Chapter 1

The Nature and Evolution of Poverty[1]

The poor in Europe and Central Asia have much in common with the poor elsewhere in the world—notably a lack of assets and access to resources and services, a low standard of living, poor health, limited social relationships, the sense of being stigmatized by the nonpoor, and feelings of powerlessness and insecurity (Narayan and others 1999). The region's socialist heritage, however, and the transition to a more market-oriented economy have made postsocialist poverty unusual in several respects.

The Unusual Features of Postsocialist Poverty

The magnitude of the increase in poverty would probably suffice to distinguish the experience of the ECA region from other regions in recent times. Between 1988 and 1998, absolute poverty rates in Europe and Central Asia increased from 2 to 21 percent.[2] While these estimates are an approximation given serious data deficiencies, there is little doubt that absolute poverty increased dramatically in the region.

In transition countries the decline in economic output and in the standard of living rivals that of the Great Depression of the 1930s, yet unlike the latter it has taken place in the context of far-reaching systemic changes in political, economic, and social life. Poverty has been accompanied by a feeling of profound disorientation: all the rules of the game changed overnight. As an employment services administrator in the Kyrgyz Republic explained, "Imagine traveling along in a car for seventy years and suddenly

the road disappears and your car crashes. You don't know where to go" (Kuehnast 1993, 26).

In contrast to the majority of poor people in developing countries, most of the poor in transition countries are literate, many are well educated, and before the transition they had secure employment and anticipated regular pensions and allowances from the state after retirement. The poor in ECA tend to look to the past—with its guaranteed work, stable wages paid regularly, and predictable future—as a time of well-being. As a man from Bulgaria said, "In the past, with your salary you also got security—security that you would have free health care, access to a trade union sanitorium, that nobody would steal your money or that the bank would [not] go bankrupt" (World Bank 1999b, 23). Successive economic shocks—job loss or nonpayment of salaries, hyperinflation and loss of savings, and the increasing cost of education and health care—have made the poor in Europe and Central Asia unusually vulnerable and unable to plan for the future. As one Bulgarian acknowledged, "There's great insecurity now. You can't make any plans. For all I know, I might be told that we'll be laid off for a couple of months or that the factory is to be shut down. We work three days a week even now, and you're in for a surprise every day" (World Bank 1999b, 29).

For the new poor, poverty has brought not only unaccustomed material hardship, such as hunger (box 1.1), but also the destruction of "normal" life and accustomed social patterns. Under the socialist system, employment helped define an individual's social importance in formal networks (such as the work collective), and it provided the context for informal networks, an important source of support and information that helped people cope in a shortage economy. As jobs are lost and as hidden unem-

Box 1.1 Hunger as Experienced by the Very Poor

One important indicator of material deprivation is hunger. Relatively rare in the recent past, hunger is now more frequently experienced by the very poor (Narayan 2000b, 67).

> Poverty is the fact that sometimes I go hungry to bed in the evening, because I do not have bread at home. *Macedonia, 1998*
>
> That person is poor who for 20 days out of the month eats boiled potatoes without butter, drinks tea without sugar, and doesn't have enough money to buy subsidized bread. *Armenia, 1995*
>
> Only God knows how we shall survive over the winter. At night you wake up because of a stomachache and because of hunger. *Moldova, 1997*
>
> If I consider how other people live, then I feel poor because I cannot give my child what he needs. If an employed individual still has to worry about buying his or her child bread and has to scrape to make ends meet—this is not normal. *Latvia, 1997*

ployment grows, these sources of support—material, social, and psychological—are breaking down.

Poverty has further eroded the essential sources of support. Driven into isolation by poverty and shame, the poor lack the resources to maintain important social contacts. They find themselves increasingly cut off from informal supports at the very moment when unusually sharp competition over access to jobs, assets, and other resources have made "connections" more important than ever. Schoolchildren in Macedonia say, "School is no good if you don't have connections" (Narayan 2000b, 54). In a shrinking job market, there is a growing sense that qualifications matter less than do connections.

Although the poor in Europe and Central Asia hold governments and officials responsible for the widespread impoverishment, many also blame themselves. The poor expressed deep distress that their knowledge, skills, and formal and informal competencies have become irrelevant. They say they have lost their sense of belonging to society and are no longer necessary to anyone. In Bosnia and Herzegovina, for example, people explained that their inability to find a regular job made them feel worthless to themselves and their families (World Bank 1999a, 17).

Their sense of personal failure, together with the loss of respected social roles and identities, frequently have produced a paralyzing sense of shame. This has contributed to self-destructive responses such as alcoholism, depression, and even suicide. Poverty has greatly increased social stress. Respondents in Russia, for example, attributed the decrease in the birth rate, increases in mortality, growing alcoholism, rising divorce rates, and increasing crime to growing poverty (World Bank 1999e, 16). As one middle-aged Kyrgyz man said:

> As a result of poverty, people steal and rob, children run away from their parents, because of lack of clothes and shoes children can't attend school, the poor are humiliated by the rich, and people commit suicide. We've sold to China everything we had, even electric power lines. Everything built in the Soviet times was broken, stolen, taken apart (World Bank 1999d, 64).

The Extent of Material Deprivation

How many people are living in absolute deprivation in the transition countries of Europe and Central Asia? To answer this seemingly straightforward question, we use the so-called two-dollar-a-day poverty line (actually

$2.15 per person per day in 1996 purchasing power parity).[3] While in many parts of the world the one-dollar-a-day line is used to measure absolute deprivation, the two-dollar-a-day line is more appropriate for the ECA region because its very cold climate necessitates additional expenditures on heat, winter clothing, and food. The additional cost of heating expenditures for a modest apartment in Riga can easily run more than $0.50 cents per day per person for a family of four at current exchange rates. The lowest calorie-based national poverty line in the region, that of Moldova, is actually slightly above the two-dollar-a-day line, indicating that it is a reasonable threshold for absolute deprivation for the region.[4] Poverty levels are highest in Central Asia and the Caucasus; the incidence of poverty in Russia approaches 20 percent (table 1.1).

By and large, the poverty estimates appear plausible. Plotting the headcount indices based on the $4.30 poverty line (which does a better job of spreading out the high income countries) against 1998 GNP per capita in PPP, we find that poverty rates, as expected, decline as GNP increases. Some anomalies appear as well. Poverty rates seem low for Ukraine, Bulgaria, Turkmenistan, and Croatia, and somewhat high for Russia and possibly Romania (figure 1.1). However, the high level of inequality in Russia would lead to higher poverty levels for the same level of private consumption. It is also interesting to note that in Kazakhstan, Hungary, and Romania, mean expenditure per capita based on the survey results is substantially lower than private consumption per capita calculated from national account data. For Azerbaijan, Moldova, Ukraine, Belarus, and Croatia, on the other hand, ratios are high. It is not clear where the data shortcomings lie. Surveys may be systematically underreporting (overreporting) expenditures—in which case absolute poverty would be overestimated (underestimated).[5] Or they might be failing to adequately sample the better off in the society—if so, inequality would probably be underestimated but poverty measures might be fairly robust.[6] Or the national account data may be misestimating private consumption.

