CHAPTER 7

POVERTY IN EASTERN EUROPE AND THE CIS

7.1 Introduction

At the end of the 1980s all the countries of eastern Europe and the former Soviet Union enjoyed relatively high levels of human development and social welfare. Extensive social investments during the period of communist rule meant that literacy was almost universal, and well above other countries with comparable levels of per capita income, and life expectancy averaged 68 years. Unemployment was unheard of and – at least officially – poverty did not exist. Few commentators could have foreseen that the process of transition towards market economies and democratic governments would have been so tumultuous and accompanied by such high costs in terms of individual well-being, particularly among the countries of the new Commonwealth of Independent States (CIS). The collapse of economic output in many of these countries following independence, along with hyperinflation that wiped out individual savings, resulted in a dramatic drop in living standards for the majority of people and the emergence of poverty as a major issue within the region. When growth resumed in the second half of the 1990s, poverty levels remained obstinately high. Past achievements in social welfare came under pressure, the most striking being the *reduction* in life expectancy in many countries. In 1995, life expectancy for males in the Russian Federation stood at just 58 years, 10 years less than that of men in China.

The last five years have given some cause for optimism. The region as a whole has enjoyed a period of economic stability since the Russian financial crisis of 1998, and virtually every country has seen a return to positive economic growth. Ceasefires have been secured in the majority of the CIS's flashpoint areas and democratic elections have taken place in many countries, giving a new impetus to reform. However, significant progress in improving the material and social welfare of ordinary people remains elusive. An estimated 50 million people remain in severe poverty. Moreover, in some countries in the region, the proportion of the population living below the poverty line has increased despite economic growth, and income inequality has continued to rise.

The public sector continues to experience privation. Real spending on health and education remains low by international standards and in some cases has actually fallen despite the recovery of economic growth. The proportion of births taking place without skilled attendants, a key indicator of the quality of health care services, has increased. In many countries educational standards have fallen as schools continue to lack basic supplies and the infrastructure deteriorates. Moreover, there are worrying signs that universal access to basic services is under threat in many parts of the region. There is a growing body of evidence that the increasing demand for informal payments on the part of educationalists and health care professionals has created significant barriers to the access of people from poor households to these services, threatening the future human capital of the region. Thus, in many cases the ultimate objective of transition – improving the lives of ordinary people – appears to have taken second place to the imperative of economic growth.

This chapter focuses on trends in the indicators of people's well-being in the countries of eastern Europe and the former Soviet Union over the decade since their independence in 1991, with a particular focus on the poorest countries of the region – Armenia, Azerbaijan, Georgia, Kyrgyzstan, the Republic of Moldova, Tajikistan and Uzbekistan.[380] The chapter is divided into an introduction and three main sections, each of which deals with a different aspect of people's welfare. Section 7.2 examines changes in the level and distribution of income and trends in real wages and employment during the last decade. Section 7.3 discusses what these changes have meant in terms of peoples' material living conditions and of the extent and depth of poverty in the region. It is increasingly recognized that material resources, or lack thereof, reflect just one, albeit very important, dimension of poverty. Being poor goes well beyond a narrow lack of material consumption: it encompasses poor health, low achievement in education and increased vulnerability to external shocks. This multi-dimensional nature of poverty is explicitly recognized by the Millennium Development Goals (MDGs). Section 7.4 therefore reviews trends in selected capability-based indicators, reflecting changes in the health and education of the population and the extent to

[380] These countries are known as the CIS-7. The CIS-7 Initiative aims to enhance economic growth and reduce poverty among the seven poorest countries of the CIS. It is a joint initiative of the governments of these countries and the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development and the Asian Development Bank. For further details see [www.cis7.org].

which the low-income countries of the CIS are on track to achieve the health and social MDGs. Evidence of growing inequalities within countries in terms of human development is also discussed. The chapter concludes with a brief discussion of the structural and institutional factors associated with poverty and the policy measures necessary to reduce extreme income disparities and to improve living standards.

7.2 Growth, inequality and earnings

GDP per capita was already declining in real terms in many countries at the end of the 1980s as a result of political and economic disruption and uncertainty. However, the loss of fiscal transfers from Moscow following the breakup of the USSR in 1991, combined with the interruption of inter-republican trade within the region, the adjustment of export/import prices to world levels and the impact of tight government stabilization policies all resulted in a sharp collapse of GDP per capita during the first half of the 1990s (chart 7.2.1). In some areas, the economic shock accompanying the breakup of the USSR was exacerbated by a series of natural disasters, armed conflicts and border disputes.[381] The effect of these factors can be seen most dramatically in the Caucasus, where real GDP per capita virtually halved between 1991 and 1993.

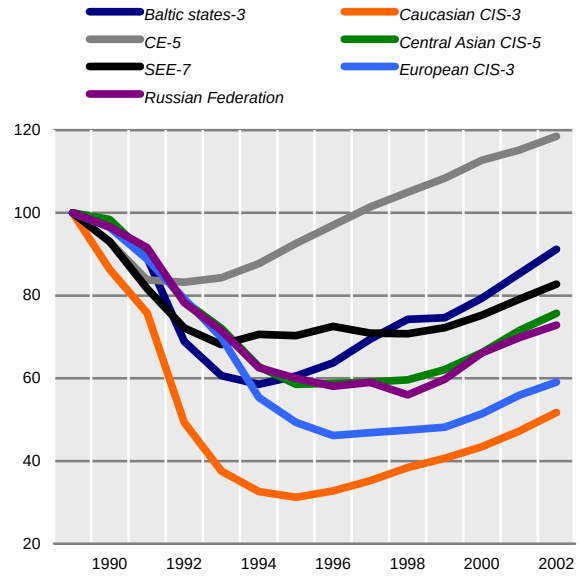
Economic performance over the last decade has been mixed. Output per head in the five EU accession countries in central Europe (CE-5) began to recover in the early 1990s, and by 1997 the region as a whole had regained its 1989 level. The decline in output was sharper and the recovery slower in the three Baltic states, which are also due to join the EU in 2004. The fall in output in the seven countries of south-east Europe (SEE-7) was less severe than that in the Baltics, falling to 68 per cent of its 1989 level in 1993. However, growth remained sluggish throughout the remainder of the 1990s, with significant improvements only being realized since 2000.

Since 1998, output has increased in nearly all 12 countries of the CIS, including Russia. However, despite this growth, the real value of GDP per capita remains significantly below its pre-transition level. In the Caucasus, where the fall in output was much greater, and where the recovery began later, GDP per capita remains nearly 50 per cent below its pre-transition level.

Chart 7.2.1 masks significant differences within the subregions. Strong economic growth, coupled with a reduction in overall population size, has resulted in GDP per capita in Estonia in 2002 being 10 per cent *higher* than its level in 1989. All other countries of the former Soviet Union remain below the 1989 starting line, with output per head in Georgia, the Republic of Moldova and Tajikistan being less than half the 1989 level, despite falling population in both Georgia and the Republic of Moldova.

CHART 7.2.1

Change in real GDP per capita in eastern Europe and the CIS, 1989-2002



Source: UNECE secretariat, based on national statistics.

Note: Regions defined as: Baltic states – Estonia, Latvia, Lithuania; CE-5 – Czech Republic, Hungary, Poland, Slovakia, Slovenia; SEE-7 – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia and Montenegro, The former Yugoslav Republic of Macedonia; Caucasian CIS-3 – Armenia, Azerbaijan, Georgia; Central Asian CIS-5 – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan; European CIS-3 – Belarus, Republic of Moldova, Ukraine.

Table 7.2.1 shows the countries of eastern Europe and the CIS ranked by their estimated value of GDP per capita in 2002. Figures are shown both in actual dollar terms and in "purchasing power parity" (PPP) dollars, i.e. adjusted to take into account differences in the cost of living between countries. Within eastern Europe there is a marked contrast between the countries of central Europe (Czech Republic, Hungary, Poland, Slovakia and Slovenia) and south-east Europe (Bulgaria, Romania and the countries of the former Yugoslavia) with the Baltic states occupying an intermediate position. Slovenia tops the league table with a GDP per capita in 2002 of $18,460 in PPP dollars, more than six times larger than that of Bosnia and Herzegovina, the poorest European country with a GDP of just $2,960 PPP dollars.

