Euro per adult equivalent per month, which for a household with average size, means an additional 8 Euros per month more consumption, or a gain in consumption that is 25 percent of the extreme poverty line. The differences in rural areas are slightly larger (Table D.4).

4.20 Instead of matching, one can look at the differences in consumption using regression analysis, still accounting for the probability of having a migrant. The process is still two-stage:

first the probability of having a migrant abroad is estimated, then the predicted probability is included in a regression of consumption on all observable characteristics. The results from this exercise (IV-estimation) also confirm that households with migrants consume more (Table D.3). The consumption elasticity of having a migrant is 0.17, which means that a household with a 10 percent higher predicted probability of having a migrant abroad will be estimated to have about 2 percent higher consumption. All these suggest that we should expect to see potentially lower poverty rates, which we do.

**4.21 The poverty rate for the sub-population with migrants or which receives remittances is 7 percentage points lower than the general population** (Table 4.4). The incidence is 13 percentage points lower in rural areas, while in urban it is 6 percentage points higher in households with a migrant (Table D.2). The large difference in rural areas compared to urban areas could be because rural poor receive higher levels of remittances than urban poor. On average the value of remittances to recipient rural households is much higher than the value to recipient urban households. Remittances to rural recipients are much higher than to urban recipients at every quintile, except the poorest (Table 4.6, panel B). Comparing the poverty rates for matched samples shows that the poverty rates are 20 percentage points lower for rural households with a migrant and not statistically different for urban households with a migrant (Table D.5).

**4.22 Finally, remittances may explain partly the growing inequality in the population.** In general the value of remittances received by poor households is lower. Table 4.6 (panel B) shows that in rural areas, the richer households received substantially larger remittances than the poorest group. In urban areas, there is less divergence, especially among the lowest four quintiles. This pattern may explain the observed sharp increases in inequality in rural areas compared to urban areas. It may also suggest that poverty could have been reduced more sharply if the poor received larger remittances.

**4.23** In conclusion, this chapter has highlighted the low coverage of social protection programs, but effective targeting of the social assistance program to the poor. It shows that the modest size of the programs has meant that overall their impact on poverty has been modest. By contrast, the chapter notes that international migration and remittances from migrants have had a wider reach and have much large impacts on welfare, measured as consumption or poverty outcomes.



## **CHAPTER 5: STRENGTHENING THE FOUNDATION OF POVERTY MONITORING AND EVIDENCE-BASED POLICY MAKING**

*The HBS has laid the foundation for poverty monitoring in Kosovo. However as currently designed it has three weaknesses. First, its level of representativeness is uncertain because there is no recent reliable population census to use as reference. Second, it is inadequate to provide a basis for assessing and monitoring all dimensions of welfare, and third, it suffers from inadequate supervisory oversight. To improve the quality and reliability of the surveys, it is recommended that a census be undertaken, but in the immediate term, it is crucial to better manage the updating of the old frame, maintain the tradition of specialized modules, enlarge the sample size and invest in supervision.*

5.1 This report looks at the evolution of poverty in Kosovo in the first half of this decade. It documents that growth in this period was low. After a brief discussion of the prevailing macroeconomic environment, it examined the evolution of the welfare of the population of Kosovo. It reached three main conclusions. First, while the non-income dimensions of welfare had generally favorable outcomes, income (or consumption) measures of welfare showed stagnation. In particular, it shows that consumption growth was minimal, and where it was positive, the benefits went mostly to urban and the richest fifth of the rural population. Second, in addition to widespread and persistent poverty, a large fraction of the population is vulnerable. Third, the pattern of gains and losses has led to an increase in inequality, even though the overall inequality in Kosovo is still considered low.

5.2 The report also documented a profile of the poor, and found that the poor are to be found mostly among the larger households, those with more elderly and dependents, with more unemployed members, and households living in rural areas. Finally, the report looked at the two mechanisms for protecting families against economic hardships – social protection programs and private transfers in the form of remittances from migrants. It found that the modest size of the social protection programs has meant that they have had only a modest impact on poverty, while the size and reach of migrant remittances has had much larger and positive impact on the welfare of the population, particularly in rural areas.

5.3 In terms of policy, it argues on the basis of the diagnosis regarding the pattern of poverty and the profile of the poor that policies which focus on sustaining high and inclusive growth, raise rural productivity, and improve the skills of the population will have the largest and most lasting impact.

5.4 At the center of this evidence and conclusions, of course, is the HBS data. The HBS provides a solid foundation for monitoring poverty in Kosovo. It has the elements of a sustainable survey: it is a core survey of SOK, it is fully funded by the government, it has dedicated staff (albeit few) supported by technical staff from development partners, and it has been implemented successfully every year since it began. In short, HBS has the potential to be the foundations for monitoring and evaluating policies. Such evaluations can be important for evidence-based policy making. However, there is a cloud that hangs over the findings from these

surveys and indeed results from all micro-surveys in Kosovo. To be more specific, there are three weaknesses.

**5.5 First, there is an underlying uncertainty regarding the representativeness of the samples.** Because there has not been a reliable census in almost a quarter of a century – the last complete census was done in 1981 – there is no known reference population to which the samples can be cross-checked. Over the last five years SOK staff has been updating 400 of the original 3400 enumeration areas drawn up in 1981, so there is information gained every year. However, the uncertainty remains.

**5.6 Second, as designed the HBS is inadequate to provide a basis for assessing and monitoring all dimensions of poverty outcomes.** The survey collects detailed information on expenditure, but the questions on the non-income dimensions of poverty are very thin and insufficient. It is difficult to monitor a range of education, health, utilities and housing outcomes. In addition to difficulties of monitoring access to services and specific programs, there is difficulty of evaluating the benefits of specific programs because there is no information on beneficiaries and non-beneficiaries. To their credit, SOK staff has introduced modules on specific topics in each round of the survey. One specific example of such module is the migration module in the 2005 survey that was used for Chapter 4 of this report. But the modules are often under-funded, so that their content is sometimes uninformative, and they are not often linked to big policy questions in Kosovo. In addition, while it is good that the samples are stratified by region, urban, and ethnic areas, and therefore, in principle make it possible to obtain statistics at these strata, the 2400 households sampled every year may be too small. For some levels of disaggregation, the sub-samples may be too small to allow outcomes to be monitored accurately.

**5.7 Finally, non-sampling errors are not negligible.** The main non-sampling errors may occur on the survey implementation and administration side. There are two constraints that introduce non-sampling errors. First, supervision of field work is compromised by inadequate supervision. To see the scale of the problem, note that there are only three core members of the HBS unit, and one supervisor, at the Pristina office. There are about 40 or so enumerators who work on HBS and other surveys. Shortage of personnel, constant attrition, inadequate funding of supervision and no doubt lack of control of field work in Serb areas because of the existing social tensions, will affect the quality of the information collected. Second, lack of experience managing large and complex surveys also compromises quality. Implementation of complex surveys from inception to analysis is relatively new to SOK and began only 5 years ago. Therefore, it is to be expected that during the learning period, there would be lapses on quality.

**5.8 To remedy these problems, six recommendations are proposed:**

- **The single most important and beneficial act would be to undertake a census.** The availability of the census would establish a credible frame for future surveys and with some effort, would allow remedying whatever biases may be found in existing surveys. But at present, it is not clear when the census will be done. Meanwhile there is still a need to continue to improve the quality of current surveys. While the preparation and final date for the implementation of the census continue, it may be useful to,
- Create a master sample from a smaller list of enumeration areas, as was done in Bosnia and Herzegovina (see Volume II). Currently, an update of the master sample is scheduled for early 2007. Using satellite images, about 5, 000 new enumeration

areas are created, of which, about 1, 000 will be listed (the number of households will be estimated upon a visit).

- **Improve the management of the updating of the existing frame.** At present there is no clear documentation on how the re-listing of the 400 selected EAs is done each year or how the information is used and at what stage of the process. Establishing an appropriately staffed sampling/methodology unit could help in this effort in a meaningful way.
- **Continue the tradition of introducing specialized modules, but they should be linked to the policy process.** To build ownership and maintain relevance, it is important that the process of selecting the topics and content of the module be consultative. In particular, the line ministries should be drawn in as partners.
- **Enlarge the sample size.** The current sample is too small to monitor welfare outcomes and undertake analysis of policy impact at lower units of disaggregation, such as rural and urban statistics for each region. A new sample size should take into account (a) cost constraints, (b) desired sampling error and confidence intervals, and (c) human resources constraints (a bigger size survey requires excellent supervision and coordination to minimize non-sampling error). Generally, as a rule of thumb, decreasing the sampling error is inversely proportional to the square of the sample size. For instance, to decrease the sampling error by 2 would require increasing the sample size by 4. Experience from similar surveys in the region suggests doubling the current sample size to around 4, 320-4, 800 but a more careful assessment is needed.
- **Invest in supervision.** This will minimize non-sampling errors, improve quality of surveys, and enhance the credibility of the results from the surveys. It will also strengthen the survey implementation skills of the supervisory staff.
- **Maintain current expenditure questions to preserve comparability across years.** As presented in Volume II of this report, the changes in the questionnaire design constrains comparability over time. Adhering to the most recent questionnaire, coupled with randomized tests of different modules or questions if changes need to be introduced, will help ensure consistent time trends.



## ANNEX A: TABLES AND FIGURES

**Table A.1: Difference in World Bank and IMF assumptions and adjustments to the HBS data.**

	IMF assumptions	WB assumptions
<b>Demographics</b>		
Population growth	1.7%	0%
Population size		2 mil
Urban/rural proportions	No adjustment	65% rural
<b>Economic aggregates</b>	Car purchases, electricity, food	None

**Table A.2: Summary Statistics of Main Aggregates by Survey Wave**

	Survey Wave							
	I		II		III		IV	
	Mean	sd	Mean	sd	Mean	sd	Mean	sd
Household size	6.77	3.53	6.46	3.27	6.09	2.84	6.09	3.08
Adjusted adult equivalent size of HH	6.49	2.41	6.26	2.31	6.00	2.03	5.97	2.16
HH Average Monthly Consumption (Euro)								
Total Consumption of HH	370.66	282.39	331.04	210.62	362.22	256.08	314.85	221.10
Total Expenditures of HH	317.31	254.80	279.83	194.45	320.01	245.36	277.85	207.58
Consumption of own produced or fetched food	53.35	86.32	51.21	75.94	42.21	68.73	37.00	70.10
HH Average Monthly Expenditures (Euro)								
Total Expenditures of HH	317.31	254.80	279.83	194.45	320.01	245.36	277.85	207.58
Food expenditures (incl. alcohol and tobacco)	192.75	116.92	167.34	87.56	171.36	102.58	151.59	90.27
Non-Food expenditures	124.57	176.61	112.49	131.72	148.65	172.00	126.26	138.50