Another caution is in order regarding these estimates of absolute deprivation. They are based on PPP rates derived from the International Comparison Programme's price surveys carried out by the Organization for Economic Cooperation and Development (OECD) in 1996. According to these surveys, the prices of many services and some goods in ECA countries were extremely cheap relative to international prices. Measurement error may be a factor here, since it is very difficult to estimate prices when markets are developing and to take into account the value of ancillary benefits received by public sector employees. On average, market exchange

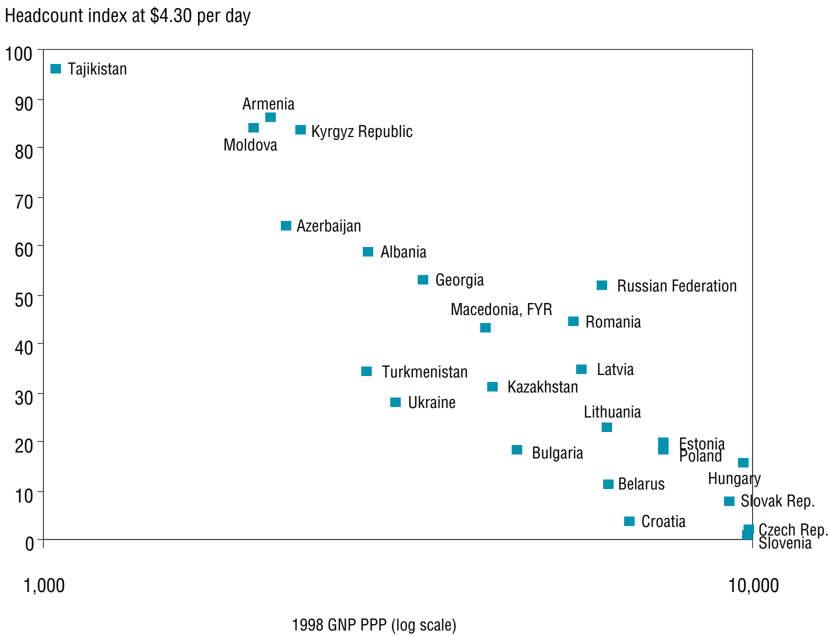
Table 1.1 Absolute Poverty Rates of Transition Economies in Europe and Central Asia, Selected Years, 1995–99

Country	Survey year	Headcount index $2.15/ day	Headcount index $4.30/ day	Ratio of survey mean consumption private consumption	1998 GNP in dollars per capita Atlas method	1998 GNP in dollars per capita 1996 PPP
Tajikistan	1999	68.3	95.8	1.02	370	1,040
Moldova	1999	55.4	84.6	0.67	380	1,995
Kyrgyz Republic	1998	49.1	84.1	0.83	380	2,247
Armenia	1999	43.5	86.2	0.62	460	2,074
Azerbaijan	1999	23.5	64.2	1.39	480	2,168
Georgia	1999	18.9	54.2	0.88	970	3,429
Russian Federation	1998	18.8	50.3	0.85	2,260	6,186
Albania[a]	1996	11.5	58.6	0.68	810	2,864
Turkmenistan	1998	7.0	34.4	0.89	502	2,875
Romania	1998	6.8	44.5	0.43	1,360	5,571
Macedonia, FYR	1996	6.7	43.9	0.69	1,290	4,224
Latvia	1998	6.6	34.8	0.68	2,420	5,777
Kazakhstan	1996	5.7	30.9	0.45	1,340	4,317
Bulgaria	1995	3.1	18.2	0.67	1,220	4,683
Lithuania	1999	3.1	22.5	0.69	2,540	6,283
Ukraine	1999	3.0	29.4	0.95	980	3,130
Slovak Republic	1997	2.6	8.6	0.75	3,700	9,624
Estonia	1998	2.1	19.3	0.80	3,360	7,563
Hungary	1997	1.3	15.4	0.47	4,510	9,832
Poland	1998	1.2	18.4	0.67	3,910	7,543
Belarus	1999	1.0	10.4	0.99	2,180	6,318
Croatia	1998	0.2	4.0	1.18	4,620	6,698
Czech Republic	1996	0.0	0.8	0.81	5,150	12,197
Slovenia	1997/98	0.0	0.7	0.94	9,780	14,399

Note: Recent household survey data are not available for Bosnia and Herzegovina and Uzbekistan. Private consumption data are not available for Tajikistan, Turkmenistan, Kazakhstan, Georgia, or Moldova. GDP per capita in current prices is used instead. GDP per capita (first half 1999) are used for Ukraine. The poverty headcount numbers are based on the international poverty lines of $2.15 and $4.30 per person per day.
a. The survey did not cover the capita city Tirana.
Source: Authors' estimates; see appendix for further details. GNP estimates from World Development Indicators database, World Bank.

rates are more than three times greater than the PPP rates in ECA countries—the largest divergence of any region in the world, including Africa. This is surprising since one would expect to find the greatest divergence between PPP rates and exchange rates in the poorest region of the world. If price estimates for transition countries are too low, the PPP rates would be biased downwards. A further source of distortion may occur from our use of PPP rates based on 1996 price surveys to estimate poverty based on household surveys carried out in later years. Although the PPP rates are

Figure 1.1 Incidence of Poverty vs. GNP in Selected ECA Countries



Source: Table 1.1.

adjusted for inflation by the CPI index, they do not take into account changes in price structure that have occurred since 1996.[7] This may introduce another downwards bias. To the extent that the PPP rates are biased downwards, poverty rates would be biased downwards. For these reasons the poverty data presented in table 1.1—based on an international poverty line and PPP rates—should be used with caution, and only to gain an approximate picture of the extent and variation in absolute deprivation across the region.

More fundamentally, the international poverty lines intended to measure the extent of absolute deprivation tell us very little about the level of resources individuals in a particular country need to live with dignity and respect in that country.[8] For this reason countries establish their own national poverty lines—but even this is not without problems (box 1.2). National poverty lines tend to increase with a country's income level. Even though the level of absolute deprivation based on the two-dollar-a-day line is very low in some of the European Union (EU) accession countries, poverty does exist in these countries and is a serious concern—just as it is

in the United States or Western Europe.[9] In the United States, for example, the poverty line for a family of four was $11.41 per person per day in 1998. It was originally calculated in the mid-1960s as three times the minimum basket of food a family would need, and since then it has been adjusted for inflation. At this line the official poverty rate in the United States was 12.7 percent.[10]

Income deprivation is the conventional objective measure of poverty. However, it does not necessarily accord well with people's own assessment of their economic welfare, as Ravallion and Lokshin (1999) demonstrate with data from Russia. They find that current household income is not closely correlated with people's self-reported assessments of their economic status. Adding other explanatory variables (such as educational attainment, health status, average income in the area of residence, and employment status) to household income and demographic measures substantially improves their ability to predict people's assessment of their economic welfare. Health and education are important aspects of well-being independent of their impact on income levels. Being unemployed or being afraid of losing one's job also lowers self-rated welfare, even controlling for household income.

Clearly, employment is valued for more than just the income it provides. Relative income also matters; if two people have the same income but live in different areas, the one living in the area of higher average income will perceive herself or himself to be worse off. The more income an individual earns, the better off the individual perceives her or his own economic welfare, even holding total household income constant. This suggests that earning income is important for more than the purchasing power it provides. These findings highlight the need to look beyond the conventional income-based measures of poverty to other factors that influence people's perception of their economic welfare.

Living Conditions

Living conditions for much of the population in Europe and Central Asia compare favorably with the conditions in countries of similar income levels. This is a positive legacy of the heavy investment in the past in infrastructure. Access to piped water, electricity, and central heating is high (table 1.3). However, the pattern of urban development is quite distorted. Many dwellings are located far from places of employment and the city center. Because of a lack of recent investment in housing infrastructure, housing conditions have seriously deteriorated, particu-

Box 1.2 Russia: How Many Poor?