There is a marked contrast in living standards between eastern Europe and the CIS where all countries except Belarus, Russia and oil rich Kazakhstan have a GDP per capita of less than $5,000 PPP. Within the CIS, the poorest country is the central Asian republic of Tajikistan, with an annual actual GDP per head of just $188. After taking differences in prices into account, the population of Tajikistan is estimated to be living on under $4 (PPP)

[381] Armenia and Azerbaijan, 1988-1994; south Ossetia and Abkhazia, Georgia, 1990-1994; Transdniestr in the Republic of Moldova, 1992; civil war in Tajikistan, 1992-1993 and continued armed conflict, 1993-1997; and the Ferghana Valley, affecting Kyrgyzstan, Tajikistan and Uzbekistan, 1989-1991.

TABLE 7.2.1

GDP per capita in actual and purchasing power parity (PPP) dollars in eastern Europe and the CIS, 2002, and change in real GDP per capita between 1989 and 2002

	GDP per capita (PPP dollars)	*Actual GDP per capita (dollars)*	*Real GDP per capita (1989=100)*
Eastern Europe			
Albania	4 495	1 400	107.9
Bosnia and Herzegovina	2 960	1 195	..
Bulgaria	6 818	1 976	95.2
Croatia	8 628	5 047	93.3
Czech Republic	15 496	6 782	106.3
Estonia	10 978	4 782	110.0
Hungary	13 384	6 391	114.6
Latvia	8 436	3 594	92.5
Lithuania	9 061	3 980	83.1
Poland	10 212	4 944	128.9
Romania	7 469	2 044	91.3
Serbia and Montenegro	4 784	1 886	62.2
Slovakia	13 208	4 403	107.0
Slovenia	18 460	11 004	117.1
The former Yugoslav Republic of Macedonia	4 951	1 804	77.8
CIS			
Armenia	3 241	623	71.0
Azerbaijan	3 309	745	54.7
Belarus	8 960	1 441	97.6
Georgia	3 896	784	44.2
Kazakhstan	7 615	1 647	93.6
Kyrgyzstan	2 721	321	63.4
Republic of Moldova [a]	2 508	448	46.4
Russian Federation	8 549	2 394	72.9
Tajikistan	1 356	188	34.7
Turkmenistan	4 886	2 120	60.9
Ukraine	4 488	860	51.2
Uzbekistan	2 627	381	84.4

Source: National statistics.

[a] Since 1993 population and GDP figures exclude Transdniestria.

per person a day. Levels of income in the poorest seven countries, the CIS-7, are a particular cause of concern.

It is important to note that chart 7.2.1 and table 7.2.1 reflect changes in *measured* output only and as such may overestimate the fall in output and underestimate subsequent economic growth as they may exclude some, or all, activity in the informal sector. The size of the informal sector in the CIS-7 countries in 2001 has been estimated by Djankov and Murrell at 45 per cent of GDP in Armenia, 60 per cent in Azerbaijan, 66 per cent in Georgia, 39 per cent in Kyrgyzstan, 44 per cent in the Republic of Moldova and 33 per cent in Uzbekistan.[382] It is difficult to compare levels of output pre- and post-transition, as the true extent of the grey economy in the past is unknown. Nevertheless, even accepting that there may be important measurement problems, it remains clear that the region has suffered a severe decline in economic output and per capita income.

Unfortunately, the decline in measured output during the 1990s has been accompanied by large increases in inequality in household incomes throughout the region. Chart 7.2.2 presents a common summary measure of inequality in household incomes, the Gini coefficient, for 17 countries in the late 1980s and 2001. If there were no differences in household incomes, the Gini coefficient would equal zero, and if all income accrued to one household its value would equal one. Hence higher values indicate more inequality. The horizontal line at the value 0.31 provides a useful benchmark, being the average value for countries in the OECD area in the mid-1990s.

In 1989 all the countries of eastern Europe and the CIS, with the exception of Azerbaijan, had less inequality of incomes than in the OECD. High levels of social expenditure and low wage differentials meant that the distribution of income within the eastern bloc was significantly more egalitarian than in most market economies.[383] Economic transition has resulted in a rise in inequality right across the region. However, the size of the increase has varied considerably, with much larger rises in the former Soviet republics than elsewhere. By 2001, levels of inequality in most east European countries had risen to around the average for the OECD, with Estonia well above the average and the Czech Republic and Hungary slightly lower. In contrast, levels of inequality in the countries of the CIS, with the exception of Belarus, had risen above the top of the OECD range (the most unequal OECD country in the 1980s was the United States with a Gini coefficient of 0.37).

Some increase in income inequality during transition was to be expected as the market system implies a closer association between income and risk-taking, training, individual talent and effort. The emergence of open unemployment and the increasing inequality of income from sources other than employment amplify this trend. However, it is clear that the growth in inequality within many countries of the CIS over the last decade has been far greater than expected, fuelled by the widespread failure to respect employment contracts with the pervasive practice of wages being paid in arrears, especially for the less well-paid, and by flawed methods of privatization of public assets, which has led to the concentration of wealth in a few hands. The widening of the gap between those at the top and bottom of the distribution of income and wealth has resulted in an acute sense of relative deprivation for those left behind.

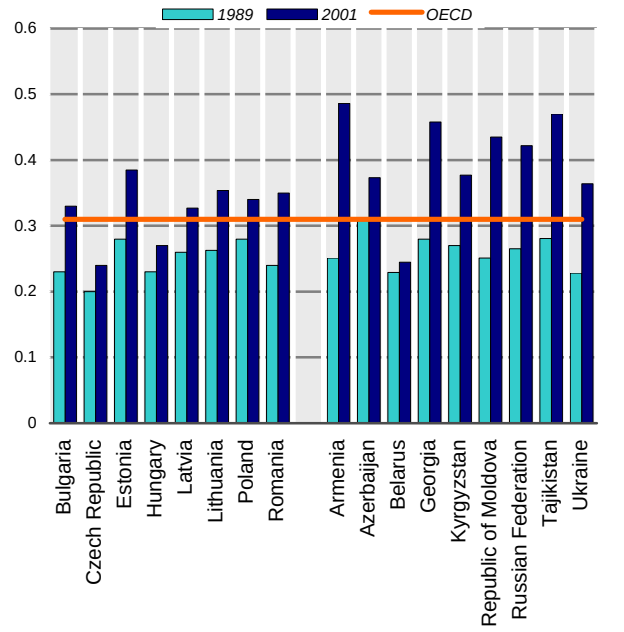
Chart 7.2.3 presents a summary of the changes that have taken place in the six years from 1995. But as shown in chart 7.2.1, there has been a return to positive economic growth in all countries in the region since the mid-1990s. A key question, therefore, is whether this economic growth has been shared between poor and rich

[382] S. Djankov and P. Murrell, *Enterprise Restructuring Transition: A Quantitative Survey*, Centre for Economic Policy Research (CEPR), Discussion Paper, No. 3319 (London), April 2002.

[383] A. Atkinson and J. Micklewright, *Economic Transformation in Eastern Europe and the Distribution of Income* (Cambridge, Cambridge University Press, 1992).

CHART 7.2.2

Income inequality in eastern Europe and the CIS, 1989 and 2001
(Gini coefficients)

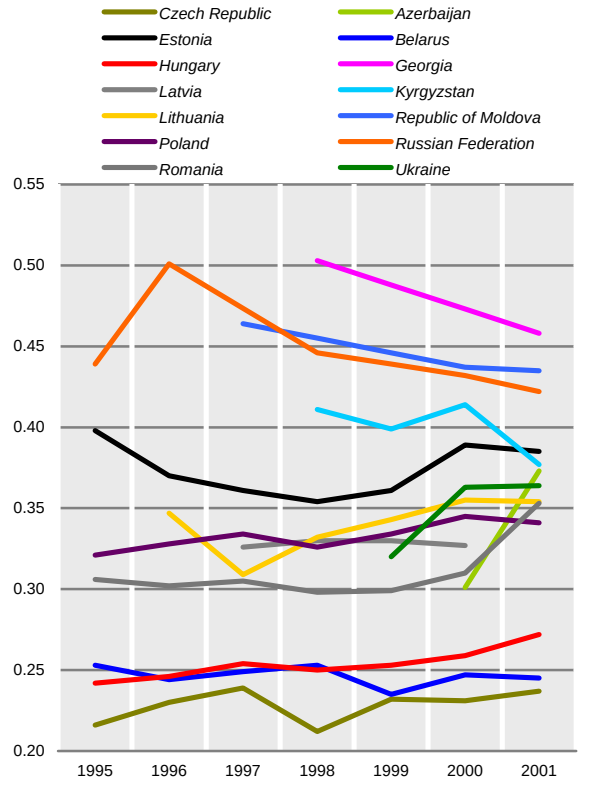


Source: UNICEF, TransMONEE Database, 2003 edition [www.unicef-icdc.org/resources].

