

9 Understanding chronic poverty in transitional countries

Over the last 10 to 15 years Central Asia, the Balkans, East and Central Europe and the former Soviet Union have seen persistent income and asset poverty, catastrophic declines in capabilities at the household level, and soaring levels of preventable deaths in tens of millions of previously secure households.¹ The loss of social protection has hit hard. Rapid economic and political liberalisation in the early 1990s contributed to rising inequality and the creation of long-term poverty. Maldistribution and extremely unequal development, exacerbated by domestic politics and elite capture of resources,² is entrenching chronic poverty in the region.³

Prospects within the region differ. In the poorer Central Asian economies, chronic poverty is a problem of growth and economic opportunity as well as distribution. Countries like Kyrgyzstan and Tajikistan may be headed for deep chronic poverty and exclusion from, or extremely adverse incorporation into, the world economy. In Central Asia, natural resource constraints, such as water shortages, are also major contributors to poverty. In parts of East-Central Europe, ethnicity – specifically being a Roma – remains the most significant factor in chronic poverty, and, in several parts of the region (especially but not only in Tajikistan and Armenia/Azerbaijan) inter-ethnic/community conflict and violence is also significant.

Poverty trends in transitional countries

Although there are marked differences in changes in average incomes between Central and Eastern Europe, the Balkan Countries, and the former Soviet Union, real disposable household incomes have generally declined, due to increasing inequality and inflation.

The nature of poverty has changed during the economic and political transition from socialism. Several interrelated

processes are involved, particularly changes in the level, distribution, and structure of incomes, and profound changes in economic systems, which have had both immediate and longer-term effects. These include unemployment – caused by the loss of state enterprise subsidies and economic disruption at the beginning of transition, and by a reduction in state-provided social transfers and services – as well as high inflation. Indeed, transition has been a process of increasing hardship for the

majority of those living in the region, as more and more people become reliant on social transfers as well as informal and in-kind incomes. Alongside this widespread decline, however, is rising inequality: only an elite minority are experiencing significant economic improvements. Human development in this region is summarised in Table 9.1.

It is not easy to compare poverty rates across the pre- and post-transition periods as officially no poverty or unemployment existed during socialism and there remains today limited data on poverty dynamics. Those data that are available are highly unreliable. Indications point to a sharp increase in poverty as a result of regime change; however, poverty incidence was probably already considerable, particularly in Central Asia and other predominantly rural parts of the former Soviet Union, where international estimates put the figures at around 30% of the population.⁴ For most countries it is unknown whether many households are poor for a limited duration, or fewer households poor for longer periods of time.⁵

Many transitional countries experienced pre-transition recessions. This was particularly severe in Poland between 1989 and 1992. Although not officially recognised, some poverty was extreme and income mobility was low, indicating significant long-term poverty. Indeed, poverty⁶ rose during 1989–1992 from 15 to 17%, and ‘repeated poverty’ (poverty for more than a year) increased at twice the overall poverty rate, although transitory poverty decreased. Households experiencing poverty over two consecutive years increased from 45% of all poor in 1988–89 to 72% in 1991–92 but then declined during the growth

Table 9.1 Summary of poverty indicators in transitional countries

Region*	Percentage of people living on less than US\$1/day 1989–1999	Average shortfall of poor below US\$1/day (%), 1989–99	Under-5 mortality rate (per 1,000 live births), 2001	Infant mortality rate, 2000	Stunting <-2 s.d., 1992–2000	Life expectancy, female, 2000	Life expectancy, male, 2000	Adult illiteracy rate, female, 2000	Adult illiteracy rate, male, 2000
Balkans	3	24	21	20	10	74	67	4	2
Former Soviet Union and Central and Eastern Europe	5	21	27	20	14	73	62	< 1	< 1
Central Asia	12	26	72	54	25	71	64	1	< 1
Transitional countries	6	21	41	32	16	73	63	1	< 1

* Balkans = Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Slovenia, Yugoslavia;

Former Soviet Union and Central and Eastern Europe = Armenia, Azerbaijan, Belarus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Moldova, Poland, Russian Federation, Slovakia, Ukraine

Central Asia = Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan

Figures are rounded. The regional averages differ from those in Part C because Turkey has been excluded from the analysis.

years 1993–1996, to 60–62%.⁷

In contrast, poverty and inequality are low in Hungary compared to other transitional economies. Although rates are lower, poverty seems more entrenched, concentrated among the poorly educated, those living in remote rural areas, and those weakly positioned within the labour market, as well as the Roma. 7.5% of the Hungarian population was long-term poor (a poverty line of 50% of mean equivalent income) between 1992 and 1997. This figure is based on household data, and therefore omits the homeless and the institutionalised. Although these two groups are relatively small in size – roughly 20,000–30,000 people are homeless within a total population of about 10 million – they are very likely to have large proportions of people living in chronic poverty.⁸

For Russia, using either a consumption or income poverty line, about 50% of the population was living below the poverty line by mid-1992. Between 1992 and 1996, both overall poverty and transitory poverty decreased considerably, but chronic poverty moved very little, remaining at about 10%.⁹

How many people are chronically poor in transitional countries?