Russia was the first country in the Commonwealth of Independent States to establish, in late 1992, an official methodology for measuring poverty. Since then Russia's statistical agency (Roskomstat) has produced monthly data on poverty incidence. Yet the question of how many people are poor in Russia is hotly debated because others have come up with alternative measures (table 1.2). Although estimates differ widely, all the data come from two basic surveys to

Table 1.2 Russia: Poverty Rates from Various Sources (percent)

Source	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Based on official national poverty line								
Roskomstat official poverty incidence[a]	11.7	33.5	31.5	22.4	24.7	22.1	20.8	23.8
Roskomstat revised survey methodology[b]							32.2	37.8
RLMS (World Bank)[c]		26.8	36.9	30.9	41.1	43.2		49.1
RLMS (UNC)[d]		14.6	11.5	17.2	29.5	36.3		39.0
RLMS (World Bank) Panel[e]				37.6	39.6	43.1		
RLMS (C, T, Y) Panel[f]		48.3	40.7	33.7	35.6	36.2		
RLMS (Lokshin and Ravallion) Panel[g]						21.9		32.7
RLMS (Lokshin and Ravallion)						21.0		32.6
Based on $2.15 per day per capita in 1996 PPP								
Roskomstat official survey[h]		7.4		3.9			3.2	7.3
Roskomstat revised survey[i]								9.6
RLMS (World Bank)[j]		14.3	14.3	7.4	11.8	13.3		18.8
RLMS (C, T, Y) Panel[k]		13.5	14.0	6.7	11.0	9.3		
Based on $2.15 per day per capita in 1993 PPP								
RLMS (World Bank)[l]			19.6			24.4		25.1

RLMS = Russian Longitudinal Monitoring Survey.

a. Based on 49,175 households with 139,165 individuals, surveyed quarterly. Per capita total incomes (survey incomes with imputations to bring survey means to macroaggregates) compared to regional cost of official minimum subsistence basket. Source: Roskomstat: Russia in Figures, 1999. Official edition, p. 102. Moscow, 1999 (in Russian).
b. Consumption from Roskomstat's original household survey data, official poverty line. Source: *Roskomstat Statistical Bulletin* 11: 61 (November 1999).
c. Based on region-specific official poverty lines based on consumption per capita. Source: For 1992-96, Foley (1997, 78); for 1998, own estimate using raw data and official poverty line.
d. The UNC measure of poverty is based on incomes, not on consumption, and on region-specific poverty lines valued at survey-generated prices. Source: Mroz and others (1999).
e. Only panel households, two panels: rounds 1-4 (1992-93) and rounds 5-8 (1994-98). Source: World Bank (1999f, 6).
f. Based on local cost (estimated at survey unit values) of official poverty basket and per capita consumption; 1992 (average of rounds 1 and 2); 1993 (average of rounds 3 and 4); 1994 (round 5); 1995 (round 6); 1996 (round 7). Source: Commander, Tolstopiatenko, Yemtsov (1999).
g. Based on expenditures and region-specific poverty lines valued at survey-generated prices. Source: Lokshin and Ravallion (2000).
h. Bank estimates based on grouped data (official annual distribution of total income per capita, with macroimputations by deciles) and poverty line converted to local currency poverty line at average annual prices using national CPI. Sources: See note a.
i. Based on published consumption decile data. Source: See note b.
j. World Bank estimates based on raw data, full cross sections; national CPI data used to convert poverty line into local currency for survey months.
k. World Bank estimates based on raw data; see note e for panel definitions; regional price deflators used to calculate regional poverty lines corresponding to a national average of $2.15 at PPP in local prices.
l. Estimates by World Bank. See note j.

(Box continues on next page.)

Box 1.2 *(continued)*

measure living standards: the Family Budget Survey (FBS), carried out by Roskomstat, and the Russian Longitudinal Monitoring Survey (RLMS), carried out by the Institute of Sociology of the Russian Academy of Science with technical assistance from the University of North Carolina (UNC).

Why are there two different data sets? In part, it is a result of the inaccessibility of the Family Budget Survey, which for years has been off limits to outsiders and to a large degree to insiders as well. Until very recently all data collected at the regional level have been processed regionally, and no data set with national-level data existed. RLMS, on the other hand, is an open source, and it is the only microdata set on Russia available to everyone. The FBS sample as of 1998 is about 50,000 households, substantially larger than the RLMS survey, which has declined from approximately 5,500 households in 1992–93 to 3,619 households in 1990. It is widely debated which data set has more flaws, but most agree that neither is perfect.

Leaving aside issues of survey representativeness, we turn now to three methodological issues on which positions differ: (1) the definition of the welfare indicator; (2) the statistical methods applied to survey-generated numbers; and (3) the choice of poverty line. However abstract these issues may seem, all reflect important difficulties in measuring poverty in transition economies.

The definition of the welfare indicator. Very often welfare statistics rely on consumption or expenditure data rather than on income—often because income is underreported. The gap between household incomes reported in the Family Budget Survey and macro data from the national accounts is on the order of 30 percent and varies over time. Even when a consumption-based measure is used, there may be differences in the way the consumption aggregate is constructed. For example, the World Bank's Poverty Assessment for Russia uses a consumption indicator based on current expenditures, while the UNC data set computes one based on total spending, including consumer durables. Roskomstat, however, uses incomes as the main indicator of well-being but adjusts the income data.

The use of primary data and adjusted data. According to the poverty literature, raw primary data are generally better to use than adjusted data. Even if households tend to underreport their income, they do not have specific incentives to do so when asked about their spending. On the other hand, official estimates of Russian poverty are based on adjusted data: the information provided by the individual households is altered.

Roskomstat estimates for every region a measure called *total monetary income* based on household survey data, enterprise reports of wages, retail trade, and banking statistics. It is the amount of money spent by the population on purchases and payments on retail trade, net change in deposits and holdings of securities, net purchases by households of foreign currency and what is called "balance (*saldo*) of money holdings"—that is, the increase (decrease) of currency outside banks and enterprises. This aggregate regional figure is compared with what is reported by households for the same items in the Family Budget Surveys, and the latter is adjusted upwards to match the former. The difference is distributed across households based on log normal distribution.

These adjusted numbers result in lower poverty counts than the raw data from the Family Budget Surveys. Roskomstat claims that these adjustments are essential to overcome underreporting by respondents in household surveys. (The informal nature of many economic activities contributes to this underreporting.) Since total expenditures of households are checked against trade and monetary statistics, on an aggregate basis these corrections are probably justified. They may impose other errors on the data, however. In the final analysis it is not clear that adjusted data are preferable to estimates based more directly on the raw data.

(Box continues on next page.)

Box 1.2 *(continued)*

Recently, beginning in 1999, Roskomstat began making available estimates based on unadjusted data. It also published information on the magnitude of the adjustments. This resulted in in yet another estimate of poverty.

The choice of poverty line. All agree that absolute poverty is a real problem in Russia and that some absolute standard of basic needs should be used as a poverty threshold. One may argue that the poverty basket on which all measurements are based is out of date, since it was developed in 1992. Relative prices have changed enormously since then. But for the sake of comparisons over time, a poverty basket must be defined. Where researchers disagree is how to go from a basket of goods that is considered a subsistence minimum to the line expressed in currency units. There are two different approaches that yield dramatically different results. One approach, pursued by Roskomstat and the World Bank, is to use price data from price surveys to cost the minimum consumption basket. This produces regionally specific lines but, as many would argue, with a strong bias toward urban areas (where the price data are collected). The other approach, taken by UNC, is to use the unit values (prices reported by households) from the survey itself. Both approaches have merit. The different results reflect the geographic price differences in very imperfect transitional markets. Others have combined elements of both approaches (Lokshin and Ravallion 2000; Commander, Tolstopiatenko, and Yemtsov 1999).