Note: Data refer to the distribution of individuals according to household per capita income.

CHART 7.2.3

Changes in income inequality in eastern Europe and the CIS,1995-2001
(Gini coefficients)



Source: UNICEF, TransMONEE Database, 2003 edition [www.unicef-icdc.org/resources].

Note: Individual countries ranked by average per capita household income.

households. Has recent growth benefited the poor? Chart 7.2.3 shows recent trends in income inequality in those countries for which a time series is available. The picture is rather mixed. There are signs that income inequality declined in some countries in the late 1990s, indicating that households with below average income have gained from the recent economic growth. The decline was particularly marked in Georgia and Russia, although levels of inequality remain high by international standards. However, inequality has increased in the Baltic republics of Estonia and Lithuania, where there has been rapid economic growth. This is also true of Azerbaijan, where the growth rate was over 10 per cent per annum over the period 2000-2002. Most of the economic growth in Azerbaijan is due to increased exports of oil and gas, and it is clear that the benefits of this have yet to filter down to the poor. In Lithuania, in contrast, growth has been most rapid in agriculture, construction and financial intermediation.[384] It might have been expected that expansion of agriculture would have benefited the poor, yet it still appears that some groups are missing out.

Inequality also increased elsewhere in eastern Europe, rising sharply in Romania, where again growth has been largely export led. There is also evidence of a creeping upward trend in inequality in the Czech Republic and Hungary, although the levels there remain well below the OECD average.

A number of factors have contributed to the general widening of the income distribution during transition, including a shift in the composition of income. In the Soviet Union in the late 1980s, only 14 per cent of total gross income was from private sources (including 7 per cent from self-employment); social transfers comprised 13 per cent of the total and labour incomes 72 per cent, while income from property was non-existent.[385] By 2001 income from wage employment comprised just 44 per cent of monthly per capita income in Azerbaijan and 38 per cent in Kyrgyzstan.[386] As noted earlier, the informal sector has grown rapidly during transition, particularly in the countries of the CIS. Much of this growth consists of small-scale "survival" activities such as working on private plots, petty street trade and unofficial taxis, undertaken in the absence of formal work opportunities, sufficient wages or a functioning social security system.[387] Accompanying

[384] EBRD, *Transition Report Update* (London), May 2003.

[385] B. Milanovic, *Income, Inequality and Poverty in Transition*, World Bank Regional and Sectoral Study (Washington, D.C.), 1998.

[386] World Bank, *Azerbaijan Republic Poverty Assessment*, Report No. 24890-AZ (Washington, D.C.), 2002; World Bank, *Kyrgyz Republic: Enhancing Pro-poor Growth* (Washington, D.C.), 2002.

[387] S. Bernabe, *A Profile of the Labour Market in Georgia* (Tiblisi, UNDP, 2002).

TABLE 7.2.2

Gini coefficient of earnings in eastern Europe and the CIS, 1989-2001

	1989	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Eastern Europe											
Czech Republic	0.204	0.214	0.258	0.260	0.282	0.254	0.259	0.258	0.257	0.270	0.273
Estonia	0.253	..	..	..	..	..	0.336	0.384	0.401	0.376	..
Hungary	0.268	0.305	0.320	0.324	..	..	0.350	..	..	..	0.386
Latvia	0.244	0.333	0.283	0.325	0.346	0.349	0.336	0.332	0.333	0.337	0.322
Lithuania	0.260	0.372	..	0.390	0.374	0.350	0.345	0.357	0.368	..	0.382
Poland	0.207	0.247	0.256	0.281	0.290	0.302	0.300	0.294	0.305	..	..
Romania	0.155	..	0.226	0.277	0.287	0.305	0.352	0.358	0.372	0.406	0.388
Slovenia	0.219	0.260	0.276	0.275	0.358	0.298	0.307	0.306	0.305	0.306	0.310
CIS											
Armenia	0.258	0.355	0.366	0.321	0.381	..	..	..	..	0.486	..
Azerbaijan	0.275	0.361	..	0.428	0.459	0.458	0.462	0.462	..	0.506	0.501
Belarus	0.234	0.341	0.399	..	0.374	0.356	0.354	0.351	0.337	0.337	0.343
Georgia	0.301	0.369	0.4	..	..	..	0.498	..	..	..	..
Kyrgyzstan	0.260	0.3	0.445	0.443	0.395	0.428	0.431	0.429	0.466	0.47	0.512
Republic of Moldova	0.250	0.411	0.437	0.379	0.39	0.414	..	0.426	0.441	0.392	0.391
Russian Federation	0.271	0.371	0.461	0.446	0.471	0.483	..	..	..	..	0.521
Ukraine	0.244	0.251	0.364	..	..	0.413	0.406	0.391	0.427	0.462	0.452

Source: UNICEF, TransMONEE Database, 2003 edition [www.unicef-icdc.org/research].

Note: In this table the Gini coefficient is based on the distribution of earnings interpolated from group data for monthly earnings, with bonuses, for full-time employees as reported by employers. The Republic of Moldova, 1993-2001, excludes Transdniestria.

TABLE 7.2.3

Trends in real wages in eastern Europe and the CIS, 1989-2001
(1989=100)

	1989	*1991*	*1993*	*1995*	*1997*	*1999*	*2001*
Eastern Europe							
Bulgaria	100	64	78	60	39	51	51
Czech Republic	100	69	79	93	103	108	115
Estonia	..	..	102	120	132	150	169
Hungary	100	97	98	92	93	99	111
Latvia	..	68	49	55	58	63	68
Lithuania	100	78	33	40	48	57	56
Poland	..	..	100	104	117	127	131
Romania	..	85	64	74	64	62	71
Slovakia	100	67	71	76	87	86	82
Slovenia	100	57	62	67	73	76	80
CIS							
Armenia	100	51	6	5	7	9	11
Azerbaijan	100	80	44	14	26	37	50
Georgia	100	73	15	12	24	31	40
Kazakhstan		83	34	23	25	30	36
Kyrgyzstan	100	82	28	21	24	24	26
Republic of Moldova	100	96	41	25	28	26	32
Russian Federation	100	76	33	36	54	34	52
Tajikistan	100	88	17	5	4	6	7
Ukraine	100	108	47	44	41	38	46
Uzbekistan	100	91	100	133	165	240	..

Source: National statistics.

Note: Average monthly wages per employee deflated by consumer price indices; calculated from reported annual data.

the growth in income from private sources has been a rise in levels of earnings inequality. Table 7.2.2 shows that between 1989 and 2000, the Gini coefficient for the distribution of monthly earnings increased by over two-thirds in Armenia and Kyrgyzstan and nearly doubled in Azerbaijan, Russia and Ukraine. There has also been a notable rise in earnings inequality in Romania, albeit starting from a low base.

The fall in output and the growth of arrears within the state sector during the early 1990s was reflected in a fall in average real wages (table 7.2.3). In most countries, the decline in real wages exceeded the fall in output, reflecting the fact that labour was the least well-protected factor of production during the transition. In 1993, average real wages in Armenia fell to just 6 per cent of their 1989 value. As well as falling more sharply, wages have been slow to recover, remaining around half their 1989 value in 2001 in Azerbaijan, Bulgaria, Lithuania, Russia and Ukraine. In all the rest of the CIS real wages remained below two fifths of their level in 1989. Real wages remain below their pre-transition levels even in most of the "successful" countries of eastern Europe, with only the Czech Republic, Estonia, Hungary and Poland showing real growth relative to 1989.

It is notable that the recovery in real wages shown in table 7.2.3 is significantly better than that in measured output per capita in table 7.2.1. This is a reminder that there are real issues concerning the consistency of economic data between different sources.