**Table A.3: Average Monthly Food Consumption, in Current Euro**

	Survey Wave							
	I		II		III		IV	
	Mean	sd	Mean	sd	Mean	sd	Mean	sd
Food expenditures (incl. alcohol and tobacco)	192.75	116.92	167.34	87.56	171.36	102.58	151.59	90.27
Bread and cereals	36.47	25.88	35.02	25.42	32.65	22.62	27.02	20.84
Meat	34.27	34.73	26.67	20.16	27.51	23.28	24.83	20.27
Fish	1.45	5.66	1.45	3.02	2.13	7.82	1.65	3.26
Milk, cheese and eggs	23.42	24.72	17.33	17.81	18.31	17.57	15.89	15.47
Oil and fats	10.33	8.37	8.41	6.58	8.31	5.41	7.62	5.80
Fruits	9.38	12.04	8.95	8.85	11.04	12.54	9.10	8.97
Vegetables	20.36	21.09	20.12	17.95	17.52	17.88	15.87	14.64
Sweets (sugar, jam, honey, chocolate and confectionery)	11.51	9.91	10.52	8.36	11.48	9.76	9.85	8.28
Other food products	9.00	8.07	9.34	10.30	9.56	9.60	7.64	6.35
Coffee, tea and cocoa	7.84	5.64	7.12	3.99	6.49	4.00	5.78	3.12

Non-alcoholic beverages	9.13	12.91	9.05	9.28	10.06	10.38	8.40	8.24
Alcoholic beverages	1.86	5.98	1.39	5.02	1.36	4.09	1.24	4.20
Tobacco	17.73	21.24	11.96	14.88	14.95	17.33	16.69	21.69

**Table A.4: Household Average Monthly Non-food Expenditures (Euro)**

	Survey Wave							
	I		II		III		IV	
	Mean	sd	Mean	sd	Mean	sd	Mean	sd
Non-Food expenditures	124.57	176.61	112.49	131.72	148.65	172.00	126.26	138.50
Clothing and footwear	25.52	52.58	21.72	38.13	30.09	45.54	23.40	48.34
Housing and related services	43.80	91.62	38.83	53.88	45.86	63.47	41.22	59.41
Health	7.05	17.83	7.72	22.43	10.10	28.22	8.20	17.04
Transport and communication	29.96	51.29	23.69	35.87	30.90	47.19	28.08	31.33
Recreation and culture	4.39	17.88	3.22	22.85	5.65	32.16	3.13	14.24
Education	3.00	16.56	7.87	35.58	9.50	29.81	7.57	28.71
Restaurants and hotels	2.57	13.73	3.72	29.85	4.24	14.45	3.64	17.45
Other services and goods	8.29	23.65	5.71	8.30	12.32	24.45	11.03	23.77

Source: World Bank staff calculations from HBS data. Weighted with original weights.

**Table A.5: Shares of the Food and Non-food Expenditures over Total Expenditure**

	Survey Wave			
	I	II	III	IV
Food expenditures (incl. alcohol and tobacco)	60.75	59.80	53.55	54.56
Clothing and footwear	8.04	7.76	9.40	8.42
Housing and related services	13.80	13.88	14.33	14.84
Health	2.22	2.76	3.16	2.95
Transport and communication	9.44	8.47	9.66	10.11
Recreation and culture	1.38	1.15	1.77	1.13
Education	0.95	2.81	2.97	2.72
Restaurants and hotels	0.81	1.33	1.32	1.31
Other services and goods	2.61	2.04	3.85	3.97

**Table A.6: Shares of the Expenditures on Food Categories over Total Food Expenditure**

	Survey Wave			
	I	II	III	IV
Bread and cereals	18.92	20.93	19.05	17.82
Meat	17.78	15.94	16.05	16.38
Fish	0.75	0.87	1.24	1.09
Milk, cheese and eggs	12.15	10.36	10.69	10.48
Oil and fats	5.36	5.03	4.85	5.03
Fruits	4.87	5.35	6.44	6.00
Vegetables	10.56	12.02	10.22	10.47
Sweets (sugar, jam, honey, chocolate and confectionery)	5.97	6.29	6.70	6.50
Other food products	4.67	5.58	5.58	5.04
Coffee, tea and cocoa	4.07	4.25	3.79	3.81
Non-alcoholic beverages	4.74	5.41	5.87	5.54

Alcoholic beverages	0.96	0.83	0.79	0.82
Tobacco	9.20	7.15	8.72	11.01

Source: World Bank staff calculations from HBS data. Weighted with original weights.

**Table A.7: Poverty Headcount by Location**

Survey Wave	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
<i>Original weights</i>				
Total	37.7	43.7	34.8	45
Rural	34.4	44.2	37.2	49.2
Urban	46.6	42.1	30.3	37.4
<i>Post-stratified weights</i>				
Total	38.7	43.5	34.8	45.1
Rural	34.4	44.2	37.2	49.2
Urban	46.6	42.1	30.3	37.4

Source: World Bank staff calculations from HBS data.

**Table A.8: Kosovo: IMF GDP Estimates at Current Prices, 2004–10. In millions of euros, unless otherwise indicated, subject to further revision**

	2004	2005	Prel. 2006	2007	Projections		
					2008	2009	2010
<b>Consumption</b>	<b>2,699</b>	<b>2,735</b>	<b>2,840</b>	<b>2,821</b>	<b>2,811</b>	<b>2,748</b>	<b>2,714</b>
Households	1,921	1,998	2,107	2,185	2,229	2,259	2,291
Public	779	737	733	636	582	489	423
General government	376	337	347	359	401	386	383
Wages	184	195	204	204	204	200	196
Goods and services	192	143	143	155	197	186	187
Donor sector 1/ Wages	403	400	386	276	180	103	40
Expatriates	333	340	330	232	150	85	33
Local employees	261	255	248	176	115	65	25
Goods and services	72	85	83	55	35	19	7
Goods and services	70	60	56	45	30	18	7
<b>Investment</b>	<b>626</b>	<b>618</b>	<b>681</b>	<b>788</b>	<b>844</b>	<b>909</b>	<b>945</b>
Donor sector 1/ General government	158	91	78	99	94	74	28
Private investment	169	151	99	142	204	259	270
Housing	300	376	504	547	546	576	646
Other	203	221	241	242	240	229	219
Other	97	155	262	306	306	347	427
<b>Net exports of goods and services</b>	<b>-1,112</b>	<b>-1,177</b>	<b>-1,283</b>	<b>-1,288</b>	<b>1,235</b>	<b>-1,175</b>	<b>1,092</b>
Exports	212	196	233	255	314	365	411
Exports of goods	79	66	90	113	162	201	230
Exports of services	132	130	143	141	152	165	181
Imports	1,324	1,373	1,516	1,543	1,549	1,540	1,503
Donor imports	216	140	122	120	100	73	29
Other goods and services	216	140	122	120	100	73	29

services							
Imports related to the humanitarian assistance	0	0	0	0	0	0	0
Other imports	1,108	1,233	1,394	1,423	1,449	1,467	1,474
<i>Of which: private sector consumer goods</i>	709	785	886	860	819	780	743
<i>Of which: private investment goods</i>	167	241	329	368	403	427	442
<b>GDP</b>	<b>2,214</b>	<b>2,177</b>	<b>2,237</b>	<b>2,320</b>	<b>2,419</b>	<b>2,482</b>	<b>2,567</b>
Workers' remittances (net)	215	262	300	342	346	350	351
Income from abroad (net)	23	30	40	31	4	9	11
<b>GNDI</b>	<b>2,451</b>	<b>2,469</b>	<b>2,577</b>	<b>2,693</b>	<b>2,770</b>	<b>2,841</b>	<b>2,929</b>
Memorandum items:							
Total foreign assistance	565	491	465	376	275	177	68
<i>Of which: Direct contribution to GNDI</i>	204	198	181	128	93	64	36
Private sector disposable income	2,044	2,050	2,049	2,121	2,242	2,300	2,380
Private sector consump. in percent of disposable income	94	97	103	103	99	98	96
GNDI per capita (in euros)	1,247	1,235	1,268	1,303	1,318	1,329	1,347

Fund staff estimates and projections as of September, 2007. 1/ Donor sector includes UNMIK, KFOR, and other donor spending under the umbrella of the so-called "public investment program", and spending financed by designated donor grants (DDGs). This presentation excludes wages of KFOR personnel as well as consumption of goods imported directly by KFOR.

Source: IMF, 2007.

**Table A.9: Poverty Incidence, Gap and Severity, Corrected for Survey design**

	Estimate	Standard Error	95% Confidence Interval	
Poverty incidence (p0)				
2003/04	43.5%	2.0%	39.5%	47.4%
2005/06	45.1%	1.7%	41.6%	48.5%
Poverty gap (p1)				
2003/04	11.9%	0.7%	10.6%	13.2%
2005/06	13.3%	0.7%	12.0%	14.6%
Poverty severity (p2)				
2003/04	4.6%	0.3%	4.0%	5.2%
2005/06	5.7%	0.4%	5.0%	6.5%

Source: World Bank staff estimates from HBS data.

## ANNEX B: POVERTY PROFILE

**Table B.1: Poverty Headcount by Location, Region and Ethnic Areas**

	2002/03	2003/04	2004/05	2005/06
Total	38.7	43.5	34.8	45.1
Rural	34.4	44.2	37.2	49.2
Urban	46.6	42.1	30.3	37.4
Gjakova	41.1	48.9	34.8	45.3
Cjilani	35.9	32.5	20.7	23.5
Mitrovica	50.2	59	51.2	69.7
Peja	43.8	37.8	31.8	40.1
Prizreni	41.5	48.3	41.6	40.5
Prishtina	26.3	34.3	29	40.6
Ferizaji	55.5	49.8	38.2	54.4
Albanian area	38.7	43.7	34.8	43
Serbian area	34.1	39.4	33.3	80.5

*Source:* World Bank staff calculations from HBS data.

**Table B.2: Poverty Contribution by Location**

	2002/03	2003/04	2004/05	2005/06
Rural	57.8	66.1	69.5	70.9
Urban	42.2	33.9	30.5	29.1
Total	100	100	100	100

*Source:* World Bank staff calculations from HBS data.

**Table B.3: Poverty Contribution by Region**

	2002/03	2003/04	2004/05	2005/06
Gjakova	9.9	11.5	11	12.8
Cjilani	7.8	7.9	7.8	5.6
Mitrovica	20.1	22.7	20.8	22.6
Peja	11.5	9.6	10.2	10.2
Prizreni	14.8	15.3	18.6	15.8
Prishtina	23.1	22.5	21.8	19.8
Ferizaji	12.7	10.5	9.8	13.3
Total	100	100	100	100

*Source:* World Bank Staff calculations from HBS data.

**Table B.4: Poverty Contribution of Ethnic Areas**

	2002/03	2003/04	2004/05	2005/06
Albanian	94.4	96.4	95.9	90.2
Serbian	5.6	3.6	4.1	9.8

*Source:* World Bank staff calculations from HBS data.