Conclusion. Estimates of poverty in Russia, even estimates based on the same source of data, differ widely. Differences in methodologies are to be expected, given the serious problems of measurement presented by transition economies. Open access to data, more research, and a wide debate may help users converge on a more broadly accepted set of poverty estimates. The lack of a broadly agreed estimate of poverty makes it more difficult to have an informed dialogue about the extent of poverty and its causes.

Table 1.3 Households Connected to Utilities (percent)

Utility	*Poverty Group*	*Armenia 1996* [a]	*Croatia 1998*	*Hungary 1997*	*Kyrgyz Republic 1999*	*Latvia 1997*	*Moldova 1998*	*Russian Fed. 1996*	*Ukraine 1996*
Electricity	Nonpoor	99.0	99.8	n.a.	98.8	99.9	99.8	n.a.	99.9
	Poor	98.2	99.0	n.a.	99.2	98.7	97.7	n.a.	99.5
District heating	Nonpoor	9.0	33.4	26.6	30.0	69.9	35.9	72.7	31.2
	Poor	10.4	7.8	14.8	12.5	49.0	23.1	62.5	36.9
Network gas	Nonpoor	1.9	27.1	82.0	21.8	52.9	30.0	63.1	n.a.
	Poor	1.4	11.0	56.4	8.6	38.4	21.4	60.9	n.a.
Water	Nonpoor	88.4	96.6	93.4	76.2	83.9	35.0	79.2	57.8
	Poor	87.4	74.5	73.4	68.7	70.2	20.0	68.2	69.5
Hot water	Nonpoor	1.2	42.6	n.a.	0.7	59.0	32.9	61.4	24.3
	Poor	1.0	20.3	n.a.	0.1	39.3	19.3	45.3	24.8
Sewerage	Nonpoor	n.a.	79.6	92.8	n.a.	82.1	35.0	69.9	34.1
	Poor	n.a.	51.2	71.0	n.a.	66.4	20.0	57.4	39.8

n.a. = not available.
Note: The poverty line is set at two-thirds of median per capita consumption.
a. Households with connections to nonfunctioning utility services are not considered connected.
Source: Lovei (2000).

larly in high-rise dwellings built before the transition. Indeed, these dwellings may be uneconomic in the new structure of urban land prices. "Vertical" slums with their attendant social problems are likely to emerge in the future.[11]

In socialist times, utility services were highly subsidized. With the transition and the end of energy supply credits from Russia and Turkmenistan, energy supply became less reliable, and fuel shortages appeared in the Caucasus, Moldova, and parts of Central Asia. From 1992 to 1995 most of the population in Armenia received only 2 to 4 hours of electricity per day, and central heating and gas supply were virtually cut off (Lampietti and others 2000); since then conditions have improved substantially. The reliability of water supply also dropped. Access to safe water has become a significant problem in the poorest CIS countries (box 1.3). Despite government efforts to cushion the shocks through various subsidy mechanisms, poor consumers must pay higher prices even as their incomes fall. Even more distressing, poor consumers in some countries are paying more—but getting less—as service delivery becomes increasingly erratic.

Education and Health

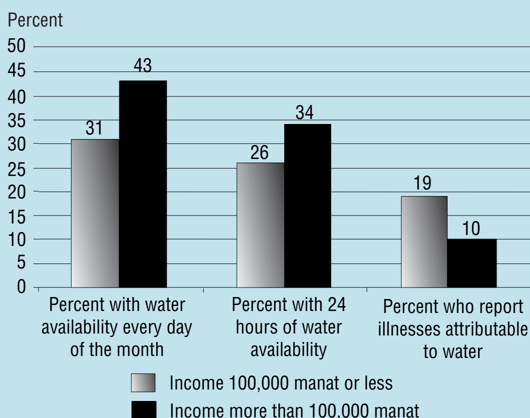
The high level of education and health in Europe and Central Asia is one of the most important accomplishments of the socialist era. Today, school enrollment rates continue to be significantly higher than for countries of similar income levels. Even in the poorest countries in the region, primary school enrollment currently exceeds 85 percent, and in many countries it is effectively universal (see chapter 7). On the health side, indicators for the region are also generally better than in countries of similar incomes, reflecting high levels of education and the universal provision of comprehensive health care services to consumers in the past. Maternal mortality rates are low, ranging from less than 10 per 1,000 live births in Central Europe to less than 30 per thousand live births in Central Asia, with the exception of Turkmenistan, and they declined significantly between 1980 and 1987. Increases in the mortality rates of children under five have largely been contained. Even in the poorest countries in Central Asia, most children continue to be immunized, despite cuts in public health spending (Falkingham 2000).

The universal access to health and education that was publicly provided during the socialist era is being seriously undermined by families' inability to afford the charges that are now being levied by many public institutions. This problem includes the widespread under-the-counter pay-

Box 1.3 Water Supply: Low-Quality Services Hurt the Poor

Lack of access to some minimum quantity and quality of water supply services results in unhealthy living conditions and disproportionately affects the poor. Although official figures of water supply service coverage in Europe and Central Asia are very high, the quality of services has deteriorated rapidly. For example, in 1995 about 95 percent of all households in Baku were connected to the water supply system (World Bank 1995). However, based on results of a social assessment for a water rehabilitation project, water was available about 22 days per month, 4 hours per day. Eighty-seven percent of the population believed piped water was unsafe. The impact on the poor is higher (figure 1.2).

Figure 1.2 Water Availability in Baku, Azerbaijan, 1995



Source: World Bank (1995).

Statistics on Armenians' access to drinking water can be misleading (Lampietti 2000). While most households have access to home water taps, water service is unreliable. Typically water is available for a few hours in the morning and in the evening, with urban consumers having fewer average hours of daily service. Fifty percent of Armenian households indicated that water was unavailable on average for 40 days. About 12 percent were without water for three months or more; breaks in service were particularly acute for the rural poor. Some villagers must travel far to fetch drinking water. In other villages water is for sale only from trucks, and lines for water can last all day, with family members replacing each other in line. When the need arises, about one-person-hour-per-day is spent finding, carrying, and storing water. In more than 60 percent of households, water collection is the responsibility of adult females. About a quarter of the households in Armenia treats the water before drinking it, the majority by boiling it.

Improved water services continues to be a priority for Armenia. In a 2000 survey, households were asked to rank Armenia's top three development priorities among 15 presented (unemployment, preventive health care, primary education, water supply, electricity, roads, public transportation, telephone, new housing, housing maintenance, solid waste collection, sewerage and wastewater, water level in Lake Sevan, social protection programs, and other). While unemployment and social protection are the top priority for three fourths of Armenians, water services is a leading "second tier" issue, selected as most important by 6 percent of the population (the same percentage, whether poor or nonpoor). Nearly a quarter of the population indicates water is one of Armenia's top three development priorities.

ments expected by doctors and teachers to supplement their income. As public spending on educational materials, teachers' wages, and maintenance of schools and heat becomes tighter, the burden shifts in many cases to parents. As household incomes decline, parents find it difficult to pay the rising costs associated with sending their children to school. Nearly universal school enrollment rates are being jeopardized in some of the poorest CIS countries. Primary school enrollment rates fell by ten or more percentage points in Moldova, Armenia, Georgia, Turkmenistan, and Tajikistan during the 1990s. The evidence, though sketchy, suggests that poor children are the most likely to drop out of school or to attend only sporadically. In 1997 a young Moldovan mother explained that she keeps her three school-age children out of school to help her scavenge cardboard: "We simply have to survive. If we had nothing to burn, we would die. My children can't go to school because, without them, I wouldn't be able to gather enough cardboard every day" (Narayan 2000b, 259).