There are similar problems with the data on unemployment. Throughout the CIS the labour market was initially slow to adapt, and registered unemployment remained low in all countries in the early 1990s despite the dramatic falls in output. In 1993, registered unemployment was below 2 per cent in all countries except Armenia. Rather than lay off workers, many state enterprises simply stopped paying them or "asked" them to go "on leave without pay". With the return of economic growth, the percentage of the labour force officially registered as unemployed continued to rise in most countries throughout the late 1990s as large non-

viable state enterprises were gradually restructured or closed down. Despite the recent rises, however, the figures for registered unemployment continue to represent only a fraction of real unemployment in most CIS countries. For example, registered unemployment in 1999 accounted for just 2.2 per cent of the labour force in Russia. However, estimates derived from a labour force survey conducted on the basis of ILO definitions were nearly six times higher at 12.7 per cent.[388]

Material poverty

Given the falls in output and real wages and rising inequality, it is not surprising that both absolute and relative poverty levels increased during the 1990s, particularly in the CIS and south-east Europe. As well as exacerbating the hardship of those groups traditionally thought of as being disadvantaged – pensioners, families with large numbers of children and single parent families – the economic dislocation of transition has also given rise to new groups of poor, including the families of workers "on leave without pay" or with low pay (especially agricultural and public sector employees), the long-term unemployed, young people in search of their first job, and a growing number of refugees, both economic refugees and persons displaced as a result of civil conflict.

It is difficult to construct a set of poverty statistics that allow comparisons a) across time within a country, and b) across countries at any one time, as definitions, survey methodologies and coverage all vary. A commonly used international definition of absolute poverty is having to survive on less than $1 per person a day. This standard was developed by the World Bank in the 1980s and was based on the average of the poverty lines of 10 low-income countries, all of which were located wholly, or in part, within the tropics. In its 2000 report on poverty in central and eastern Europe and the CIS, the World Bank argues that a higher poverty line is needed in the region, given that its cooler climate necessitates additional expenditures on heat, winter clothing and food.[389] A line of $2.15 a day was therefore taken as a low threshold. A higher threshold of $4.30 was also used, recognizing that what may be considered as "subsistence needs" inevitably varies with the level of a country's development. Even the poorest households in the region will incur expenses on some basic services such as the post, childcare and health care and will need to cover the running costs of a minimum of some basic consumer durables, such as a (black and white) television set or a refrigerator. Table 7.2.4 shows the proportion of the population which is poor on the basis of these two alternative "international" poverty lines.

At the end of a decade of transition, an estimated 158 million people in eastern Europe and the CIS were living in poverty, of whom some 50 million were living in extreme poverty. There are large variations in absolute poverty rates across the region, with rates significantly higher in the CIS than elsewhere. The difference between the figures based on the two poverty lines demonstrates the sensitivity of the results to the value of the poverty line. Given the regional differences in the levels of national income shown in table 7.2.1, it is arguable that the $4.30 line may be more appropriate for the countries of eastern Europe while the $2.15 may be more applicable to the CIS. Using these lines, it is clear that the problem of low living standards is endemic. Even in the "successful" central European countries, Hungary and Poland, between some 15-20 per cent of the population are living below $4.30 PPP a day and this rises to around a third in Latvia. Absolute poverty is greatest, however, in the CIS countries of Armenia, Kyrgyzstan, the Republic of Moldova and Tajikistan. In 1999, over two thirds of the population of Tajikistan were surviving on less than $2.15 PPP a day, along with over half the population of the Republic of Moldova and just under half the population of Armenia and Kyrgyzstan (1998).

An alternative approach is to define poverty as those persons living in households with income or expenditure below half of the average expenditures for the country in which they live. This is the definition of poverty adopted by the European Union, for example. It allows easy cross-national comparison of the numbers of persons who are poor *relative* to others in their own country and facilitates identification of those groups that are at greatest risk of falling behind. Table 7.2.5 therefore shows the percentage of people living in households with per capita expenditure below half of the national average (as measured by the median).

The variation in poverty rates across the region is far smaller using a relative definition than it is using definitions based on dollar lines. The *ranking* of countries in table 7.2.5 remains broadly similar to that in table 7.2.4, with higher poverty rates in central Asia and lower rates in central Europe. But there are some notable exceptions to this pattern. Poland has one of the highest rates of relative poverty – 17 per cent – but has one of the better records when the dollar per day lines are used. In contrast, Tajikistan appears to have a moderate level of relative poverty despite being bottom of the ranking based on the absolute definition.

Which definition and measure of poverty is most appropriate remains the subject of much debate. The two concepts of absolute and relative poverty capture different, but equally important, dimensions of poverty. On the one hand it is essential to identify how many, and which, people are living in households that are unable to purchase or consume a fixed minimum amount of goods and services, i.e. that are living in absolute poverty. On the other hand it is also important to identify those living

[388] On similar degrees of discrepancy in other CIS countries, see chap. 4.4 above.

[389] World Bank, *Making Transition Work for Everyone* (Oxford, Oxford University Press, 2000).

TABLE 7.2.4

Percentage of the population in eastern Europe and the CIS living in absolute poverty using international poverty standards
(Per cent)

	Survey date	Per cent living in extreme poverty ($2.15 PPP/day)	Per cent living in poverty ($4.30 PPP/day)	Total population extremely poor (thousands)	Total population poor (thousands)
Baltic states					
Estonia	1998	2.1	19.3	30	280
Latvia	1998	6.6	34.8	162	852
Lithuania	1999	3.1	22.5	115	833
Central Europe					
Czech Republic	1996	–	0.8	–	82
Hungary	1997	1.3	15.4	131	1 558
Poland	1998	1.2	18.4	464	7 114
Slovakia	1997	2.6	8.6	140	464
Slovenia	1997-1998	–	0.7	–	14
South-east Europe					
Albania	1996	11.5	58.6	383	1 952
Bulgaria	1995	3.1	18.2	256	1 503
Croatia	1998	0.2	4.0	9	187
Romania	1998	6.8	44.5	1 531	10 016
The former Yugoslav Republic of Macedonia	1996	6.7	43.9	135	882
Caucasian CIS					
Armenia	1999	43.5	86.2	1 651	3 271
Azerbaijan	1999	23.5	64.2	1 860	5 080
Georgia	1999	18.9	54.2	1 020	2 926
Central Asian CIS					
Kazakhstan	1996	5.7	30.9	860	4 664
Kyrgyzstan	1998	49.1	84.1	2 291	3 925
Tajikistan	1999	68.3	95.8	4 133	5 798
Turkmenistan	1998	7.0	34.4	330	1 620
Uzbekistan [a]	2000	..	..	2 395	11 977
European CIS					
Belarus	1999	1.0	10.4	102	1 060
Republic of Moldova	1999	55.4	84.6	2 022	3 088
Russian Federation	1998	18.8	50.3	27 548	73 706
Ukraine	1999	3.0	29.4	1 501	14 714

Source: Estimated using headcount poverty rates from World Bank, *Making Transition Work for Everyone* (Oxford, Oxford University Press, 2000), table 1.1; UNECE population estimates [www.unece.org/stats/data.htm].

[a] The figures for Uzbekistan on the total population living in poverty and extreme poverty are derived using poverty rates quoted in the World Bank poverty report. The actual numbers living below $2 and $4 a day are likely to be much higher.

in households with resources that are so limited as to exclude them from enjoying a lifestyle that at least approaches that of the rest of society, i.e. living in relative poverty. Relative poverty lines make most sense in countries where absolute deprivation is not the social norm; in low-income countries such as those in central Asia and the Caucasus, an income corresponding to half the median will not necessarily be sufficient to meet even the basic needs of a household.

Tables 7.2.4 and 7.2.5 above provide a snapshot at one point in time. The key question is whether recent economic growth has been effective in reducing poverty. There are some signs that the picture is improving. For those countries where time series data are available, the proportions of the population living in poverty, according to nationally-defined standards, appear to have peaked in 1999 following the aftershock of the Russian financial crisis, and in the following three years there were improvements in all countries except Georgia where the incidence of poverty appears to have stabilized but not yet started to fall (chart 7.2.4). The latest data for Russia show that the share of the population living below the nationally defined minimum subsistence level has fallen from 39 per cent in 1999 to 26 per cent in the first quarter of 2003.[390] In Kyrgyzstan and the Republic of Moldova there was strong economic growth in 2000-2001 and in both there were significant reductions in poverty according to national definitions, although caution about absolute changes is required as the data from different surveys are not strictly comparable over time.

Material, or monetary, poverty is just one dimension of an individual's standard of living, albeit a very important

[390] Bureau of Economic Analysis (BEA), *Russian Economic Trends* (Moscow), June 2003.