**Table B.5: Poverty Headcount by Household Size Category**

	2002/03	2003/04	2004/05	2005/06
1 to 3	31.6	30.7	29.3	40.4
4 to 6	35.4	36.5	32	41.4
7 to 9	41.7	49.5	36	48.5
10 to 12	45.2	51.2	42.6	48.3
13+	36.2	45.5	34.7	48

*Source:* World Bank staff calculations from HBS data

**Table B.6: Poverty Headcount by Household Head Ethnicity**

	2002/03	2003/04	2004/05	2005/06
Albanian	38.4	43.6	32.1	42.5
Serbian	30	34.7	34.3	81.8
Other	58.7	54.3	67	51.8

*Source:* World Bank staff calculations from HBS data

**Table B.7: Poverty Headcount by Household Head Gender**

	2002/03	2003/04	2004/05	2005/06
Male	37.8	43.3	34.2	44.8
Female	54.2	46.8	44.9	49

*Source:* World Bank staff calculations from HBS data

**Table B.8: Fraction of Elderly in the Household and Poverty**

	2002/03	2003/04	2004/05	2005/06
No elderly	36.4	42.5	35	45.8
1-25%	44.2	46.5	35.1	42.5
26-50%	35.8	41.9	28.1	46.8
51%	59.5	44	42.3	62.3

*Source:* World Bank staff calculations from HBS data.

**Table B.9: Dependency Ratio and Poverty Headcount**

	2002/03	2003/04	2004/05	2005/06
Only dependents	51.9	40.5	27.3	65
Dependency ratio<=1	36.4	44.1	33.9	43.1
Dependency ratio>1	46.4	41.4	37.6	51.5

*Source:* World Bank staff calculations from HBS data.

**Table B.10: Education of the Household Head and Poverty Headcount**

	2002/03	2003/04	2004/05	2005/06
None, can't read/write	43.2	55.5	45.2	52.2
None but can read/write	49.9	55.1	42.1	56.5
Uncompleted primary school	43.3	48.2	45.2	60.8
Primary	43.6	49.1	41	51.4
Secondary	34.9	39.8	33.2	40.5
Vocational	27.4	30	15.3	31.5
University or higher	25.9	25.5	12.7	19.5

*Source:* World Bank staff calculations from HBS data.

**Table B.11: Main Activity of the Household Head and Poverty Headcount**

	2002/03	2003/04	2004/05	2005/06
Employer	37.3	37.2	19.2	18.4
Employed with salary	29.7	38.6	25.5	35.8
Subsistence farmer	39.1	40.9	35.9	42.6
Per-diem worker	48.2	50	48.5	60.8
Other self-employed	36	35.4	18.1	29.6
Retired/disabled	42.8	44.8	35.4	47.5
Unemployed	45	51.4	48.9	58.6
Housekeeper	55.6	22.7	53.3	53.6
Other	20.2	56.8	43.1	58.6

*Source:* World Bank staff calculations from HBS data.

**Table B.12: Employment Sector of the Household Head and Poverty Headcount**

	2002/03	2003/04	2004/05	2005/06
Self-employed, agriculture	39.1	40.9	35.9	42.6
Self-empl, mining/construction	45.7	45.7	49.2	51.9
Self-employed, trade	55.1	43.7	25.2	37.5
Self-employed, other	35.2	42.1	20.5	41.3
Wage earner, professional	21.8	30.1	15.2	27.5
Wage earner, manufacturing	37.6	45.1	34.9	42.3
Wage earner, other	31.4	41.8	30.1	36.6
Unemployed	45	51.4	48.9	58.6
Nonactive	42.8	44.8	37.4	48.5

*Source:* World Bank staff calculations from HBS data.

**Table B.13: Land Tenure and Poverty Rural areas**

	2002/03	2005/06
Landless	43.1	64
Owns land	33.5	47.8

**Table B.14: Ownership of Livestock and Poverty in Rural areas**

	2002/03	2005/06
No livestock	38.2	55.6
At least 1	27.9	49.4
More than 1	37.3	43.9

**Table B.15: Ownership of Major Equipment (tractor, or trailer) and Poverty in Rural areas**

	2002/03	2005/06
No equipment	35.5	55.8
At least 1 major equipment	32.6	37

*Note:* Weighted by individual level weights. Only half of Wave III has observations on land ownership and is thus excluded. *Source:* World Bank staff calculations from HBS data.

**Table B.16: Employment and Education, 2002/03. Are Well-educated People more likely to be Employed?**

	Uncompleted primary	Primary	Secondary	Vocational	Tertiary
Employer	0	0.5	1.6	3.5	3.4
Salaried employee	2.4	8	29.5	65.6	74.5
Subsistence farmer	3.8	6.3	5.2	1.2	0.2
Per-diem worker	1.4	5.5	6.3	1.9	1.5
Unemployed	10.5	28	40.4	13.2	13.8
Housekeeper	59.3	43.8	8.9	3.9	0.8
Other	22.6	8	8.1	10.7	5.8
Total	100	100	100	100	100

*Source:* World Bank staff calculations from HBS data. Weighted figures for 15-64 year-olds. Other includes self-employed other, unpaid family worker, and retired or disabled. Students are excluded.

**Table B.17: Unemployment and Education, 2002/03. Are the Unemployed more Likely to be with Lower Educational Attainment?**

	Employed	Unemployed
Uncompleted primary	2.5	3.9
Primary	26.9	39.4
Secondary	53	53.2
Vocational	7.8	1.6
Tertiary	9.9	1.9
Total	100	100

*Source:* World Bank staff calculations from HBS data. Weighted figures for 15-64 year-olds. Housekeepers, unpaid family workers and students are excluded.

**Table B.18: Employment and Education, 2003/04. Are Well-educated People more likely to be Employed?**

	Uncompleted primary	Primary	Secondary	Vocational	Tertiary
Employer	0.4	0.5	1.4	1.8	0.9
Salaried employee	2.6	6.5	28.8	68.2	72.3
Subsistence farmer	5.4	6.9	5.5	3.4	0
Per-diem worker	0.6	3.2	5.4	0.8	1.1
Unemployed	19.4	35.7	43.5	15.7	18.1
Housekeeper	51.8	41.7	6.5	3.2	0.8
Other	19.8	5.5	8.9	6.9	6.8
Total	100	100	100	100	100

*Source:* HBS 2003/04. Weighted figures for 15-64 year-olds.

**Table B.19: Unemployment and Education, 2003/04. Are the Unemployed more Likely to be with Lower Educational Attainment?**

	Employed	Unemployed
Uncompleted primary	3	5.4
Primary	23.9	42.2
Secondary	55.4	48.8
Vocational	8.1	1.5
Tertiary	9.6	2.1
Total	100	100

*Source:* World Bank staff calculations from HBS data. Weighted figures for 15-64 year-olds. Housekeepers, unpaid family workers and students are excluded.

**Table B.20: Employment and Education, 2004/05. Are Well-educated People More Likely to be Employed?**

	Uncompleted primary	Primary	Secondary	Vocational	Tertiary
Employer	1	0.2	1.6	0.9	1.2
Salaried employee	2.5	5.3	29.1	67.2	75.6
Subsistence farmer	4.3	7.5	6.9	1.5	1.7
Per-diem worker	1.6	5.6	5.1	1.1	1.4
Unemployed	17.8	33	39.9	17.1	13.5
Housekeeper	57.1	42.2	7.7	2.8	0.5
Other	15.7	6.2	9.8	9.3	6
Total	100	100	100	100	100

*Source:* World Bank staff calculations from HBS data. Weighted figures for 15-64 year-olds.

**Table B.21: Unemployment and Education, 2004/05. Are the Unemployed more Likely to be with Lower Educational Attainment?**

	Employed	Unemployed
Uncompleted primary	3.7	6.6
Primary	23.9	41.6
Secondary	52.9	47.7
Vocational	8.4	2.1
Tertiary	11.2	2
Total	100	100

*Source:* World Bank staff calculations from HBS data. Weighted figures for 15-64 year-olds. Housekeepers, unpaid family workers and students are excluded.

**Table B.22: Employment and Education, 2005/06. Are Well-educated People More Likely to be Employed?**

	Uncompleted primary	Primary	Secondary	Vocational	Tertiary
Employer	0.3	0.1	1.4	1.1	3.6
Salaried employee	3	6.2	27.7	70.6	69
Subsistence farmer	3.6	7	5.6	2.4	1.1
Per-diem worker	1.8	3.9	4.3	1.6	1.3
Unemployed	16.9	32.1	41.1	15.1	16.6
Housekeeper	55.2	43.8	10.3	2.6	1
Other	19.2	6.8	9.7	6.6	7.3
Total	100	100	100	100	100

*Source:* World Bank staff calculations from HBS data. Weighted figures for 15-64 year-olds.

**Table B.23: Unemployment and Education, 2005/06. Are the Unemployed more Likely to be with Lower Educational Attainment?**

	Employed	Unemployed
Uncompleted primary	3.3	5.4
Primary	23.8	39.3
Secondary	56.4	52
Vocational	7.1	1.4
Tertiary	9.4	1.9
Total	100	100

*Source:* World Bank staff calculations from HBS data. Weighted figures for 15-64 year-olds. Housekeepers, unpaid family workers and students are excluded.

**Table B.24: Poverty and Unemployment**

	2002/03	2003/04	2004/05	2005/06
Poverty rate of the unemployed	40.8	50.6	40.8	49.5
Poverty rate of the employed	32.2	31.9	25.9	34.7
% of poor unemployed	52.7	63	59	58.6
% of non-poor unemployed	43.5	43.8	42.1	43.3

*Source:* World Bank staff calculations from HBS data. The questionnaire does not have information on inactivity and thus unemployment rates cannot be calculated.

**Table B.25: Gross Enrollment Rates for Primary schools**

	2002/03	2003/04	2004/05	2005/06
Total	100.9	92.4	90.6	93
Poor	100.3	92.8	85.6	92.5
Male	101.1	92.5	90.4	93.1
Females	100.6	92.4	91	92.9
Poorest quintile	98.3	92.3	82.7	91.3
Quintile 2	100.8	92.7	90.8	95.2
Quintile 3	101.5	93.5	93.7	91.5
Quintile 4	103.4	93.7	94.4	94.8
Richest quintile	100.6	89.6	93.2	92.1

**Table B.26: Net Enrollment for Primary Schools**

	2002/03	2003/04	2004/05	2005/06
Total	92.2	87.7	85	87.7
Poor	90.1	87.2	78.8	85.9
Male	92.8	88.9	85.6	88.4
Females	91.6	86.6	84.4	87
Poorest quintile	86.4	84.6	75.4	83.3
Quintile 2	92.7	89.5	84.8	89.5
Quintile 3	91.7	87.4	85.3	84.5
Quintile 4	94.1	89	88.9	90.1
Richest quintile	96.7	87.6	92.5	91.5

*Source:* World Bank staff calculations from HBS data. Gross enrollment rates = Total enrolled students/children in age group. Net enrollment rates = Total enrolled students aged 6-14/children in that age group. In 2002/03 questionnaire, the question about enrollment was asked for children over 7. In later surveys this was changed to 6 year-olds. The age groups used are: primary 7-14 in 2002/03, primary 6-15 starting 2003/04; secondary 16-18; tertiary 20-24.