Despite the relatively favorable indicators, disturbing health problems are surfacing. The decrease in male life expectancy, particularly in countries in the former Soviet Union, is noteworthy. Male life expectancy fell on average by four years between 1989 and the mid-1990s in the Baltic countries and by more than five years in Russia, Ukraine, and Kazakhstan. By 1994 male life expectancy in Russia had fallen to 58 years—with a significant share of the decline attributable to the almost 100 percent increase in the mortality rates of men between the ages of 40 and 59 since 1989. Not all countries experienced a drop; life expectancy remained almost constant in Armenia and Turkmenistan. There has been a lively debate about reasons for the increase in deaths. An increase in cardiovascular and circulatory diseases, accidents, and violence are the proximate causes, to which an upsurge in excessive alcohol consumption may have contributed (box 1.4). Mortality increases were lower in areas where social support systems were stronger (Shkolnikov and others 1999).

Diseases such as tuberculosis that had been largely controlled during the socialist period are staging a resurgence along with an explosion in sexually transmitted diseases and the related threat of an HIV/AIDS epidemic, notably in the Baltic and Slavic FSU countries. In Belarus and Ukraine, the incidence of syphilis and gonorrhea almost tripled between 1989 and 1997—presaging a likely HIV/AIDS epidemic in the next few years. The world's steepest increase in HIV/AIDS incidence in one year occurred in Russia in 1999, largely due to the rapid spread of HIV/AIDS among injecting drug users. Transmission among drug users has increased dramatically, resulting in the rapid rise in the number of HIV cases reported in 1999. At least 90 percent of newly registered HIV/AIDS cases

Box 1.4 Explaining the Decline in Male Mortality in Russian Federation

Between 1984 and 1987, life expectancy at birth increased from 61.7 years to 64.9 years for Russian males and from 73.0 years to 74.3 years for Russian females. The next few years, however, saw sharp declines, and between 1987 and 1994, life expectancy fell by 7.3 years for men and by 3.3 years for women.

Leon and others (1997) analyze age-specific and cause-specific patterns of mortality changes, and find that the largest increases in mortality rates are observed for alcohol-related deaths, accidents, and violence. Although other factors, such as nutrition and health services, may have been responsible, they find substantial evidence that significant changes in alcohol consumption over the period explain the main features of the observed mortality fluctuations.

In reviewing the evidence on historical patterns of alcohol consumption in Russia, McKee (1999) observes that the state at various times actually encouraged alcohol sales. By the early 1980s, the social cost of heavy drinking had become apparent. This led in 1985 to the imposition of then president Gorbachev's wide-ranging and initially highly effective anti-alcohol campaign, which included state restrictions on the sale and supply of alcohol as well as an increase in the price of alcoholic drinks. This trend continued into the 1990s, when sales of alcohol increased once more as the political will to restrict consumption evaporated and the price of alcohol fell relative to the costs of consumer goods, including basic foodstuffs. Annual consumption of pure alcohol per head, which had fallen from 14.2 liters in 1984 to a low of 10.7 liters in 1987, increased again to 14·5 liters by 1993. The experience of Russia demonstrates the important role that the state can play in containing alcohol consumption, and it highlights the importance of prevention measures designed to effect lifestyle changes.

have been attributed to intravenous drug use (Vinokur and others 1999). Preliminary studies suggest that drug use is becoming common among unemployed young people in many of the industrial cities of Russia and Ukraine (World Bank 2000c).

Poverty and Vulnerability

At the mercy of a corrupt bureaucracy, the poor are dependent on what little social assistance comes their way and humiliated by officials who treat them with little respect. While their standard of living worsens, they see officials enrich themselves through illegal actions. Institutions that should help them are, more often than not, part of the problem.

The Poor Feel Cheated Out of Assets

In many transition countries the state divested itself of assets, notably in the form of industrial enterprises, housing, and collective agricultural enterprises. The privatization of land and agricultural property was not

always carried out transparently according to many poor. Abuses were reported more frequently by workers who chose to remain with newly privatized state and collective farms. The poor complained that collective and state farm managers often obtained the best and largest shares of land, agricultural equipment, and livestock. They accomplished this by exploiting legal ambiguities, taking advantage of the population's ignorance of the law, overtly intimidating collective farm employees, misrepresenting the facts, and sometimes refusing to accept documents or to abide by the law.

Armenia's far-reaching comprehensive land reform program distributed state and collective-owned land through a lottery system to villagers. The poor claimed that the nonpoor used their "connections" to undermine the fairness of the process, particularly as regards the distribution of livestock and machinery. "During privatization, those people who had a patron received five or six cows and the rest received nothing," complained one person. "The whole collective farm was plundered, and the chairman, together with the district leaders themselves, took the remaining 100 head of cattle to Turkey and sold them for $2 a kilo" (Dudwick 1995). When told of the strict state procurement regulations for milk, other farmers refused to take livestock. Not long after the privatization, the government lifted the procurement demands, which left these farmers feeling like they had been cheated (Holt 1995).

Officials and collective farm managers in Moldova frequently misinformed and intimidated collective farm workers who wanted to withdraw from the collectives. Dudwick (1997) reports that one mayor interviewed for the study openly acknowledged that he had tried to discourage pensioners and female collective farm workers from claiming their land shares by informing them that their land would be confiscated if they did not farm it. (The law does not make this provision.) On one farm the manager had effectively prevented pensioners from withdrawing from the collective by telling them (incorrectly) that they would lose their pensions if they withdrew. In other villages the collective farm managers kept people from leaving by threatening to prevent them from renting agricultural equipment; others refused to distribute the other assets (mainly agricultural machinery) to those who withdrew their land shares from the farm. As a stop-gap measure, one collective farm refused to allow people to withdraw until May, when it was too late to sow the crop.

A 1997 study carried out in two oblasts of Kazakhstan (Bilesim International 1997) found that farmland had become progressively more concentrated in the hands of a few. Fifteen percent of those interviewed had "voluntarily" given up their property shares as a result of intimidation,

blackmail, and fraud. In some cases farm management intimidated farm workers by claiming that they could not take their shares because they had not paid their portion of the collective farm debts.

The Poor Feel Cheated Out of Entitlements

The poor often feel that they are being cheated out of their entitlements—although they do not always make the distinction between the state failing to make funds available to pay pensions and other social entitlements and misappropriation by social assistance officials. Informants in Kyrgyz Republic (World Bank 1999d, 99) believe that the payment of benefits in-kind is cheating them; they accuse officials from social assistance offices of distributing to them overpriced flour, oil, candies, and hosiery rather than cash. A pensioner in Kyrgyz Republic explained, "Corruption is one of the most important sources of poverty. The corrupt officials delay payment of our pensions and social benefits, because they use the money and profiteer on it" (World Bank 1999d, 49). In other countries people sometimes have to pay bribes to get pensions or disability assistance to which they are entitled. Informants in Javakhet, Georgia, for example, said that they had to pay twice the amount of their monthly pension in order to begin receiving their pension (Dudwick 1999). Adding insult to injury, the poor are ill-treated when they do seek help from public institutions, as these statements make clear:

> Poverty is humiliation, the sense of being dependent, and of being forced to accept rudeness, insults, and indifference when we seek help. *Latvia, 1998* (Narayan 2000b, 30)
>
> Why are they [post office employees] there? They don't even want to talk to us the way people do. We come to receive our own money, our pensions, and they treat us as though we come to take their own money away from them. *Kyrgyz Republic, 1999* (World Bank 1999d, 97)