TABLE 7.2.5

Percentage of the population in eastern Europe and the CIS living in relative poverty [a]

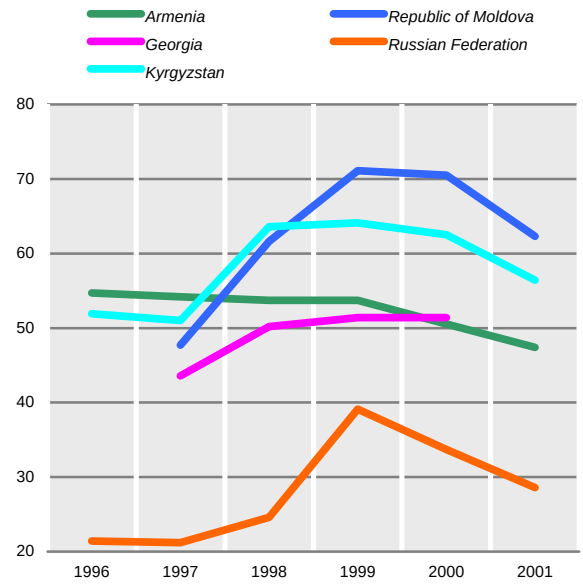
	Survey date	Per cent in relative poverty
Baltic states		
Estonia	1998	8.7
Latvia	1998	12.5
Lithuania	1999	13.4
Central Europe		
Czech Republic	1996	5.0
Hungary	1997	7.9
Poland	1998	16.9
Slovenia	1997/98	8.3
South-east Europe		
Albania	1996	6.9
Bulgaria	1997	13.3
Croatia	1998	9.6
Romania	1998	12.6
The Former Yugoslav Republic of Macedonia	1996	19.9
Caucasian CIS		
Armenia	1999	13.4
Azerbaijan	1999	14.9
Georgia	1996/97	19.9
Central Asian CIS		
Kazakhstan	1996	18.2
Kyrgyzstan	1998	20.0
Tajikistan	1999	12.1
Turkmenistan	1998	19.9
European CIS		
Belarus	1999	9.0
Republic of Moldova	1999	14.7
Russian Federation	1998	21.9
Ukraine	1999	14.0

Source: World Bank, *Making Transition Work for Everyone* (Oxford, Oxford University Press, 2000), appendix D.

[a] Per capita household expenditure below half the median.

CHART 7.2.4

Trends in the proportion of the population living in poverty in selected CIS countries, 1996-2001



Source: J. Falkingham, "Inequality and poverty in the CIS-7", paper prepared for the Lucerne Conference of the CIS-7 Initiative, 20-22 January 2003, table 6 [www.cis7.org], except Russia, which is from Bureau of Economic Analysis (BEA), *Russian Economic Trends* (Moscow), June 2003, table 10.

one. It is useful to look at the evidence of other dimensions of poverty to get a fuller picture of the changes in welfare during transition. The following section focuses on the countries of the former Soviet Union, i.e. the Baltic states and the CIS, with particular emphasis on the poorest countries of the region – Armenia, Azerbaijan, Georgia, Kyrgyzstan, the Republic of Moldova, Tajikistan and Uzbekistan.

7.3 Poverty and human capabilities

(i) Health

Health is both a determinant and a dimension of poverty. Ill health and malnutrition are often reasons why households end up in poverty, or sink further into it if they are already poor. Illness in a breadwinner and the consequent loss of income can undermine a poor household's ability to cope financially. In the *Voices of the Poor*, a consultation exercise recently conducted by the World Bank, ill health emerged as one of the main reasons why households believe they fall into poverty.[391] Out-of-pocket payments for health services, especially hospital care, can make the difference between a household coping or not. But poverty is also a cause of ill health. Poor people suffer from a multiplicity of deprivations that translate into ill health. Most obviously they lack the financial resources to pay for food, clean water, good sanitation and health services, i.e. the key inputs to producing good health. But it is not just lack of income that causes the high level of ill health among poor people. The health facilities available to them are often dilapidated, inaccessible, inadequately stocked with basic medicines and run by poorly trained staff.

Under the socialist system, access to health care was not an issue, with universal entitlement to comprehensive and free, but inefficient, health services with excess human and physical infrastructure. Health care utilization rates were high and differences between groups in terms of access to health services were negligible. Indicators of population health were good by international standards. Tragically, the last decade has seen major reversals in both health and health care, particularly in the poorest countries in the region, i.e. the CIS-7. Although good health is not solely a function of health care, it is relevant to note that spending on health care as a percentage of GDP in 2001 was less than 3 per cent in all CIS-7 countries and less

[391] D. Narayan and P. Petesch, *Voices of the Poor: From Many Lands* (New York, Oxford University Press, 2002), published for the World Bank.

TABLE 7.3.1

Life expectancy at birth in the Baltic states and the CIS, 1989, 1995 and 2001
(Years)

	Women			Men		
	1989	*1995*	*2001*	*1989*	*1995*	*2001*
Baltic states						
Estonia	74.7	74.3	76.2	65.7	61.7	64.7
Latvia	75.2	73.1	76.6	65.3	60.8	65.2
Lithuania	76.3	75.2	77.4	66.9	63.5	65.9
Caucasian CIS						
Armenia	74.7	75.9	75.0	69.0	68.9	70.3
Azerbaijan	74.2	72.9	75.2	66.6	65.2	68.6
Georgia	75.7	80.6	78.7	68.1	72.6	73.7
Central Asian CIS						
Kazakhstan	73.1	69.4	71.1	63.9	58.0	60.2
Kyrgyzstan	72.4	70.4	72.6	64.3	61.4	65.0
Tajikistan	71.8	69.1	70.8[a]	66.7	63.6	66.1[a]
Turkmenistan	68.4	67.5	72.0	61.8	61.9	65.4
Uzbekistan	72.1	72.6	73.0[b]	66.0	67.8	68.2[b]
European CIS						
Belarus	76.4	74.3	74.5	66.8	62.9	62.8
Republic of Moldova	72.3	69.7	71.6	65.5	61.8	64.6
Russian Federation	74.5	71.7	72.3	64.2	58.3	59.0
Ukraine	75.0	72.7	73.6	66.0	61.8	62.4

Source: UNICEF, TransMONEE Database, 2003 edition [www.unicef-icdc.org/research].

a 1999.

b 1998.

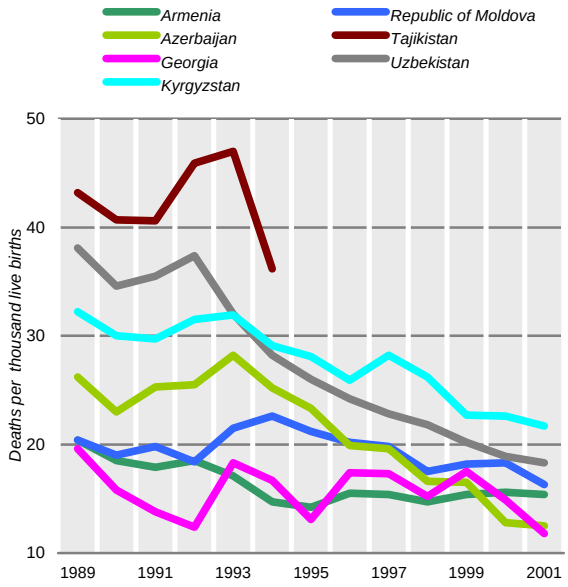
than 2 per cent in Armenia, Azerbaijan, Georgia and Tajikistan. Most OECD governments spend around 5-7 per cent of GDP on health care.

(ii) Mortality

The most fundamental measure of the well-being of a population is how long its members can expect to live on average. Life expectancy at birth for a given year is a hypothetical measure, giving the number of years a man or woman could expect to live, on average, if they were exposed to the risk of dying at the prevailing age-specific mortality rates of that year throughout their entire life. From table 7.3.1, it is clear that the health of the population deteriorated in most of the CIS during the period 1990-1995, with falls in life expectancy in 12 of the 15 countries. Proportionately, the declines were most marked among men, particularly in the countries of European CIS. For example, between 1989 and 1995, life expectancy for Russian men fell by nearly six years, from 64.2 to 58.3. The "mortality crisis" among Russian men has attracted considerable attention,[392] with much being written about its causes and its relationship to poverty, unemployment, depression and, especially, alcohol.[393] However, the fact that male mortality also increased elsewhere in the region has received less comment. Since the mid-1990s there are signs that mortality has begun to improve, although life expectancy in 2001 in most countries remained below that enjoyed in 1989.

CHART 7.3.1

Trends in infant mortality in selected CIS countries, 1989-2001



Source: UNICEF, TransMONEE Database, 2003 edition [www.unicef-icdc.org/resources].