**Table B.27: Net Enrollment Rates for Secondary Schools**

	2002/03	2003/04	2004/05	2005/06
Total	73.1	70.9	66.4	74
Poor	68.3	65.1	58.3	72
Male	75.6	72.6	69.6	81.2
Females	70	69.2	62.9	66.4
Poorest quintile	65.3	62.8	54.6	67.3
Quintile 2	71.4	64.7	65.2	78.1
Quintile 3	81.5	74.5	65.1	71.3
Quintile 4	69.3	77.1	73	72.4
Richest quintile	76.5	80.9	80.5	81

**Table B.28: Net Enrollment Rates for Tertiary Education**

	2002/03	2003/04	2004/05	2005/06
Total	16.7	15.3	14.6	17.7
Poor	12.2	9.3	9.3	13.8
Male	20.4	14.6	17.3	19.9
Females	13	15.9	12.2	15.2
Poorest quintile	8.9	7.6	8.8	12.9
Quintile 2	15.2	9.6	10.8	12.6
Quintile 3	18.5	15.1	14.7	15
Quintile 4	20.6	17	12.7	18.3
Richest quintile	18.2	26.5	24.3	27.4

*Source:* World Bank staff calculations from HBS data. Approximate net enrollment rates only as we assume that those who reported being a student and are aged 16-19. Approximate net enrollment rates only as we assume that those who reported being a student and are aged 20-24 attend university. Breakdown by type of school (vocational vs. high school) not asked in the survey. The age groups used are: primary 7-14 in 2002/03, primary 6-15 starting 2003/04; secondary 16-18; tertiary 20-24.

**Table B.29: Access to Electricity: Percent of People Living in Dwellings with Electricity**

	2002/03	2003/04	2004/05	2005/06
Total	99.2	98.2	98.3	97.9
Poor	98.9	97.8	97.2	97.5
Urban	99.2	99.1	99.5	99.4
Rural	99.1	97.7	97.7	97.1
Poorest quintile	99.1	95.9	95.8	96.8
Quintile 2	98.8	99.6	99	98.1
Quintile 3	99.4	97.4	98.4	98.5
Quintile 4	99.8	99.8	99.1	96.6
Richest quintile	98.7	98.2	99.4	99.4

**Table B.30: District Central Heating: Percent of People Living in Dwellings with Central Heating**

	2002/03	2003/04	2004/05	2005/06
Total	0.6	6.6	4.5	5.6
Poor	0.4	2.7	1.9	4.7
Urban	0.6	16.1	8.8	8.7
Rural	0.6	1.5	2.2	3.9
Poorest quintile	0.4	2.8	2.4	7.1
Quintile 2	0.3	2.3	1.1	2.9
Quintile 3	0.6	6.1	3.5	2.1
Quintile 4	0.7	8	6.1	6.3
Richest quintile	1	13.7	9.2	9.5

*Source:* World Bank staff calculations from HBS data. The questions about housing are not the same for 2002/03 and later surveys. The number of categories decreases from over 20 to 9.

**Table B.31: Access to Safe Dwelling: Percent of People Living in Dwellings with Walls of brick, block or cement**

	2002/03	2003/04	2004/05	2005/06
Total	90.7	95.8	94	95.1
Poor	87.8	95	94.4	94.9
Urban	92.6	95.6	96.9	96.5
Rural	89.7	95.9	92.4	94.3
Poorest quintile	84.5	92.7	93.5	93.2
Quintile 2	91.1	96.9	96.5	96.2
Quintile 3	90.9	96.2	94.9	96.3
Quintile 4	91.8	97.9	90.4	93
Richest quintile	95.2	95.1	94.5	96.6

**Table B.32: Access to Water: Percent of People Living in Dwellings with Indoor Water tap**

	2002/03	2003/04	2004/05	2005/06
Total	63.9	73.6	80.3	83.9
Poor	64.7	63.6	68.3	75.5
Urban	93.7	95.2	96.2	95.2
Rural	47.8	62	71.8	77.8
Poorest quintile	63.7	61.5	64.6	69.7
Quintile 2	63.3	64.7	75.5	77.7
Quintile 3	58	72.9	82.7	87.5
Quintile 4	66.5	82	86.6	88.2
Richest quintile	67.7	86.9	92.1	96.3

*Source:* World Bank staff calculations from HBS data. The questions about housing are not the same for 2002/03 and later surveys. The number of categories decreases from over 20 to 9.

**Table B.33: Rural Poverty Headcount Rate and Poverty Contribution**

	Poverty Headcount Rate				Poverty Contribution			
	2002/03	2003/04	2004/05	2005/06	2002/03	2003/04	2004/05	2005/06
Gjakova	43.5	53.7	41.3	46.8	11.5	12.7	11.4	10.7
Cjilani	36.5	35	21.2	27.2	8.9	7.9	8.8	6
Mitrovica	55.2	62	49.7	73.3	23.5	24.8	18.4	24.9
Peja	37.1	34.4	34.9	47.5	11.8	9.5	11	11.4
Prizreni	33.5	44.3	45	40.9	13.6	14.8	18.5	15.1
Prishtina	17.3	36.4	34.6	45.4	17.4	22.1	22.7	19
Ferizaji	54.5	44.8	38.1	59.7	13.2	8.2	9.1	12.8

**Table B.34: Rural Ethnic Divide: Poverty Headcount and Contribution**

	Headcount				Contribution			
	2002/03	2003/04	2004/05	2005/06	2002/03	2003/04	2004/05	2005/06
Albanian	34.3	44.2	37.5	46.7	92.6	95	95.3	88.7
Serbian	32	44.6	32.6	83.8	7.4	5	4.7	11.3

**Table B.35: Rural Area, Educational Attainment**

	2002/03	2003/04	2004/05	2005/06
Cannot read/write	6.4	6.4	6.3	5.3
No education but can read/write	2.7	3.2	3.9	2.6
Attending primary	20.4	23.1	22.7	23.8
Uncompleted primary	4.6	3.2	4.5	5.3
Primary	36.9	36.6	35.8	34.4
Secondary	25.4	24.5	23.1	25.4
Vocational	1.6	1.8	2.1	1.4
Tertiary	2	1.4	1.6	1.7

*Source:* World Bank staff calculations from HBS data. Weighted figures for individuals 10 years and older.

**Table B.36: Rural Access to Electricity: Percent of People Living in dwellings with Electricity**

Rural	2002/03	2003/04	2004/05	2005/06
Total	99.1	97.7	97.7	97.1
Poor	98.8	97.5	96.4	97.1
Poorest national quintile	98.9	95.3	93.9	95.9
Quintile 2	98.7	99.4	99.1	98.2
Quintile 3	99.4	96.3	97.9	97.9
Quintile 4	99.9	100	98.6	94.9
Richest national quintile	98.6	97.3	99.1	98.9

**Table B.37: Rural Access to Safe Dwelling: Percent of People Living in dwellings with Walls of brick, block or cement**

Rural	2002/03	2003/04	2004/05	2005/06
Total	89.7	95.9	92.4	94.3
Poor	86.5	95.4	93.4	94.1
Poorest national quintile	83.4	94.4	92.2	93
Quintile 2	89.8	96.2	95.8	95
Quintile 3	89.5	95.8	92.9	95.7
Quintile 4	90.4	98.9	87.2	92.6
Richest national quintile	94.4	93.8	93.5	95.2

**Table B.38: Rural District Central Heating: Percent of People Living in dwellings with Central Heating**

Rural	2002/03	2003/04	2004/05	2005/06
Total	0.6	1.5	2.2	3.9
Poor	0.3	0.4	1.7	4.2
Poorest national quintile	0.1	1	2.8	6.9
Quintile 2	0.6	0.2	0.2	2.1
Quintile 3	0.5	1.4	2.5	1.4
Quintile 4	0.6	0.4	2.1	4.3
Richest national quintile	1.2	4.8	3.5	5.2

**Table B.39: Rural Access to Water: Percent of People Living in Dwellings with Indoor Water tap**

<b>Rural</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
Total	47.8	62	71.8	77.8
Poor	43.1	49.4	58.1	69.4
Poorest national quintile	44.5	43.9	53.3	61
Quintile 2	37.9	54.1	67.1	73.6
Quintile 3	38.8	61.7	74	83
Quintile 4	58.9	73.5	80.1	82.6
Richest national quintile	54.5	78.4	87.6	93.5

*Source:* World Bank staff calculations from HBS data. The questions about housing are not the same for 2002/03 and later surveys. The number of categories decreases from over 20 to 9.

**Table B.40: Rural Unemployment: Percent of Individuals Reporting being Unemployed**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
Total Rural	25.3	31.4	28	29
Rural Poor	27.6	35.3	32.2	31.5
Poorest quintile	28.9	38.6	34.5	35.2
Quintile 2	26.5	33.2	29.1	30.4
Quintile 3	25.2	27.3	30.5	28.4
Quintile 4	25.4	30.6	24.4	26
Richest quintile	21.9	27.3	20.9	23.9

**Table B.41: Rural Gross Enrollment Rates for Primary Schools**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
Total	99.7	92.5	90.4	93.1
Poor	97.3	92.9	84.2	92.4
Male	99.6	92.9	89.2	92.9
Females	99.7	92.1	91.7	93.3
Poorest quintile	94.8	91.8	80.9	92.1
Quintile 2	97.5	93.3	89.5	94.6
Quintile 3	101.7	92.6	93.8	89.6
Quintile 4	102.6	93.3	95.4	95.1
Richest quintile	101.4	91.3	95.3	94.6

*Source:* HBS 2002-05 weighted data for individuals aged 15-64. No information on inactivity thus unemployment rate cannot be calculated. Gross enrollment rates = Total enrolled students/children in age group. In 2002/03 questionnaire, the question about enrollment was asked for children over 7. In later surveys this was changed to 6 year-olds. The age groups used are: primary 7-14 in 2002/03, primary 6-15 starting 2003/04; secondary 16-18; tertiary 20-24.

**Table B.42: Rural Net Enrollment Rates for Primary Schools**

	2002/03	2003/04	2004/05	2005/06
Total	92.7	88.3	85.4	88.3
Poor	89.8	88.2	78.3	86.4
Male	93.6	90.1	85.8	88.7
Females	91.7	86.3	84.9	87.8
Poorest quintile	85.7	83.9	74.2	84.3
Quintile 2	92.1	91.3	84.7	89.8
Quintile 3	91.6	87	85	82.5
Quintile 4	97.7	90.8	92.6	93.5
Richest quintile	96.2	87.4	93.5	92.8

**Table B.43: Rural Net Enrollment Rates for Secondary Schools**

	2002/03	2003/04	2004/05	2005/06
Total	69.9	65.3	61.5	70.6
Poor	63.2	58.1	53.4	70.2
Male	75.4	68	66.9	80.5
Females	63.7	62.6	55.4	60.5
Poorest quintile	59.5	54.9	47.3	65.4
Quintile 2	66.6	59.1	62.8	78.6
Quintile 3	77.4	67.7	57.2	60.5
Quintile 4	66.3	72.7	72.4	69.4
Richest quintile	76.8	80	75.4	78.4

*Source:* World Bank staff calculations from HBS data. Net enrollment rates = Total enrolled students aged 6-14 children in that age group. In 2002/03 questionnaire, the question about enrollment was asked for children over 7. In later surveys this was changed to 6 year-olds. The age groups used are: primary 7-14 in 2002/03, primary 6-15 starting 2003/04; secondary 16-18; tertiary 20-24. Breakdown by type of school (vocational vs. high school) asked in the survey.