Corruption in the Health and Education Sectors

Corruption in the health and education sectors is widespread but not new. During the socialist era, it was common to present teachers with small gifts and in some cases to pay bribes to improve grades or scores on university entrance examinations. As salaries have declined, teachers have compensated by stimulating demand for their tutoring services by threatening to fail students or by withholding knowledge required on university entrance exams. Bribes are often needed to enter prestigious departments

and institutes. Similarly, during the Soviet era, patients presented doctors and nurses with gifts or small payments to ensure good care. But the costs were minimal compared with the fees today. If gifts once consisted of chocolates and cognac, or manageable cash amounts for surgery and childbirth, the same procedures now cost up to hundreds of dollars in under-the-table payments to doctors and hospitals. The following statements underscore the difference between then and now:

> Up to a few years ago I didn't even ask myself the question: What shall I cook? Today there are times I do not have anything to put on the stove and this is very difficult for a mother [crying]... Before we were not afraid of getting ill, everything was well regulated and there was health protection. Today we pray to God that nobody gets sick. What could we do? *Macedonia, 1998* (Narayan 2000b, 44)

> Before everyone could get healthcare, but now everyone just prays to God that they don't get sick because everywhere they just ask for money. *Bosnia and Herzegovina, 1999* (Narayan 2000a, 79)

Illness is dreaded by the poor who cannot afford the "informal" payments required to get medical care from doctors and others practicing in financially starved public institutions. In some countries, notably the Caucasus, informal payments account for more than 85 percent of all expenditures in the sector (Lewis 2000). The poor sometimes go without medical care or drugs, or sell off their income-generating assets, to scrape up the cash needed to get treatment. Illness can impoverish vulnerable families.

Crime

The poor express an extreme sense of isolation and defenselessness, especially in relation to crime and police corruption. During the Soviet period, police were fully prepared and equipped to preserve order and control the actions of ordinary citizens as well as those of criminals. Today the ability of the police to control crime appears to have weakened. Their interest in pursuing criminals is linked, in some instances, to whether they receive under-the-table payments.

Crime—petty street crimes as well as organized crime—has risen substantially throughout Europe and Central Asia during the transition. Crime, mostly in the form of theft, was the most frequently mentioned impact of poverty and ill-being by the poor in transition countries (Narayan and others 2000b). The crime wave derives from severe impoverishment of

some sectors of the community, the enormous difficulties faced by poor unskilled youth in entering the labor market, and the weakening and corruption of state controls, particularly toward gang activity and organized crime. In the Kyrgyz Republic and Uzbekistan, livestock theft is a growing problem. In Ukraine storage bins in rural areas have been raided and livestock stolen. Theft from home gardens was viewed as a particular problem in Russia. "We watched over our potatoes with a gun. People from other towns pretend to come to pick mushrooms. They sprinkle a few mushrooms and some grass over the top of the basket, and underneath they have potatoes" (Narayan and others 2000a, 137).

Police corruption came up repeatedly during the consultations with the poor (Narayan 2000a, 144). "We feel absolutely insecure, they [the police] are corrupt," one Bulgarian respondent claimed. "If they catch a villain they let him walk; only those who can't give them anything are sent to prison" (World Bank 1999b, 74). In Georgia farmers say they live in a police state "in which police pay for their positions and freely harass citizens." Indeed, people prefer to contact "criminal authorities" rather than even come to the notice of the police who often extort payments from them" (Dudwick 1999, 67). In Moldova the poor also noted that the police lacked interest in helping the victims of crimes, and tended to blame the victim for theft or rape (De Soto and Dudwick 1997).

Organized crime has also become widespread, with "the network of criminals forming a state-within-a state and seizing certain sectors of the economy" (United Nations 1997). Mafia cartels operating throughout Europe—some organized along ethnic lines—do billions of dollars of business trafficking arms, drugs, and persons (as illegal migrants or prostitutes). The connection between the police and criminal organizations is a serious obstacle to small entrepreneurs, who find they have no recourse against rackets. This was a frequent complaint of small traders in ECA countries.

Drugs are becoming a major part of local informal economies, particularly in Central Asia and the Balkans. Geography and history make Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan attractive areas, because they are situated between the world's largest opium producers (Afghanistan, Pakistan, Iran, Burma, Laos, and Thailand) and the most lucrative markets in Western Europe. Poverty also makes for a fertile ground for recruiting young unemployed men to traffick drugs. The sale of drugs is more than an economic livelihood; it provides entire groups with means to advance political causes and finance military campaigns—undermining in some cases the ability of national governments to gain effective control over their boundaries. Drug-related

crimes are becoming more frequent. The incidence of registered drug-related crimes in Kazakhstan in 1994 was 564; in the first three months of 1999, it rose to 5,247. In 1999, 185,000 drug-related crimes were registered in Russia, a 90 percent increase from 1996. Drugs contribute to the corruption of poorly paid police and other security forces (Olcott and Udalova 2000).

Another manifestation of the relationship between impoverishment, lack of economic opportunities at home, and criminality is the significant increase in the number of women and children (both boys and girls) involved in the sex industry in their own countries and in Western Europe, Israel, and the Persian Gulf. In Latvia authorities estimated that juveniles constituted 12 percent of those involved in prostitution in 1995 (Stukuls 1999). Many women are recruited through advertisements from ostensible modeling, tourist, or housekeeping agencies run by organized crime, or through offers to work abroad as waitresses. Traffickers often seize the women's passports, forcing women, without documents or means, to work their way out of servitude (Wedel 1999). According to the International Office of Migration, as many as 500,000 women are being trafficked to Western Europe alone, and Ukraine, Russia, and Belarus are becoming the center of the global trafficking of women. Although officials and law enforcement agencies acknowledge that a trafficking problem exists, many contend that the women are aware of the risks involved. Law enforcement agencies in countries of destination often treat trafficked women as illegal migrants and therefore as criminals—rather than as victims of crime.

Poverty and Helplessness

Many of the poor view the transition process as an event beyond their control, the reason for their downward mobility and loss of status. The transition is akin to a natural disaster with which they are powerless to cope. And while people may blame their downward slide on external causes, they nonetheless experience shame and humiliation in not being able to provide for their families and maintain connections with relatives and friends. Men have been particularly devastated by their inability to fulfill their expected role as the provider for the family. One man from Ozerny, Russia, admitted, "I cannot feed my children normally any more. [I] feel ashamed to come home (Narayan and others 2000a, 98).

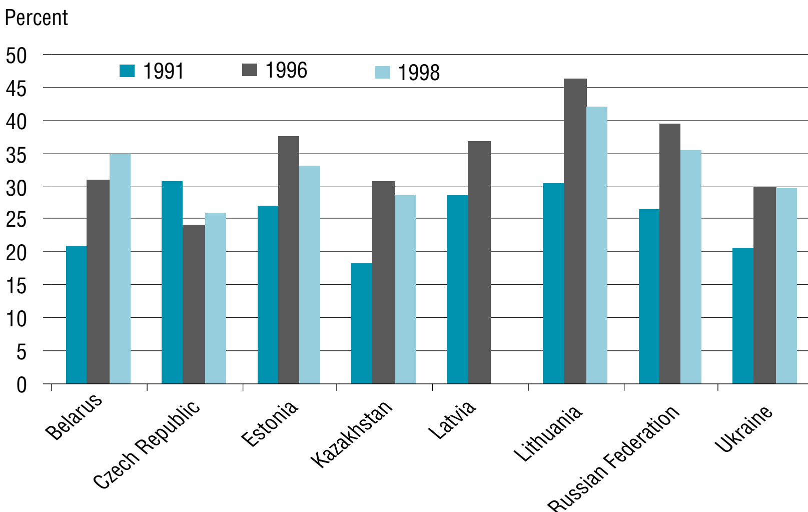
Shame and helplessness have contributed to the increase in suicide, noted by many of the poor interviewed in various qualitative studies.