Life expectancy rates are heavily influenced by trends in infant and child mortality. Reducing child mortality, as measured by both infant and under five deaths, is one of the key Millennium Development Goals. Chart 7.3.1 shows recent trends in infant mortality across the countries of the CIS-7 using official vital registration data. Taken at face value the graph presents good news. Although infant mortality rates in some countries are high by international standards (especially the central Asian republics of Kyrgyzstan, Tajikistan and Uzbekistan), from the mid-1990s the trend has been downwards. However, recent research shows that in some countries official infant mortality rates appear to be much lower than estimates based on surveys that ask women about their reproductive histories.[394]

[392] L. Chen, F. Wittgenstein and E. McKeon, "The upsurge of mortality in Russia: causes and policy implications", *Population and Development Review*, Vol. 22, No. 3, 1996; G. Cornia and R. Paniccia, *The Demographic Impact of Sudden Impoverishment: Eastern Europe during the 1989-94 Transition*, UNICEF Innocenti Research Centre, Innocenti Occasional Papers, Economic Policy Series, No. 49 (Florence), 1995.

[393] M. McKee, "Unraveling the enigma of the Russian mortality crisis: a review essay on Charles M. Becker and David Bloom (eds.), *The Demographic Crisis in the Former Soviet Union*", *Population and Development Review*, Vol. 25, No. 2, June 1999, pp. 361-366; V. Shkolnikov, M. McKee and D. Leon, "Changes in life expectancy in Russia in the 1990s", *Lancet*, Vol. 357, January-June 2001, pp. 917-921; P. Walberg, M. McKee, V. Shkolnikov, L. Chenet and D. Leon, "Economic change, crime, and mortality crisis in Russia: a regional analysis", *British Medical Journal*, Vol. 317, August 1998, pp. 312-318.

[394] E. Bos, A. Ryskulova, S. Patel and M. Hiraga, "Infant and child mortality rates in eastern Europe and central Asia: what's wrong with the data?", World Bank, June 2002, mimeo; UNICEF, "Counting infant mortality and accounting for it", *Social Monitor 2003*, Innocenti Research Centre (Florence), 2003, chap. 6.

TABLE 7.3.2

Comparison of survey and vital registration-based infant mortality rates in selected CIS countries in the 1990s

	Year of survey	Reference year	Infant mortality rate (deaths per thousand live births)		Survey as per cent of vital registration	Under five mortality rate (deaths per thousand population aged under 5)		Survey as per cent of vital registration
			Survey	Vital registration		Survey	Vital registration	
Armenia	2000 (DHS)	1993	51	17	300	55	22	250
		1998	36	15	240	39	18	217
Azerbaijan	2000 (MICS)	1996	76	20	380	106	31	342
Kyrgyzstan	1997 (DHS)	1990	71	30	237	79	41	193
		1995	61	28	218	72	41	176
Tajikistan	2000 (MICS)	1993	89	47	189	126	84	150
	1999 (TLSS)	1998	82	23	357	..	..	..
Uzbekistan	1996 (DHS)	1993	49	32	153	59	48	123
	2000 (MICS)	1999	52	20	260	69	33	209

Source: UNICEF, TransMONEE Database, except for Tajikistan 1998, which is from UNDP, National Human Development Report; national survey reports [www.measuredhs.com] and [www.unicef.org/reseval/micsr.html].

Note: DHS = Demographic and Health Survey; MICS = Multiple Indicator Cluster Survey; TLSS = Tajikistan Living Standards Survey. For DHS, reference years are for mid-point of five-year reference category.

Table 7.3.2 therefore presents a comparison of infant and child mortality rates calculated from both vital registration data and survey data for selected countries. This confirms that rates calculated from survey data are consistently higher than those from official data; in Azerbaijan and Tajikistan they are over three times as high, reaching levels that are similar to those in India, where infant mortality was 69 per 1,000 live births in 2000 or parts of Africa (Botswana, 74 per 1,000; Zimbabwe, 73 per 1,000; Senegal, 80 per 1,000).[395]

Several factors have been put forward to explain the discrepancies, including differences in the definition of a "live birth" that is sometimes applied[396] and a decline in the proportion of all births registered as a result of increased fees. The fees for the registration of a birth are now equivalent to around 3 per cent of average monthly wages in Azerbaijan and Kyrgyzstan, 10 per cent in Georgia and a staggering 53 per cent in Tajikistan. Given this, it is not surprising that a recent survey found that only 75 per cent of children under five in Tajikistan had been included in the civil registers, implying that about 190,000 children are missing from the registration system.[397] If a birth is not registered, it is likely that an infant death will not be registered either. Although these factors go some way towards explaining the discrepancies, more analysis is required to determine the true picture. However, as the data on child nutritional status presented below demonstrates, it is likely that infant and child mortality and morbidity is significantly worse than suggested by official data. This will have implications both for estimates of life expectancy, and for countries' ability to meet the health-related MDGs.

(iii) Nutritional status

There is a very real possibility that the level and depth of poverty faced by households in the region is now affecting children's nutritional status, with all the subsequent long-term developmental consequences associated with malnutrition. Table 7.3.3 presents information for the three standard indices of physical growth: height-for-age (the percentage of stunted children reflecting chronic undernutrition), weight-for-height (the percentage of wasted children reflecting acute or recent malnutrition), and weight-for-age (the percentage of underweight children being a good overall indicator of the child population's nutritional health). In a healthy, well-nourished population of children, it is expected that 2.3 per cent of children will fall below two standard deviations of the reference population and will be classified as stunted, wasted or underweight.

It is clear from table 7.3.3 that the nutritional status of children in several CIS countries, including Russia, is a major cause for concern. The percentage of children classified as stunted is significantly greater than the WHO standard of 2.3 per cent in all instances. The rate of stunting in Tajikistan is particularly worrying, despite the 2002 figure being an improvement on rates found in previous nutritional surveys.[398] Countries' ranking in

[395] UNDP, *Human Development Report 2002*: Deepening democracy in a fragmenting world (New York and Oxford, Oxford University Press, 2002).

[396] In the Soviet Union premature and low birth-weight infants who survived for seven days or less were not included in infant mortality statistics. This Soviet definition is still used to compile official statistics in some countries in the region. It has been estimated that other things being equal this will produce an infant mortality rate 20 per cent lower than an estimate based on the WHO definition of a live birth. M. McKee and L. Chenet, "Patterns of health", in M. McKee, J. Healey and J. Falkingham (eds.), *Health Care in Central Asia* (Buckingham, Open University Press, 2002).

[397] UNICEF, *Social Monitor 2002*, Innocenti Research Centre (Florence), 2002.

[398] In 2001 the prevalence of chronic malnutrition (stunting) in Tajikistan was estimated at 38 per cent. However, direct comparison between the two surveys is complicated by the fact that the 2002 survey was conducted in May/June while the previous survey was conducted in early autumn, a time of year commonly associated with high levels of diarrhoeal disease as a result of the changes in the source of water.

TABLE 7.3.3

Percentage of children under five severely or moderately undernourished in selected CIS countries

	Survey	Underweight (weight for age)	Stunted (height for age)	Wasted (weight for height)
Armenia	2000	2.6	13.0	2.0
Azerbaijan	2000	16.8	19.6	7.9
Georgia	1999	3.1	11.7	2.3
Kyrgyzstan [a]	1997	11.0	24.8	3.4
Russian Federation	2000	..	10.6	5.5
Tajikistan [b]	2002	..	30.9	4.9
Uzbekistan [a]	1996	..	31.3	11.6

Source: J. Falkingham, "Inequality and poverty in the CIS-7", paper prepared for the Lucerne Conference of the CIS-7 Initiative, 20-22 January 2003, table 12 [www.cis7.org].

a Rates are for children 0 to 35 months.

b Rates are for children 6 to 59 months.

table 7.3.3 generally follow their rank in material poverty in table 7.2.4. Countries with high levels of material poverty such as Kyrgyzstan and Tajikistan also have more malnourished children, highlighting the link between low income and poor health. Reducing child malnutrition is a key MDG. Achieving this will require a concerted effort to improve material living standards. Without such an effort it is likely that rates of malnutrition will increase, with a concomitant increase in morbidity as these children enter young adulthood.

(iv) HIV/AIDS

HIV/AIDS is emerging as a major health threat in the CIS region. In 2002 an estimated 1 million people were living with AIDS. This figure is likely to increase significantly during the next decade as the region now has the unfortunate distinction of having some of the fastest growing rates of the HIV/AIDS infection in the world.[399] Currently, the epidemic is linked to the growing problem of drug use, with 90 per cent of officially registered infections being attributed to injecting drugs. Almost four in every five new infections between 1997 and 2000 were among young people aged under 30, reflecting the fact that young people are more likely to be occasional or regular drug users. However, unsafe sex is also important, with a growing proportion of recorded infections being due to unprotected heterosexual sex.