**Table B.44: Rural Net Enrollment Rates for Tertiary Education**

	2002/03	2003/04	2004/05	2005/06
Total	14.2	11.3	10.8	14.5
Poor	8.1	8	7.8	14
Male	19.4	10.9	14.6	16
Females	9	11.7	7.5	12.7
Poorest quintile	7	4.9	6.6	14.1
Quintile 2	9.1	10.1	8.7	12.9
Quintile 3	16	14.4	9.6	10
Quintile 4	17.3	11.5	7.5	12.3
Richest quintile	16.9	16.1	23.3	24.2

*Source:* World Bank staff calculations from HBS data. Approximate net enrollment rates only as we assume that those who reported being a student and are aged 20-24 attend university.

**Table B.45: Vulnerable Group above the Poverty Line and Monthly Consumption below 53.7 Euro in 2002 Prices, in Percent of Individuals**

	2002/03	2003/04	2004/05	2005/06
Total	18	19.4	18.7	17.5
Distribution by type of settlement				
Urban	35.5	30.2	36.8	34.3
Rural	64.5	69.8	63.2	65.7
Total	100	100	100	100
Distribution by district				
Gjakova	11.3	11.5	14.6	14.8
Cjilani	9.2	10.5	6.9	11.2
Mitrovica	15	14.9	10.2	12.1
Peja	4.7	9.8	11.3	9
Prizreni	14.5	15.1	19.8	22
Prishtina	36.5	27.6	29.7	19.7
Ferizaji	8.9	10.6	7.5	11.1
Total	100	100	100	100
Distribution by ethnic area				
Albanian ethnic area	93.7	98.1	95.1	97
Serbian ethnic area	6.3	1.9	4.9	3
Total	100	100	100	100
Unemployment rate	25.4	28.4	28.2	28.1
Distribution by educational attainment				
Cannot read/write	7.1	6.8	4.8	5.6
No education but can read/write	2.4	2.9	2.9	1.4
Attending primary	15.2	15.3	15.1	16
Uncompleted primary	3.2	3.7	4.7	4.7
Primary	37.1	36.2	39.1	35.7
Secondary	30.8	30.9	29.3	32.3
Vocational	1.7	2.4	1.9	2.1
Tertiary	2.6	1.9	2.2	2.2
Total	100	100	100	100
Enrollment rates of children				
Secondary enrollment rate	79.9	74.6	67.1	78.6
Male secondary enrollment rate	84.9	75.4	73.1	89.1
Female secondary enrollment rate	72.1	73.6	60.1	69.2
Tertiary enrollment rate	16.2	16.3	16.8	14.3
Male tertiary enrollment rate	17.8	17.1	16.5	17.7
Female tertiary enrollment rate	14.6	15.6	16.9	10.7

*Source:* World Bank staff calculations from HBS data. Upper boundary for vulnerability estimated as 25% higher than the absolute poverty line. Ethnic area as defined in survey design. Unemployment rate cannot be calculated because of lack of inactivity data, thus the figures are just percent of population reporting being unemployed. Approximate net enrollment rates only as we assume that those who reported being a student and are aged 16-18 attend secondary school and those aged 20-24 attend university.

**Table B.46: Vulnerable Group listed below the Poverty Line and Monthly Consumption above 32.3 Euro in 2002 prices**

	2002/03	2003/04	2004/05	2005/06
Total	17.5	21.4	18.4	21.5
Distribution by type of settlement				
Urban	44.8	28.4	26.6	27.9
Rural	55.2	71.6	73.4	72.1
Total	100	100	100	100
Distribution by region				
Gjakova	11.6	15	11.2	14
Cjilani	9.8	7.3	9.4	7.4
Mitrovica	17.1	24.1	16.9	17.4
Peja	8.6	6.8	9.7	9.3
Prizreni	15.4	14.3	20.9	20.2
Prishtina	28.2	23.6	22.2	19.1
Ferizaji	9.2	8.8	9.7	12.5
Total	100	100	100	100
Distribution by ethnic area				
Albanian ethnic area	95.8	96	93.8	93.5
Serbian ethnic area	4.2	4	6.2	6.5
Total	100	100	100	100
Unemployment rate	26.5	35.2	30.2	28.6
Distribution by educational achievement				
Cannot read/write	6	6.5	7.2	5.2
No education but can read/write	3.4	4	5.4	2.7
Attending primary	15	17	15.8	18.3
Uncompleted primary	4.4	3	4.9	5.9
Primary	36.6	39	38.2	38.1
Secondary	29.6	27.1	25.7	26.8
Vocational	2.7	2	1.8	1.8
Tertiary	2.2	1.3	1	1.3
Total	100	100	100	100
Enrollment rates				
Secondary enrollment rate	72.7	64.6	58.6	77.9
Male secondary enrollment rate	77.4	62.1	57.8	91.9
Female secondary enrollment rate	68.2	66.8	60.2	65
Tertiary enrollment rate	16.2	10.5	8.7	16
Male tertiary enrollment rate	20.3	12.6	12.1	17.6
Female tertiary enrollment rate	12.1	8.7	5.8	14.5

*Source:* World Bank staff calculations from HBS data. Lower boundary for vulnerability estimated as 25% below the absolute poverty line. Ethnic area as defined in survey design. Unemployment rate cannot be calculated because of lack of inactivity data, thus the figures are just percent of population reporting being unemployed. Approximate net enrollment rates only as we assume that those who reported being a student and are aged 16-18 attend secondary school and those aged 20-24 attend university.

**Table B.47: Internal Migrants and Their Recipient Location (in percent of total individuals)**

	<i>Estimated Share of the population</i>	<i>Share of the population born outside municipality</i>	<i>Distribution of poor with a member born outside the municipality</i>
<b>Gjakova</b>	<b>12.7</b>	<b>1.4</b>	<b>1.5</b>
Decani	1.8	0.4	0
Gjakova	5.3	0.6	1.2
Rahoveci	5.5	0.4	0.3
<b>Gjilani</b>	<b>10.7</b>	<b>11.5</b>	<b>3.9</b>
Gjilani	4.9	6.2	2.4
Kamenica	2.6	1.1	0.3
Viti	3.3	4.2	1.3
<b>Mitrovica</b>	<b>14.6</b>	<b>22.3</b>	<b>33.4</b>
Mitrovica	3.6	8.5	10.7
Leposaviqi	0.1	0	0
Skanderaj	4.7	5.7	9.4
Vushtri	5.9	8	13
Zubin Potok	0.3	0	0
Zvecan	0.1	0.1	0.3
<b>Peja</b>	<b>11.5</b>	<b>17.8</b>	<b>13</b>
Istogu	2.6	1.5	1.3
Klina	3	7.7	2.1
Peja	5.9	8.6	9.6
<b>Prizren</b>	<b>17.5</b>	<b>18.9</b>	<b>25.4</b>
Dragash	0.9	0.3	0.6
Prizren	11.3	16.5	21.5
Suhareka	2.3	1.2	1.7
Malisheva	2.9	0.9	1.6
<b>Prishtina</b>	<b>21.9</b>	<b>17</b>	<b>7.2</b>
Glllogoc	2.8	0	0
Fusha Kosova	1.6	0.5	0.2
Lipjani	3.6	2	0.8
Novo Barda	0.3	0	0
Obiliqi	1.2	0.3	0
Podujeva	5.3	0.1	0
Prishtina	7.1	14.1	6.2
<b>Ferizaj</b>	<b>11</b>	<b>11</b>	<b>15.6</b>
Kacanik	2.2	0.3	0.1
Shtime	2	0	0
Shtarpece	1.1	4.2	9
Ferizaj	5.6	6.5	6.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source:* World Bank staff calculations from HBS data. Internal migrants are defined as not born in the current municipality. No information on time of migration.

**Table B.48: Inequality Indices for 2002-2006**

	2002/03	2003/04	2004/05	2005/06
Percentile ratio p90/p10	3.84	3.33	3.76	3.96
p75/p25	2	1.89	1.97	1.97
Generalized Entropy, GE(-1)	0.17	0.14	0.17	0.18
GE(0)	0.15	0.12	0.15	0.15
GE(1)	0.16	0.13	0.16	0.16
GE(2)	0.19	0.16	0.21	0.2
Gini coefficient	0.3	0.27	0.3	0.3
Atkinson A(0,5)	0.07	0.06	0.07	0.07
A(1)	0.16	0.13	0.16	0.16
A(2)	0.26	0.22	0.25	0.27

**Table B.49: Correlates of Consumption by Year**

	2002/03	2003/04	2004/05	2005/06
<b>Demographic and household head characteristics</b>				
Age of the household head	0.001 [0.001]	0.001 [0.001]	0.003** [0.001]	0.001 [0.001]
Female HH head	-0.01 [0.056]	-0.029 [0.063]	0.037 [0.056]	-0.013 [0.039]
Serbian	0.085 [0.062]	0.062 [0.074]	-0.108 [0.063]	-0.560*** [0.053]
Other	-0.115 [0.071]	-0.127 [0.071]	-0.213** [0.068]	-0.191** [0.062]
Dependency ratio	-0.123*** [0.023]	-0.091*** [0.017]	-0.098*** [0.018]	-0.104*** [0.020]
Number of students in HH	-0.036* [0.018]	-0.052*** [0.014]	-0.062*** [0.018]	-0.050** [0.017]
Number of unemployed in HH	-0.037* [0.017]	-0.063*** [0.011]	-0.088*** [0.011]	-0.082*** [0.012]
<b>Highest education attained in the household (secondary omitted)</b>				
None	-0.408*** [0.122]	-0.328* [0.147]	-0.449*** [0.089]	-0.434** [0.165]
Primary	-0.142** [0.051]	-0.129*** [0.031]	-0.130*** [0.036]	-0.142*** [0.034]
Vocational	0.172*** [0.044]	0.114** [0.038]	0.172*** [0.043]	0.107** [0.041]
Tertiary	0.158* [0.066]	0.331*** [0.037]	0.258*** [0.037]	0.249*** [0.037]
<b>Main source of income for the household (other omitted)</b>				
Public sector	0.125** [0.043]	0.123*** [0.037]	0.076 [0.042]	-0.159*** [0.045]