Best estimates are that between 10% and 20% of the absolute poor population in transitional countries is chronically poor: between 2 and 5 million people. Chronic poverty in Russia and Uzbekistan accounts for a significant proportion of this number. A large majority of the chronically poor in Central and Eastern Europe are members of the community of an estimated 7–9 million Roma living throughout East Central Europe and the

Balkans, and in Central Asia, the remote rural poor in particular.

Who are the chronically poor in transitional countries?

The same correlates of poverty frequently arise in transitional countries, for example household composition and labour market status. Historically, asset status has not been measured and this may slant discussion of poverty problems in transition away from asset ownership and access and towards income.¹⁰ Where poverty is causally related to a permanent household feature (such as ethnicity), chronic poverty can perhaps be inferred without time series data.

In Poland, the households with the highest risk of falling into chronic poverty are those with unemployed members – 58% more likely than those with an employed member, for each additional year of unemployment). Those households having mainly wage income are more likely to live in chronic poverty compared to those mainly relying on social transfer income (300% more likely in urban areas, 55% in rural areas).¹¹ Three-quarters of the chronically poor in Hungary are unemployed. They often live in low-growth areas and in places where poverty reduction policies and access to information are less effective.¹² Chronic poverty in Russia is statistically significantly related to location, human capital and asset wealth. Households with higher dependency ratios are more likely to be poor.

Ethnic minorities

Ethnic minorities in transitional countries are generally more prone to persistent poverty. While some minorities fare

rather well economically – for example, the ethnic Hungarians living in northern and central Romania are economically better-off than ethnic Romanians¹³ – discrimination by majority populations is common. The Roma are the largest excluded and vulnerable group in Central and Eastern Europe. They have poor access to services, and few productive household assets. The World Bank considers their situation ‘the biggest challenge to poverty alleviation in Central and Eastern Europe’.¹⁴

Roma households are found among the poorest in different studies over time, and in all countries in the region. Historically a stateless people, the Roma today make up an estimated seven to nine million people throughout the region, although they are a minority presence in each country. Ethnicity is the most important contributor to chronic poverty in Hungary, where one-third of the chronically poor are Roma, accounting for only 4–5% of the population, and 53% of the Roma are long-term poor. There are, of course, large variations in income and wealth within the Roma community, but as a group they tend to experience significant social exclusion by majority populations and often live in exclusively Roma settlements, which are poorly serviced with limited access to electricity, gas and running water, a lack of sanitary facilities and sewerage, and poor quality housing.

Women

The economic position of women in transitional countries has deteriorated. Under the socialist system, they experienced greater equality in pay, had high labour market participation, as well as state-provided child care and health care. Women are increasingly triply-burdened,¹⁵ particularly when husbands

Table 9.2 Households characteristics of Roma and non-Roma in Bulgaria, Hungary, and Romania

Expenditure based poverty lines	% of households in poverty					
	Bulgaria		Hungary		Romania	
	Roma	others	Roma	others	Roma	others
50 % of median, per equivalent adult	36.1	3.8	24.5	4.5	39.5	10.9
50 % of median, per capita	37.2	3.4	26.3	3.6	43.1	11.1
PPP \$ 2.15 per capita per day	41.4	4.1	6.6	0.5	37.6	7.3
PPP \$ 4.30 per capita per day	80.1	36.8	40.3	6.9	68.8	29.5

Note: In the source there are ‘PPP \$ 2.15 per capita’ and ‘PPP \$ 4.30 per capita’ poverty lines. We assume this is expenditures per day.

Source: Revenga et al. 2002: 13

migrate for work. They are vulnerable to layoffs and experience pay disparities. The collapse of state-provided support and price hikes associated with privatisation mean that health and child care is now often out of their reach and must be provided within the household.

Particularly in Central Asia, poverty may also be sharpening gender inequalities, with intergenerational implications as families resort to practices to keep costs down. Rural parents often have to decide whom among their children to send to school, and in such situations boys usually receive precedence, while girls are married off as a means of paying the fees. Reports from Uzbekistan suggest a growing incidence of marrying girls off at a young age (before the end of compulsory education) to cut down on the number of mouths to feed, again curtailing girls' education. These marriages are illegal and so cannot be registered. This makes the woman vulnerable if the couple subsequently divorce. Often, a young wife is left with the children and has no access to social security as the marriage did not officially take place.¹⁶

Single older people

Households with older people tend to be less poor, as pension transfers help to keep households above the poverty line. However, the decline in the real value of the pension often leaves those *without* wider family or household support with a significant reduction in their only source of income, leaving them at greater risk of perpetual poverty. In Hungary, among single elderly people, women are 19 times more likely to be chronically poor than men.