In the late 1990s, the epidemic appeared to be confined to Russia and the European CIS. Ukraine remains the worst affected country, with an estimated adult HIV prevalence rate of over 1 per cent, among the highest in Europe. However, although the incidence of HIV is currently low in the poorer countries of the region, the epidemic is already spreading rapidly with substantial increases in the number of reported HIV infections in central Asia and the Caucasus in the last two to three years. There has been an exceptionally steep rise in Uzbekistan, where more HIV cases were reported in 2002 than in the whole of the previous decade.[400] Evidence of increasing heroin use in both Tajikistan and Uzbekistan has led to fears that these countries could also be on the brink of a major epidemic.

Worryingly, awareness of HIV/AIDS and methods of prevention remain low. For example, in the 2001 round of the UNICEF Multiple Indicator Cluster Surveys, a mere 10 per cent of young women (aged 15-24) in Tajikistan had heard of AIDS, and in Azerbaijan and Uzbekistan less than 60 per cent were aware of the disease. Even in Ukraine, where prevalence of the disease is high, only 9 per cent of girls were aware of HIV prevention methods. High rates of sexually transmitted infections continue to be found in the region, pointing to the widespread practice of unsafe sex and increased risks of HIV infection. In 2000, newly reported cases of syphilis in the Russian Federation stood at 157 per 100,000 population, compared with just 4.2 per 100,000 in 1987.

Policies to tackle the threat of HIV/AIDS, including both health promotion and harm reduction, will also need to confront the root causes directly. The rising wave of drug injection in the Russian Federation and parts of central Asia is closely correlated with increasing poverty and high levels of youth unemployment. Unless urgent action is taken to check the epidemic in the bud, there is a very real danger of CIS experiencing reversals in health and life expectancy similar to those in other areas of the world. Aside from the human tragedy, the epidemic will also have far-reaching social and economic implications for individuals, households and the economy as a whole. Even with the recent dramatic fall in the price of antiretroviral drugs from $10,000 per person per year in 2000 to $300-$600 more recently, given the data on income levels in table 7.2.1 it is unlikely that many people with HIV will be able to afford such care unless it is highly subsidized. Households' ability to pay will further be undermined by the loss of breadwinners in their prime working age. This will also affect the productive capacity of the economy as a whole. A study of the potential economic effects of an unchecked epidemic in the Russian Federation suggested that it could reduce economic growth by half a percentage point annually by 2010 and by a full percentage point by 2020.[401]

(v) Access to health care

Access to good quality health care is an important determinant of good health. Since gaining their independence, health services in many countries have deteriorated rapidly in the face of severe financial constraints, exacerbated in some areas by extensive damage to infrastructure during the armed conflicts that have wracked the region. It is clear that the widening gap

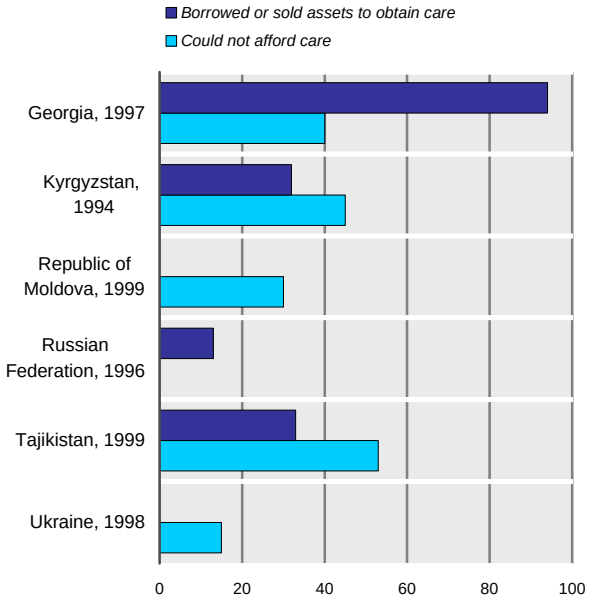
[399] UNAIDS *Factsheet*: Eastern Europe and Central Asia, 2003 [www.unaids.org].

[400] World Bank, *Averting AIDs Crises in Eastern Europe and Central Asia: A Regional Support Strategy* (Washington, D.C., World Bank, 2003).

[401] Ibid.

CHART 7.3.2

Indicators of financial barriers to health care in the CIS



Source: M. Lewis, "Informal health payments in eastern Europe and central Asia: issues, trends and policy implications", in E. Mossialos, A. Dixon, J. Figueras and J. Kutzin (eds.), *Funding Health Care: Options for Europe* (Buckingham, Open University Press, 2002).

between health care budgets and the actual costs of care has resulted in both a fall in the quality of services *and* an increased burden on the household both in terms of official charges and, more commonly, under-the-counter or informal payments. There is a small, but growing, body of evidence that the financial cost is now an important barrier to health care within the region. Chart 7.3.2 shows estimates of the proportion of people in six countries who, at some point, have either been unable to afford care or have borrowed money or sold assets to obtain it. This proportion ranges from 13 per cent of respondents in Russia to 94 per cent of respondents in Georgia.[402]

The present mixture of unregulated prescription charges and payments for consultations that has emerged across the CIS is both inefficient and inequitable. The costs falling on the users of the health services vary widely and arbitrarily. In a household survey especially designed to collect information on the use of, and payment for, health care services in Kyrgzystan conducted in 2001, payments for health care represented a greater burden for the poor than the rich, with such expenses accounting on average for 10 per cent of total household expenditures for the poorest households compared with 5 per cent for the richest.[403]

Ability to pay for health care is now a major problem among the poor and there is growing evidence that, despite informal systems of targeting, access to health care is being affected. It is becoming clear that a growing proportion of the poor can no longer afford "free" health care.

(vi) Education

As with health, the countries of the CIS began the transition with an enviable record on education, with near-universal literacy. Attendance at school was compulsory from ages 7 to 15, and there was also an extensive system of kindergartens for pre-school age children and technical and vocational schools for post-compulsory education. However, over the last decade there have been major reversals in several countries and it is likely that the high literacy rates of the past will not be sustained in future generations.

The impact of economic decline on education may be thought of as being three-fold.[404] Firstly, decreased access (and increased costs) may reduce enrolment. Parents who are unable to afford the cost of textbooks, uniforms, or even shoes, may simply withdraw their children altogether. Secondly, even if enrolled, children may not actually attend school regularly: either for the reasons given above or because the children are needed as family labour (working in the home looking after younger children, or working on family land or in the hired labour market to supplement household income). Finally, children may be enrolled and be attending school, but may not actually be benefiting from the education. The teacher may be absent on a second job or – reflecting reduced public finance for education – there may be no textbooks, it may be too cold to concentrate due to lack of heat, or the child may be anaemic and/or malnourished and too lethargic to learn. There is very little evidence concerning learning outcomes, so discussion here focuses on trends in kindergarten, primary and secondary school enrolment and attendance.

One of the most worrying trends is the decline in the proportion of children aged three to six enrolled in pre-primary school education (table 7.3.4). Prior to independence, attendance at kindergarten was widespread. Over half of all children in the target age group were enrolled at kindergartens in the Baltics and the European CIS, rising to nearly three quarters in Russia. Rates were lower in the Caucasus and central Asia, but even here, with the exception of Azerbaijan and Tajikistan, over a third of children were enrolled in pre-schools. Since independence, rates have fallen dramatically in virtually all countries, the falls being especially sharp in the poorest countries. This is in part due to the closure of enterprise-based (employer provided) kindergartens. However, enrolments have fallen

[402] M. Lewis, "Informal health payments in eastern Europe and central Asia: issues, trends and policy implications", in E. Mossialos, A. Dixon, J. Figueras and J. Kutzin (eds.), *Funding Health Care: Options for Europe* (Buckingham, Open University Press, 2002).

[403] J. Falkingham, "Health, health seeking behaviour and out of pocket expenditures in Kyrgyzstan 2001", Kyrgyz Household Health Finance Survey, Final Report, London School of Economics (London), 2001.

[404] J. Falkingham, *From Security to Uncertainty: The Impact of Economic Change on Child Welfare in Central Asia*, UNICEF Innocenti Research Centre, Innocenti Working Paper, Economic Policy Series, No. 76 (Florence), 2000.