Agriculture	0.046 [0.066]	0.141** [0.053]	-0.022 [0.054]	-0.105 [0.058]
Private sector	0.132** [0.048]	0.251*** [0.036]	0.082 [0.048]	-0.092 [0.047]
Per-diem work	0.011 [0.057]	0.108* [0.050]	-0.06 [0.057]	-0.326*** [0.052]
Self-employed/SME	0.096 [0.086]	0.259*** [0.063]	0.307*** [0.051]	-0.028 [0.055]
Pension	0.003 [0.069]	0.119* [0.060]	-0.092 [0.055]	-0.364*** [0.070]
Social assistance	(dropped)	(dropped)	-0.426*** [0.072]	-0.633*** [0.051]
<b>Housing characteristics</b>				
Brick/cement walls	0.104* [0.051]	0.180** [0.057]	-0.082 [0.051]	0.024 [0.062]
Central district heating	0.232 [0.129]	0.152** [0.058]	0.263*** [0.070]	0.121* [0.049]
Access to inside water tap	0.042 [0.052]	0.153*** [0.033]	0.176*** [0.031]	0.163*** [0.040]
Purchase of 5 most-common durables (lighting, textiles) in last 1 year (in logs)	0.046*** [0.010]	0.030** [0.011]	0.024* [0.010]	0.017 [0.012]
<b>Regional and area dummy (Pristina omitted)</b>				
Urban area dummy	-0.176*** [0.047]	-0.108** [0.033]	-0.103** [0.031]	0.02 [0.033]
Gjakova	-0.09 [0.070]	-0.181** [0.055]	-0.203** [0.061]	-0.176** [0.066]
Gjilani	0.046 [0.078]	0.071 [0.058]	0.164*** [0.049]	0.230*** [0.051]
Mitrovica	-0.202** [0.066]	-0.120* [0.056]	-0.261*** [0.049]	-0.226*** [0.053]
Peja	-0.074 [0.114]	-0.014 [0.075]	-0.102* [0.045]	-0.043 [0.064]
Prizreni	-0.042 [0.077]	-0.143* [0.055]	-0.121* [0.051]	-0.028 [0.056]
Ferizaji	-0.264*** [0.071]	-0.127* [0.054]	-0.142* [0.070]	-0.203*** [0.054]
Constant	3.831*** [0.088]	3.614*** [0.092]	4.029*** [0.106]	4.072*** [0.114]
R-squared	0.186	0.251	0.321	0.377
N	2340	2337	2328	2306

\* p<0.05, \*\* p<0.01, \*\*\* p<0.001

Source: World Bank staff calculations from HBS data. \* p<0.05, \*\* p<0.01, \*\*\* p<0.001. The categories of main source of income increased from 7 to 10 to include social assistance transfers starting in calendar 2005 year.

**Table B.50: Comparison of Enrollment Rates in the Region and the European Union, 2005**

Age in years	Enrollment rates by age group			Tertiary Net Enrollment rates	
	5-14	15-19	20-29		20-24 <sup>2</sup>
Kosovo	82.3	66.2	9.9	Kosovo	17.7
Albania	87	56	13	Albania	18
EU15	100	82	25	Macedonia <sup>1</sup>	27
EU 8 selected	98	85	20	Bosnia and Herzegovina	24.2
				Serbia and Montenegro <sup>1</sup>	36.3

*Sources:* Enrollment rates by age group: Kosovo - World Bank staff calculations from HBS data; other countries - Albania PEIR 2006. Tertiary enrollment rates: Kosovo - World Bank staff calculations from HBS data; Albania – World Bank staff calculations from LSMS 2005 data; Macedonia – Poverty Assessment, 2005; Bosnia and Herzegovina – Public Expenditure Review, 2006; Serbia and Montenegro – Knowledge for Development Database, World Bank. *Notes:* /1 Gross enrollment rates reported. /2 Age group 19-23 used in Bosnia and Herzegovina.

**Table B.51: Contribution to Poverty by Activity of the Household Head.**

	2003/04	2005/06
Employer	2.9	0.7
Employed with salary	26.2	21.9
Subsistence farmer	9.7	9.9
Per diem worker	7.2	8.4
Other self-employed	3.7	4.2
Retired or disabled	27.4	28.2
Unemployed	22.6	22
Housekeeper	0.1	2.8
Other	0.3	1.8
Total	100	100

*Source:* World Bank staff calculations from HBS data. *Notes:* Missing data on employment activity are omitted from the estimation. Weighted by population weights.

**Table B.52: Contribution to Poverty by Educational Attainment, in percent of individuals, 2005/06**

	2003/04	2005/06
None and cannot read or write	6.7	5.6
None but can read write	3.3	3.2
Attending primary school	23.6	24.7
Uncompleted primary school and not attending	3.1	5.9
Primary	37.1	34.1
Secondary	23.9	24.3
Vocational	1.3	1.2
University or higher	1	0.9
Total	100	100

*Source:* World Bank staff calculations from HBS data. *Notes:* Missing data on education are omitted from the estimation. The question is asked only of those 10 years of age or older.

**Table B.53: Demographic Distribution by Ethnicity of Household Head and Region, 2005/06.**

<b>Region</b>	<b>Albanian</b>	<b>Serbian</b>	<b>Other<sup>1</sup></b>	<b>Total</b>
Gjakovë	95.1	0.2	4.6	100
Gjilani	86.6	12	1.4	100
Mitrovicë	88.4	11.5	0.1	100
Pejë	92.3	1	6.7	100
Prizren	81.4	1	17.7	100
Prishtinë	93.8	5.2	1	100
Ferizaj	90.2	7.9	1.9	100
Total	89.7	5.3	5	100

*Source:* World Bank staff calculations from HBS data. *Notes:* In percent of individuals. Population weights used. /1 Turkish, Bosnian/Montenegro, Ashkalian, Roma and others.

**Table B.54: Demographic Distribution by Type of Settlement and Region, 2005/06.**

<b>Region</b>	<b>Urban</b>	<b>Rural</b>	<b>Total</b>
Gjakovë	42.7	57.3	100
Gjilani	34.1	65.9	100
Mitrovicë	25.6	74.4	100
Pejë	33.1	66.9	100
Prizren	32.8	67.2	100
Prishtinë	38.8	61.2	100
Ferizaj	37.5	62.5	100
Total	35	65	100

*Source:* World Bank staff calculations from HBS data. *Notes:* In percent of individuals. Population weights used.



## ANNEX C: POVERTY DECOMPOSITION

**Table C.1: Decomposition of Poverty: 2002/03 compared to 2003/04**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	-3.9	-5.6	2	-0.2
Poverty gap (P1)	-2.5	-2	-0.3	-0.2
Poverty severity (P2)	-1.4	-1	-0.4	0

*Source:* World Bank staff calculations from HBS data.

**Table C.2: Decomposition of Poverty: 2002/03 compared to 2004/05**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	-3.9	-5.6	2	-0.2
Poverty gap (P1)	-2.5	-2	-0.3	-0.2
Poverty severity (P2)	-1.4	-1	-0.4	0

*Source:* World Bank staff calculations from HBS data.

**Table C.3: Decomposition of Poverty: 2002/03 compared to 2005/06**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	6.4	4.2	2	0.2
Poverty gap (P1)	1.6	1.6	-0.1	0.1
Poverty severity (P2)	0.8	0.8	0	0

*Source:* World Bank staff calculations from HBS data.

**Table C.4: Decomposition of Poverty: 2003/04 compared to 2004/05**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	-8.7	-10.8	2	0.1
Poverty gap (P1)	-2.7	-4.2	1.6	-0.1
Poverty severity (P2)	-1	-1.8	1	-0.2

*Source:* World Bank staff calculations from HBS data.

**Table C.5: Decomposition of Poverty: 2003/04 compared to 2005/06**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	1.6	-0.8	2.5	-0.1
Poverty gap (P1)	1.4	-0.4	1.7	0
Poverty severity (P2)	1.2	-0.2	1.3	0

*Source:* World Bank staff calculations from HBS data.

**Table C.6: Urban Poverty Decomposition: 2002/03 compared to 2003/04**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	10.3	10	-0.8	1.1
Poverty gap (P1)	4.1	3.9	0.2	0
Poverty severity (P2)	2.1	1.8	0.4	0

*Source:* World Bank staff calculations from HBS data.

**Table C.7: Urban Poverty Decomposition: 2002/03 compared to 2003/04**

	<b>Change</b>	<b>Growth</b>	<b>Redistribution</b>	<b>Interaction</b>
Poverty headcount (P0)	-4.5	-9.7	1.9	3.4
Poverty gap (P1)	-1	-3.1	2.1	-0.1
Poverty severity (P2)	-0.7	-1.4	1	-0.3

*Source:* World Bank staff calculations from HBS data.

**Table C.8: Urban Decomposition: 2002/03 compared to 2004/05**

	<b>Change</b>	<b>Growth</b>	<b>Redistribution</b>	<b>Interaction</b>
Poverty headcount (P0)	-16.3	-18.9	4.9	-2.2
Poverty gap (P1)	-4.6	-6.2	2.1	-0.5
Poverty severity (P2)	-1.9	-2.9	1.3	-0.3

*Source:* World Bank staff calculations from HBS data.

**Table C.9: Urban Poverty Decomposition: 2002/03 compared to 2005/06**

	<b>Change</b>	<b>Growth</b>	<b>Redistribution</b>	<b>Interaction</b>
Poverty headcount (P0)	-9.2	-13.8	3.3	1.4
Poverty gap (P1)	-2.2	-4.3	2.4	-0.4
Poverty severity (P2)	-0.8	-2	1.5	-0.3

*Source:* World Bank staff calculations from HBS data

**Table C.10: Urban Poverty Decomposition: 2003/04 compared to 2005/06**

	<b>Change</b>	<b>Growth</b>	<b>Redistribution</b>	<b>Interaction</b>
Poverty headcount (P0)	-11.8	-9.5	-2	-0.3
Poverty gap (P1)	-3.6	-3.8	-0.2	0.4
Poverty severity (P2)	-1.2	-1.8	0.4	0.1

*Source:* World Bank staff calculations from HBS data.

**Table C.11: Urban poverty decomposition: 2003/04 compared to 2005/06**

	<b>Change</b>	<b>Growth</b>	<b>Redistribution</b>	<b>Interaction</b>
Poverty headcount (P0)	-4.7	-3.3	-0.1	-1.3
Poverty gap (P1)	-1.2	-1.5	0.2	0.1
Poverty severity (P2)	-0.2	-0.7	0.5	0

*Source:* World Bank staff calculations from HBS data.

**Table C.12: Urban Poverty Decomposition: 2004/05 compared to 2005/06**

	<b>Change</b>	<b>Growth</b>	<b>Redistribution</b>	<b>Interaction</b>
Poverty headcount (P0)	7.1	6.2	1.6	-0.8
Poverty gap (P1)	2.4	2.1	0.2	0.1
Poverty severity (P2)	1.1	1	0.1	0

*Source:* World Bank staff calculations from HBS data.

**Table C.13: Rural Poverty Decomposition: 2002/03 compared to 2003/04**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	9.8	12.2	-2.3	-0.1
Poverty gap (P1)	0.9	4.3	-3.7	0.3
Poverty severity (P2)	-0.2	2.3	-2.1	-0.4

*Source:* World Bank staff calculations from HBS data.

**Table C.14: Rural Poverty Decomposition: 2002/03 compared to 2004/05**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	2.8	0.2	2.2	0.4
Poverty gap (P1)	-1.3	0.1	-1.5	0
Poverty severity (P2)	-1.1	0.1	-1.1	0

*Source:* World Bank staff calculations from HBS data.