Speaking of four men that had recently committed suicide in the town of Kalofer, Bulgaria respondents noted, "They can't take the tension, have no job, must support three kids, so he takes the rope and that's it" (World Bank 1999b, 88). An elderly woman in Kyrgyz Republic observed that "the unemployed men are frustrated, because they no longer can play the part of family providers and protectors. They live on money made by their wives, and feel humiliated because of that. Suicides among young men have become more frequent" (World Bank 1999d, 110). Suicide rates skyrocketed the first half of the transition period, particularly in the former Soviet Union, and then came down some in the late 1990s (figure 1.3).

Marginalized Groups

If conditions have worsened considerably for the mainstream poor population, certain groups among them are in a particularly vulnerable situation, one that has worsened the effects of poverty or presented special obstacles to overcoming poverty. The vulnerability of some groups derives from external events, such as localized conflicts, war, or natural catastrophe. In other cases vulnerability is the outcome of long-term processes of marginalization related to minority ethnic or religious affiliation. Vul-

Figure 1.3 Suicide Rates in Selected ECA Countries, 1991–98



Source: Statistical Yearbooks, 1999.

nerability also relates to dependency. Given the current inability of states to provide care, the very young and very old, as well as people with severe disabilities or illnesses, have few alternative resources when their family support network breaks down. Because of the very nature of these marginalized groups, it is difficult to give precise descriptions of their size or the extent of absolute poverty among them. But there is little doubt that they are among the poorest and most socially excluded.

Displaced People

Although the countries of Europe and Central Asia contain only 7 percent of the world's population, they are home to an estimated 15 percent of the world's refugees and internally displaced persons, and some estimates go as high as 30 percent (Heleniak 1999). According to the U.S. Committee for Refugees (1999), conflicts in Southeastern Europe (Bosnia and Herzegovina, Croatia, and Kosovo), in the South Caucasus (Armenia, Azerbaijan, and Georgia), Russia (Chechnya, North Ossetia, and Dagestan), and Tajikistan have displaced almost 4.5 million people (including 1,270,000 refugees and 3,130,000 internally displaced persons). In some places, such as Kosovo, refugees have returned home within months. In most cases, however, displacement has lasted long enough to create pervasive effects on an entire generation. Displaced populations suffer multiple losses—of family members, homes, assets, livelihoods, and social networks—and they cope with high levels of physical, economic, and legal insecurity, particularly when the situations that caused their displacement remain unresolved. Postconflict transitions around the world have demonstrated that the social and economic impacts of long-term displacement linger far beyond the formal cessation of hostilities. In many countries so many are displaced that, despite international humanitarian assistance, public budgets are overwhelmed. During the late 1990s, Georgia allocated as much as 20 percent of its development budget to entitlements for internally displaced persons (IDPs). In such cases the displacement problem affects not only the vulnerable poor but the social fabric and economy of an entire country.

Unlike other poor people, many displaced persons have lost assets accumulated over a lifetime—including their homes. Years after the Dayton Accords of 1995, hundreds of thousands of refugees and IDPs in the Balkans are still displaced, unable to gain access to their properties. In Bosnia and Herzegovina some local authorities have transferred housing belonging to original owners to the new occupants, while contradictory laws in Croatia deliberately discourage return of displaced ethnic Serbs.

Displaced rural populations have lost access to land. Even when they return, they may be killed by landmines, as the mine-related casualties in the Gali region of Abkhazia or in Nagorno-Karabagh demonstrate. Some displaced persons have been physically disabled or psychologically traumatized by the conflict that caused their displacement, conditions that place even more obstacles in front of them.

Refugees and IDPs confront structural barriers that reduce their opportunities, often because they have few links to the structures of power in host communities. Bosnian IDPs, for example, complained that local employers routinely rejected them in favor of people native to the given municipality (World Bank 1999a). In the South Caucasus, where conflicts in Nagorno Karabakh, Abkhazia, and South Ossetia remain unresolved, IDPs in Azerbaijan and Georgia have been displaced for nearly a decade. The Azerbaijani and Georgian governments have not wished to facilitate integration of IDPs into host communities, which could weaken their claim on disputed territories. This has limited IDPs' legal access to land, permanent housing, and formal employment.

Refugees and IDPs face additional insecurities related to their uncertain legal status in the host country. In Moscow, which houses many refugees from conflicts in Tajikistan as well as other former Soviet countries, groups that lack a *propiska* (residence permit) are subject to harassment and extortion by police. Tajiks, many of whom work as loaders in local markets, reported that police beat them, confiscated their documents as a pretext for repeatedly fining them, and sometimes took their earnings (World Bank 1999e). In other cases the atrocities of war fueled continuing mistrust and hostility, which further reduce the ability of displaced persons to participate in local economies. For example, in South Eastern Europe (Bosnian Muslims, ethnic Serbs, and ethnic Croats returning to their former communities) or the Caucasus (South Ossetians returning to Georgia), local populations or nationalist groups have sometimes physically prevented displaced persons from returning, or pressured them to leave through hostile actions such as setting their houses on fire.

Many displaced persons live in conditions markedly worse than those of surrounding poor populations (box 1.5). In Azerbaijan, Georgia, and parts of the Balkans, displaced populations, dependent on humanitarian assistance and government-provided social services, continue to live in collective centers, camps, makeshift shelters, or public buildings. By the end of 1999, 75 percent of IDPs in Azerbaijan still lived in temporary and substandard accommodations. Many Crimean Tatars, some of whom left homes in Central Asia voluntarily but others under pressure of growing ethnic hostility in Uzbekistan, sold their assets to finance their move just before the hyper-

Box 1.5 Living Conditions for IDPs in Azerbaijan

Living conditions alone pose a huge burden for displaced families, many of whom live in accommodations never intended for habitation, remote from job opportunities, and apparently forgotten by authorities. IDPs in Azerbaijan asserted that improving their housing conditions was their first priority. A 30-year-old unemployed IDP in the basement of an unfinished apartment building in a remote district of Baku referred to his three children as "basement children." "We live here in this basement for five years now—all of us, my parent, my wife and three children, my brother and his family. This place is not for living, it is an underground utility area to keep water pipes. It is all made of cement, all the walls and the floor. That is why everyone is so sick here….we will all rot here soon." The entire extended family lives on the parents' pensions.

Source: Bank staff interviews.

inflation of the early 1990s. Since then, the majority of Tatars in Crimea have been living in temporary buildings without amenities, and lacking connections with municipal services (Wanner and Dudwick 1996; UNHCR 1997).

Ethnically-Based Exclusion

New state borders, the creation of new majority-minority relations, and sharp competition for reduced resources and employment opportunities can divide societies along ethnic lines. Some minorities live in considerable social and political isolation (such as Russians in the northern rust-belt communities of the Baltics). These Russians, however, are not necessarily at higher risk of poverty than the majority population. But for the Roma concentrated in Central and South Eastern Europe (box 1.6), social and political exclusion is linked to extreme poverty.