Children

Despite large country differences, households with larger numbers of children tend to be more at risk of remaining in poverty. 18% of all Moldovans were poor in 1997, but 42% of those living in families with 3 or more children were poor.¹⁷ In Hungary too, 21% of households with three or more children are chronically poor. In Poland, households with children under 15 are more likely to be chronically poor (27% for each additional child), and similarly, in Azerbaijan the 'very poor' were found in 1997 to have twice the number of children as non-poor households.¹⁸

In Kyrgyzstan, at any one time,

around 10–15% of school-age children are not attending school, while 25% of children miss 20 or more school days per year. Government spot-checks have revealed that up to 20% of primary and secondary school pupils do not attend school regularly.¹⁹ In some cases, this is associated with discrimination against minority groups. The Turks and Roma children in Bulgaria, for example, experienced a sharp fall in education levels between 1995–2000, with secondary school attendance falling to 15% compared to 50% for other households.²⁰

Since the fall of the Soviet Union in 1991, some countries have seen a sharp increase in child abandonment due to economic hardship. Dinara, a 35-year-old resident of Osh, abandoned her four-day old daughter at a maternity home. 'I cannot feed the elder five children, my husband is jobless and I get only US \$25 a month [salary]. Maybe those who will adopt her will be able to give her a proper upbringing and education'.²¹ Infants with weak health and congenital impairments are particularly affected, and rarely adopted. Thousands of migrants going to Russia, Kazakhstan and other countries, are leaving their children behind without proper care. There are no accurate statistics on the numbers of children within this group but orphanages report many problems, due to lack of resources.

Where are the chronically poor in transitional countries?

Markets in remote rural areas often

function poorly, and rural areas in the 1990s had low monetisation, often relying on barter. This meant that people had very limited cash resources. To some extent this has resulted in the re-emergence of feudal social relationships, often based on debt and huge interest rates where people enter arrangements like share-cropping on highly disadvantageous terms.²² With limited alternative income sources, people sometimes resort to extreme measures such as drug trafficking, international prostitution and illegal migration. Whilst these measures may aid the escape from poverty, they often present a serious risk to life and health.²³

Households living in remote rural regions are often older, less well-educated and less mobile than the rest of the population, limiting the prospect of escape from poverty.

Single sector/enterprise settlements

These settlements emerged during the socialist era in an effort to encourage regional specialisation and large-scale production. The 'one-company town' (or village) is an extreme case, where many former employees of now unprofitable enterprises such as arms factories or collective farms tend to be concentrated (Box 9.3). Many local households often rely totally on employment in that one sector or enterprise, leaving them vulnerable to market fluctuations. This is particularly the case in countries where smaller scale or diversified production was absent, and where limited private sector employment opportunities emerged.

Box 9.1 Women ex-collective farm workers in Kyrgyzstan

The disintegration or privatisation of the collective farms has resulted in the dismantling of entire community infrastructures. The collective farms system had provided comprehensive social assistance: in-kind food donations, education of children, and distribution of benefits. Prior to the privatisation of collective farms, people appeared to be able to weather the economic crisis better.

A 38-old Kyrgyz woman from a rural area compared the past and present systems:

'Right now, we don't know whom to turn to for help. Things were better when the collective farms were working. At least there was a director, and we had someone to complain to. Now it is as if the government didn't exist. The only one you can rely on is yourself.'

The economic networks that managed transactions have been severed, and the workers themselves do not have the same bartering power. Unemployed rural women seem least informed about the economic changes underway in the country and especially about the government services still available to them, including employment services and unemployment benefits.

Source: Dudwick et al. 2002:38

Notes

1. This section draws directly from an unpublished CPR background paper authored by Dirk Bezemer, ODI, 2003.
2. Abazov 1999
3. UNDP 2002; World Bank 2003a
4. Falkingham 1998
5. This chapter recognises the extreme diversity within the region, but draws heavily from three countries, Hungary, Poland and Russia (where there is relatively strong data) to deduce implications for transitional countries as a whole.
6. Based on a poverty line of lowest-quintile consumption expenditures per equivalent adult.
7. Okrasa 1999
8. Braithwaite et al. 2001
9. Commander et al. 1999
10. Thanks to Rachel Marcus at SCF-UK for this comment.
11. Okrasa 1999
12. Braithwaite et al. 1999
13. Bezemer and Davies 2003
14. Revenga et al. 2002
15. Triple burden – economic livelihood work, household care work, and community level work.
16. IRIN News.org, 2003a.
17. Banjeri 1999: xv
18. O’Keefe and Holson 1997: 5
19. UNICEF 1999: 48
20. Ringold 2002
21. IRIN News.org, 2003b
22. Kuehnast and Dudwick 2002
23. IOM 2001; PMC 2000