**Table C.15: Rural Poverty Decomposition: 2002/03 compared to 2005/06**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	14.8	14.3	-0.1	0.6
Poverty gap (P1)	3.7	4.8	-1.5	0.4
Poverty severity (P2)	1.6	2.5	-0.7	-0.2

*Source:* World Bank staff calculations from HBS data.

**Table C.16: Rural Poverty Decomposition: 2003/04 compared to 2004/05**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	-7	-11.5	4.4	0
Poverty gap (P1)	-2.3	-4.5	2.5	-0.3
Poverty severity (P2)	-0.8	-1.8	1.4	-0.4

*Source:* World Bank staff calculations from HBS data.

**Table C.17: Rural Poverty Decomposition: 2003/04 compared to 2005/06**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	5	1.4	3.7	-0.1
Poverty gap (P1)	2.8	0.5	2.3	0
Poverty severity (P2)	1.9	0.2	1.6	0

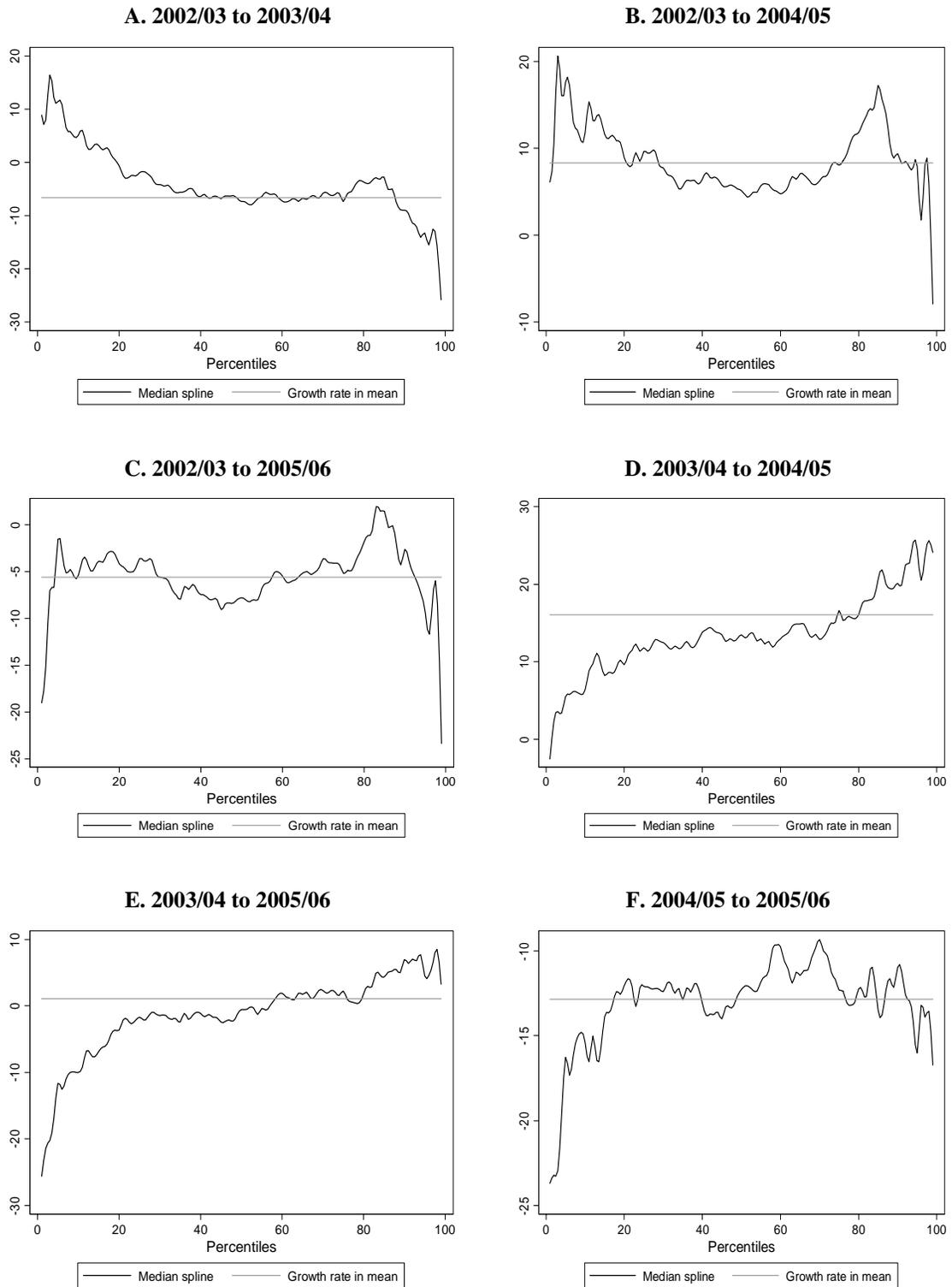
*Source:* World Bank staff calculations from HBS data.

**Table C.18: Rural Poverty Decomposition: 2204/05 compared to 2005/06**

	Change	Growth	Redistribution	Interaction
Poverty headcount (P0)	12	12.7	-2.7	2
Poverty gap (P1)	5	5.3	0	-0.2
Poverty severity (P2)	2.7	2.4	0.4	-0.2

*Source:* World Bank staff calculations from HBS data.

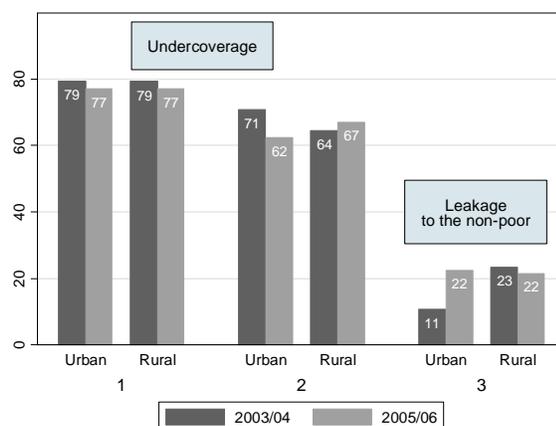
**Figure C.1: Growth Incidence Curves**



Source: World Bank staff calculations from HBS data.

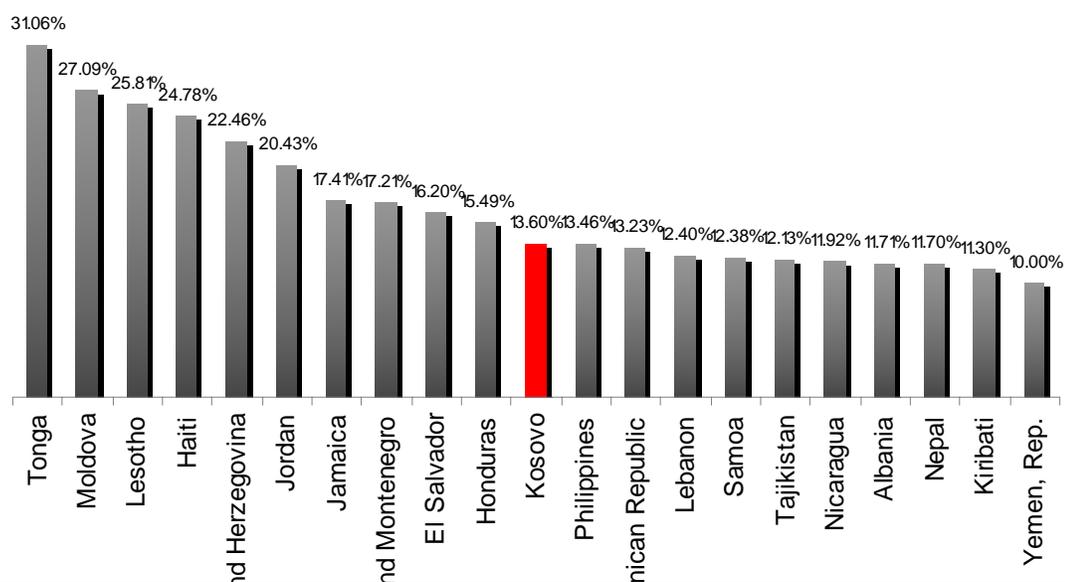
## ANNEX D: SOCIAL TRANSFERS AND REMITTANCES

**Figure D.1: Undercoverage and Leakage of Social Assistance by Urban and Rural**



**Figure D.2: Top 20 Remittance-receiving Countries as a share of GDP, 2004**

Top 20 Remittance-receiving Countries as Share of GDP, 2004



Source: Global Economic Prospects 2006: Economic Implications of Remittances and Migration, World Bank.

**Table D.1: Migration and Remittances: Summary Statistics for 2005, in percent of individuals**

	Entire population	Migrant	Remittances
Poverty rate	37.2	30.4	29.8
Mean Consumption per adult equivalent <sup>1</sup>	58	63.3	63.2
Mean Food Consumption per adult equivalent <sup>1</sup>	27.5	28.1	27.9
% of population	100	25.9	21.4
Unemployment rate	28.1	32	34.2
<b>Urban/rural Distribution</b>			
Urban	36.2	28.7	27.6
Rural	63.8	71.3	72.4
Total	100	100	100
<b>Regional Distribution</b>			
Gjakova	11.5	17.1	15.5
Cjilani	12	10.2	12.4
Mitrovica	15.1	20.6	20.4
Peja	11.2	13.2	11.3
Prizreni	15.7	18.1	20.1
Prishtina	23.3	13.2	12.2
Ferizaji	11.2	7.6	8.1
Total	100	100	100
<b>Ethnic Area Distribution <sup>2</sup></b>			
Albanian ethnic area	96	99	99.1
Serbian ethnic area	4	1	0.9
Total	100	100	100
<b>Educational Characteristics</b>			
Secondary enrollment rate	69.5	60.8	61.5
Male secondary enrollment rate	74	62.4	64.7
Female secondary enrollment rate	64.7	58.5	55.9
Tertiary enrollment rate	14.7	14.6	15
Male tertiary enrollment rate	16	16.1	15.3
Female tertiary enrollment rate	13.3	13.1	14.7

Source: World Bank staff calculations from HBS 2005 population-weighted data. Notes: <sup>1</sup> In 2002 Euros. <sup>2</sup> Ethnic area as defined in survey design. Unemployment rate is only approximate because of lack of inactivity data, thus the figures are just percent of population reporting being unemployed. Net enrollment rates are only approximate as we assume that those who reported being a student and are aged 15-17 attend secondary school and those aged 19-23 attend university.