TABLE 7.3.4

Education enrolment rates in the Baltic states and the CIS, 1989-2001

	Pre-primary enrolment rate			*Basic education*			*General secondary (15-18 years)*			*Tertiary (19-24 years)*		
	1989	*2001*	*Per cent change 1989-2001*	*1989*	*2001*	*Per cent change 1989-2001*	*1989*	*2001*	*Per cent change 1989-2001*	*1989*	*2001*	*Per cent change 1989-2001*
Baltic states												
Estonia	62.2	80.3	29	96.3	103.8	8	37.8	46.4	23	36.1	52.7	46
Latvia	53.9	65.6	22	95.7	99.4	4	22.1	41.0	86	20.6	56.2	173
Lithuania	61.0	52.6	-14	94.4	102.3	8	35.7	46.3	30	27.8	52.0	87
Caucasian CIS												
Armenia	48.5	24.6	-49	95.5	79.1	-17	35.9	30.5	-15	19.3	16.1	-17
Azerbaijan	21.6	18.1	-16	88.5	91.4	3	34.0	22.5	-34	11.9	14.0	18
Georgia	43.6	30.2	-31	95.2	90.8	-5	41.3	31.8	-23	19.1	35.9	88
Central Asian CIS												
Kazakhstan	53.1	13.9	-74	94.8	100.1	6	32.5	31.2	-4	18.1	33.4	85
Kyrgyzstan	31.3	9.0	-71	92.2	95.2	3	36.7	24.5	-33	13.2	37.4	183
Tajikistan	16.0	5.9	-63	94.1	91.1	-3	40.4	21.1	-48	11.5	11.9	3
Turkmenistan	33.5	21.4	-36	91.2	79.9	-12	41.7	24.9	-40	10.2	2.7	-74
Uzbekistan	36.8	19.4	-47	92.0	97.8	6	36.3	21.2	-42	15.0	7.3	-51
European CIS												
Belarus	63.2	68.9	9	95.9	91.5	-5	27.1	26.8	-1	23.0	33.3	45
Republic of Moldova	61.2	40.8	-33	94.1	94	–	27.4	24.3	-11	16.2	22.6	40
Russian Federation	73.4	66.4	-10	90.0	90.1	–	24.4	28.7	18	24.8	41.0	65
Ukraine	64.2	43.9	-32	92.8	93.7	1	25.3	30.5	21	22.3	36.7	65

Source: UNICEF, TransMONEE Database, 2003 edition [www.unicef-icdc.org/research].

Note: Enrolment rates are calculated as number enrolled in education/population in relevant age group. Instances where significant numbers of individuals outside this age group are enrolled can result in enrolment rates of over 100 per cent. This is the case in 2001 with basic education in Estonia and Lithuania as children outside the age ranges 7-14 are also attending basic education institutions.

by more than the drop in capacity suggesting a fall in demand for kindergarten places as well as their supply. Such trends are of concern given the role that kindergartens can play in raising household welfare, both in terms of freeing the parent to participate in other activities, specifically paid employment, and the developmental role of pre-school education and nutritional and health interventions.[405]

Primary education continues to be compulsory, and enrolment rates in basic education have generally remained high. However, there have been worrying falls in enrolment in basic education in Armenia and Turkmenistan; data from the UNICEF MONEE project indicates that only four out of five children aged 7-15 are now enrolled in school in Armenia. Furthermore, enrolment rates tell only part of the story, and there is a growing problem of declining school attendance.

Outside of the Baltics, Russia and Ukraine, post-compulsory education enrolments have fallen dramatically. Once again, the falls have been most marked in the countries with higher levels of poverty. Worryingly for future levels of human capital and associated prospects for economic growth, the proportion of 15-18 year olds attending general secondary schools has declined by over 40 per cent in Tajikistan, and by a third in Azerbaijan, Georgia and Kyrgyzstan.

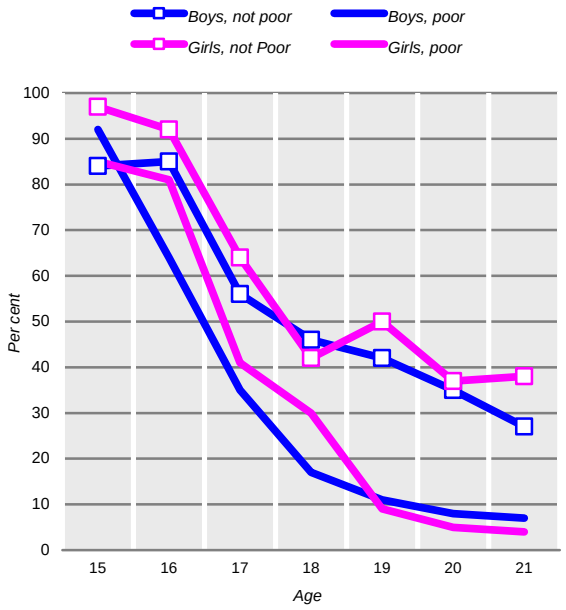
In contrast there has been significant growth in higher education in all but three countries. The expansion of higher education has been particularly rapid in Kyrgyzstan and Latvia where the proportion of 19 to 24 year olds in education has more than doubled. Virtually all of the growth in tertiary education has been in the private sector where there has been a proliferation of private colleges providing courses in fields that were underrepresented in the past – most notably business studies, economics and law. The quality of education provided varies enormously and, again, cost is a barrier to access for children from the poorest families.

Chart 7.3.3 presents some interesting data on the differences in enrolment rates by age, sex and income class, using survey data from Kyrgyzstan. At age 15, there is little difference in enrolment rates by sex or by income. Enrolment then drops dramatically from age 15, when almost all children are enrolled, to 18 and subsequent years. Boys from poor households begin to leave school at 15, whereas for all girls, and boys from wealthier households, the decline does not begin until one year later. By the time they reach 21, the greatest distinction in enrolment is by income, and not by sex, with poor children much less likely to be still in education than the better-off children.

[405] J. Klugman et al., "The impact of kindergarten divestiture on household welfare", in J. Falkingham et al. (eds.), *Household Welfare in Central Asia* (Basingstoke, Macmillan Press, 1997), pp. 183-201.

CHART 7.3.3

Enrolment rates in Kyrgyzstan, 1998



Source: J. Falkingham et al., "Poverty and vulnerability in the Kyrgyz Republic 1996-1998", World Bank (Washington, D.C.), 2002, mimeo.

With rising costs at both school and college, it is difficult to resist the conclusion of a recent UNDP report that the education systems in the CIS are beginning to reflect the increasing socio-economic stratification of these societies.[406] Access to quality education is now largely confined to those who can afford private fees and tuition. It is imperative that action is taken to ensure that the growing poverty and stratification outlined above does not result in the re-emergence of illiteracy within the region and the cycle of deprivation and social exclusion that accompanies it.

7.4 Concluding comments

The preceding sections have painted a bleak picture of falling real incomes, growing poverty, declining life expectancy, rising child malnutrition, the growing threat of HIV/AIDS and deteriorating educational status. However, it is not all bad news. Of the 15 countries of the former Soviet Union, the Baltic states have attained levels of output at or, in the case of Estonia, above their pre-transition levels. Moreover, in these countries, indicators of the various dimensions of material and capability poverty have improved. Over the last three years economic growth has been positive in all countries in the region and there are signs that poverty rates are falling.

However, in countries where disparities in incomes are large, it will be difficult to increase substantially the incomes of poor families in the short to medium term without some reduction in those income differences. Stimulating growth that will benefit the poor and reduce income inequalities will require confronting the vested interests that are holding back restructuring, stifling small-scale private enterprise and frustrating efforts to improve public expenditure management. Poor governance remains an issue at all levels of society, affecting the small scale urban entrepreneur, the farmers trying to take their goods to market, the elderly person needing health care and the bright young student wanting to go to university but too poor to pay. It is unlikely that real improvements in material and capability poverty will be achieved unless, and until, governance is improved. This will require strengthening systems of public administration and financial management, increasing transparency and political accountability and enabling greater community involvement in decision-making, as well as the creation of a competitive and buoyant private sector. Renewed emphasis on institution building – financial and judicial – and continued capacity-building at both national and local levels to ensure delivery of reforms remain essential. The challenge for the next decade is to ensure that economic growth delivers for the poor. Perhaps a greater focus on community driven development than was the case in the last decade may provide some of the answers.

[406] UNDP, *Human Development Report for Central and Eastern European and the CIS* (Bratislava, UNDP, 1999).