**Table D.2: Urban and Rural Households with Remittances and Migrants, in Percent of Individuals**

	<i>Urban</i>			<i>Rural</i>		
	Entire population	HH with a Migrant	HH receiving Remittances	Entire population	HH with a Migrant	HH receiving Remittances
Poverty rate	32.4	38	40.6	39.9	27.3	25.7
Mean Cons per AE	64.1	62.7	61.3	54.6	63.6	64
Mean Food Cons per AE	33.6	33.8	33.4	23.9	25.8	25.8
% of population	100	20.5	16.3	100	29	24.2
Distribution across regions						
Of which: Gjakova	15.2	15.5	12.7	9.4	17.8	16.5
Cjilani	10.9	7.7	9.7	12.6	11.2	13.4

Mitrovica	14.7	30.4	31.5	15.4	16.6	16.2
Peja	12.5	16.4	13	10.4	12	10.7
Prizreni	11.6	7	9	18.1	22.6	24.3
Prishtina	23	13.1	12.5	23.5	13.3	12.1
Ferizaji	12.1	10	11.6	10.6	6.6	6.8
Total	100	100	100	100	100	100
Distribution across ethnic areas						
Albanian ethnic area	96.3	97.6	97	95.9	99.5	99.9
Serbian ethnic area	3.7	2.4	3	4.1	0.5	0.1
Total	100	100	100	100	100	100
Unemployment rate	27	35.3	39.7	28.8	30.6	32
Enrollment rates						
Secondary enrollment rate	88.5	81.5	72.3	63.6	59.5	61.2
Male secondary enrollment rate	87.7	84.9	77.8	69.7	63.9	66.8
Female secondary enrollment rate	89.5	79.5	68.1	57.3	53.5	51.8
Tertiary enrollment rate	20.7	21.2	22	11.7	13.2	13.5
Male tertiary enrollment rate	22	19.3	19.7	13.7	15.4	14.4
Female tertiary enrollment rate	19.7	22.8	24.3	9.7	10.8	12.6

*Source:* World Bank staff calculations from HBS data for 2005.

**Table D.3: Regression Results for the 2-stage Estimation of the Effect of Having a Migrant on the Welfare of the Household**

	<b>Pr(Migrant)</b>	<b>Log of Consumption</b>	<b>Pr(Migrant)</b>	<b>Log of Consumption</b>
Predicted probability of a migrant in HH		0.729**		0.694**
		[0.239]		[0.237]
HH has member not born in this municipality (d)			-0.027	
			[0.029]	
Land endowment dummy (d)	0.102**		0.100**	
	[0.033]		[0.032]	
Age of the household head	0.005***	-0.001	0.005***	-0.001
	[0.001]	[0.002]	[0.001]	[0.002]
Female HH head (d)	0.258***	-0.13	0.260***	-0.122
	[0.065]	[0.067]	[0.065]	[0.067]
Serbian (d)	-0.219***	-0.284**	-0.220***	-0.291**
	[0.017]	[0.103]	[0.017]	[0.103]
Other (d)	-0.132***	-0.216*	-0.134***	-0.221*
	[0.039]	[0.085]	[0.039]	[0.085]
Secondary (d)	-0.059	0.209***	-0.06	0.207***
	[0.036]	[0.039]	[0.036]	[0.039]
Vocational (d)	-0.062	0.326***	-0.061	0.323***
	[0.047]	[0.048]	[0.047]	[0.048]
Tertiary (d)	-0.140***	0.479***	-0.139***	0.474***
	[0.039]	[0.066]	[0.039]	[0.066]
Dependency ratio	-0.02	-0.077***	-0.02	-0.078***
	[0.019]	[0.020]	[0.020]	[0.020]
Number of students in HH	-0.01	-0.028	-0.01	-0.028
	[0.017]	[0.019]	[0.017]	[0.019]
Number of unemployed in HH	0.019*	-0.096***	0.019*	-0.095***
	[0.009]	[0.014]	[0.009]	[0.014]
Main source of income: public sector (d)	-0.037	0.109***	-0.037	0.108***
	[0.031]	[0.030]	[0.030]	[0.030]
Main source of income: agriculture (d)	-0.140***	0.09	-0.140***	0.085
	[0.024]	[0.056]	[0.023]	[0.056]
Brick/cement walls (d)	0.116**	-0.076	0.117**	-0.072
	[0.042]	[0.061]	[0.042]	[0.061]
Central district heating (d)	0.098	0.155**	0.099	0.157**
	[0.056]	[0.051]	[0.057]	[0.052]
Access to inside water tap (d)	0.104***	0.193***	0.105***	0.196***
	[0.028]	[0.046]	[0.028]	[0.046]
Purchase of 5 most-common durables (lighting, textiles) in last 1 year (ln)	0.019	0.002	0.02	0.003
	[0.011]	[0.011]	[0.011]	[0.011]
Urban area dummy (d)	-0.065*	0.046	-0.063	0.042
	[0.033]	[0.040]	[0.033]	[0.040]
Gjilani (d)	-0.092	0.427***	-0.082	0.424***

	[0.050]	[0.062]	[0.053]	[0.061]
Mitrovica (d)	-0.045	-0.166**	-0.033	-0.167**
	[0.048]	[0.057]	[0.051]	[0.056]
Peja (d)	-0.012	0.145*	-0.002	0.144*
	[0.053]	[0.060]	[0.055]	[0.060]
Prizreni (d)	-0.06	0.140*	-0.054	0.138*
	[0.051]	[0.055]	[0.052]	[0.055]
Prishtina (d)	-0.209***	0.323***	-0.206***	0.315***
	[0.036]	[0.090]	[0.036]	[0.091]
Ferizaji (d)	-0.176***	0.076	-0.172***	0.069
	[0.029]	[0.070]	[0.029]	[0.069]
Constant		3.515***		3.516***
		[0.105]		[0.105]
R-squared		0.318		0.318
N	2312	2312	2312	2312

(d) for discrete change of dummy variable from  
0 to 1

\* p<0.05, \*\* p<0.01, \*\*\*  
p<0.001

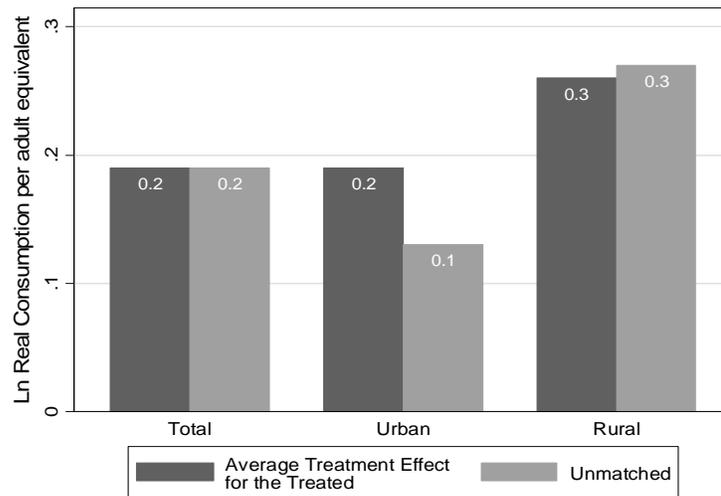
Source: World Bank staff calculations from HBS data.

**Table D.4: Propensity Score Matching Results for Consumption**

<i>Variable</i>	<i>Sample</i>	<i>Treated</i>	<i>Controls</i>	<i>Difference</i>	<i>S.E.</i>	<i>T-stat</i>
<b>Log of Consumption</b>						
<b>Total</b>	Unmatched	4.09	3.91	0.19	0.03	6.74
	Average Treatment effect for the Treated (ATT)	4.09	3.91	0.19	0.04	4.79
	Average Treatment effect for the Untreated(ATU)	3.91	4.11	0.21		
	Average Treatment Effect (ATE)			0.20		
<b>Urban</b>	Unmatched	4.09	3.96	0.13	0.04	3.09
	Average Treatment effect for the Treated (ATT)	4.09	3.90	0.19	0.06	3.44
	Average Treatment effect for the Untreated(ATU)	3.96	4.14	0.18		
	Average Treatment Effect (ATE)			0.18		
<b>Rural</b>	Unmatched	4.09	3.82	0.27	0.04	7.44
	Average Treatment effect for the Treated (ATT)	4.09	3.83	0.26	0.05	4.91
	Average Treatment effect for the Untreated(ATU)	3.82	4.05	0.22		
	Average Treatment Effect (ATE)			0.23		

Source: World Bank staff calculations from HBS data for 2005. Propensity score method used is single nearest member.

**Figure D.3: Propensity Score Matching for Migration and in (Consumption)**



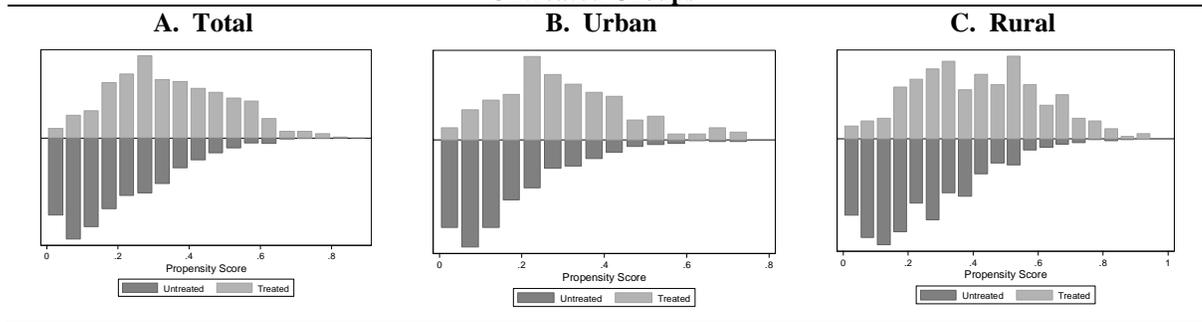
Source: World Bank staff calculations from HBS data.

**Table D.5: Poverty Rates among Migrant and Non-migrant Households, Propensity Score Matching**

<i>Variable</i>	<i>Sample</i>	<i>Treated</i>	<i>Controls</i>	<i>Difference</i>	<i>S.E.</i>	<i>T-stat</i>
Rural						
Poor	Unmatched	25.5%	44.6%	-19.1%	0.03	-5.70
	ATT	25.5%	45.5%	-20.0%	0.05	-3.93
	ATU	44.6%	32.9%	-11.7%		
	ATE			-14.1%		
Poor	Unmatched	28.3%	34.2%	-5.9%	0.03	-1.80
	ATT	28.3%	36.3%	-8.0%	0.05	-1.66
	ATU	34.2%	24.2%	-10.0%		
	ATE			-9.6%		

Source: World Bank staff calculations from HBS data. Differences in poverty rates with other tables come from the unweighted results. Estimates are at the household level.

**Figure D.4: Propensity Score and its Frequencies for Treated (households with migrants) and Untreated Groups**



**Table D.6: 2-stage IV Regression for the Effect of Having a Migrant in the HH on Consumption, by Urban and Rural**

Dependent Variable	<i>Total</i>		<i>Urban</i>		<i>Rural</i>	
	Migrant in HH	Log of Consumption	Migrant in HH	Log of Consumption	Migrant in HH	Log of Consumption
Predicted probability of a migrant in HH		0.675*		0.244		0.597
		[0.261]		[0.504]		[0.308]
HH has member born outside of Kosovo (d)	-0.086		-0.021		-0.156*	
	[0.052]		[0.055]		[0.072]	
<i>Instruments</i>						
HH has member not born in Kosovo * Years this member is in Kosovo	0.003*		0.002		0.007	
	[0.002]		[0.001]		[0.004]	
Land endowment dummy (d)	0.087**		0.031		0.098	
	[0.033]		[0.034]		[0.055]	
Other controls, same as in Table D.3, omitted						



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