Marginalized socially and economically during the socialist era, the Roma during the transition have experienced an exclusion even more severe. As enterprises downsized, Roma were among the first to be laid off. Given their lack of skills and the discrimination against them, most are likely to remain unemployed. Roma who worked in collective agriculture but were not land owners lost access to land when restitution-based land reform was instituted. Many Roma reside in ghettoized neighborhoods on the peripheries of rural or urban settlements, and they have little access to municipal services. Few Roma children go beyond basic education in large part because of pervasive discrimination in the education system, where they are often labeled as "mentally disabled" and channeled into poorer quality special education. Attacks by skinheads, as well as mob violence,

Box 1.6 Who Are the Roma?

Approximately 5 million Roma—often called Gypsies—are thought to reside in Central and South Eastern Europe. The Roma are a unique minority because they have no historical homeland and live in nearly all countries in Europe and the former Soviet Union. Roma make up the largest share of the population in FYR Macedonia (11 percent); in Bulgaria, Slovakia, and Romania they represent about 9 percent of the population. Estimates of the size of the Roma population are very approximate because of undersampling (in censuses and household surveys) of areas in which Roma are likely to reside, difficulties in locating and identifying populations that may not be officially registered, and problems with self-reporting. Roma prefer not to self-identify for various reasons, including fear of discrimination. The "Roma community" is internally diverse. There are numerous subgroups differentiated by type of settlement and degree of assimilation, religion, and language. Some groups speak the Roma language, while others do not.

Source: Ringold (2000).

increased throughout Central and Eastern Europe in the 1990s. The Roma are not likely to be helped by the police; rather, many experience police violence on a daily basis (High Commissioner on National Minorities 2000). "The police are racists—when skinheads attack Gypsies and police turn up, they start beating the Gypsies too and let skinheads walk away scot-free. The skinheads are pampered rich kids. That's why they [the police] don't do anything" (World Bank 1999b, 38).

The levels of poverty among Roma are striking: according to a 1997 household survey in Bulgaria, more than 84 percent of Roma—compared with the national poverty rate of 36 percent—were living below the poverty line (World Bank 1999c). Comparisons with the 1995 data indicated that only 0.2 percent of Roma households had never been poor (in the bottom two quintiles) during both survey years (1995, 1997). The data for Hungary are also alarming: one-third of the long-term poor (households that were poor four or more times between 1992 and 1997) were Roma, although they comprise about only 5 percent of the population (World Bank 2000b, 14).

While some groups of Roma have organized to effectively represent their own interests, in most countries they remain politically fragmented. Recently, Roma communities have received a powerful boost from the European Union, as accession countries try to improve their human rights records. Governments and nongovernmental organizations have turned their attention to issues of improved health and education and promotion of employment opportunities. But the extent of political will on the part of governments varies. Success has also been limited because current programs addressed at Roma have insufficiently taken into account Roma

cultural preferences for "independence, occupational flexibility, and the maintenance of a subsistence economy adapted to immediate needs"(Wheeler 1999, 6).

Dysfunctional Families and Children at Risk

The institution of the family has come under great stress during the transition, as evidenced by demographic indicators. Birth rates declined 26 percent on average between 1989 and 1998 in Central and South Eastern Europe and by 40 percent in the former Soviet Union (UNICEF, Transmonee database). Marriage rates fell by roughly the same percentage, with the largest declines in the Baltics and the Caucasus, and divorce rates increased significantly. Many of the poor report that poverty and unemployment have strained their marriages. Indeed, quarrels, drinking, and domestic violence have become more frequent. In discussions in Sarajevo and Mostar, for example, people explicitly attributed domestic violence to alcoholism, particularly on the part of demobilized soldiers who were frustrated at their inability to find regular employment. Alcoholics, whom many people regard as the "undeserving poor," are often excluded from networks of support. As a result, their families frequently live in extremely difficult conditions (box 1.7).

Dysfunctional family relations and parental inability to provide for children have increased dramatically the number of children at risk. The percentage of children 3 years of age and younger who are placed in infant homes has risen during the transition (figure 1.4), a telling indicator of greater family vulnerability and poor progress on child protection reforms. Poverty and other circumstances, including alcoholism, contribute to the incapacity of households to care for their children. In Estonia, Belarus, and Kazakhstan, for example, the number of children in infant homes increased by about 75 percent between 1990 and 1997. Bulgaria had the highest percentage of children in infant homes—about 1.2 percent of the population ages 0 to 3. Rates in Romania and Latvia are quite high as well (UNICEF 1999).

An extreme manifestation of child neglect and family breakdown in Europe and Central Asia is the appearance of "street children" (box 1.8). They regularly work on city streets and sometimes live there. Some are homeless, but many contribute their earnings to their families. Street children by and large are not orphans; most have at least one parent alive, and some spend their days on the street but return home to sleep.

Latvian authorities estimate as many as 4,000 street children in Latvia; for Romania, UNICEF reports between 2,500 and 3,500 street children (Schecter 1999). Concerned organizations estimate that the number of

Box 1.7 Three Perspectives on Alcoholic Families at Risk

Kyrgyz Republic. A woman from the Kenesh village in the Talas region of the Kyrgyz Republic expresses her view of local alcoholics in these words: "Some families in this village can't even afford food for their children. These people don't work on their land and offer it for lease to others. In many of such families children cannot attend school, because they don't have clothes and shoes. To some extent, these people are guilty . . . themselves. Many of the men are lazy and drink alcohol instead of working and providing for their families" (World Bank 1999d, 49).

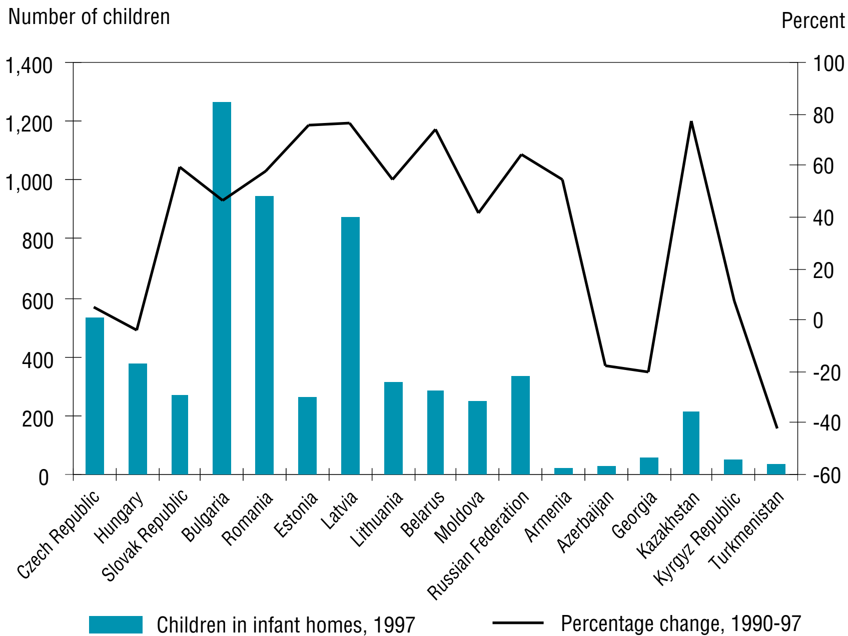
Armenia. In Armenia the most striking examples of the "undeserving poor" were families with an adult alcoholic. Respondents identified these families as the poorest and most likely to be ignored by relatives. In such families the alcoholic husband was often unable to retain a job; if he did work occasionally, he often spent the cash or in-kind earnings on alcohol. Members of such families appeared hungry and dirty, living in horrifying conditions in dwellings that lacked the maintenance traditionally performed by the man of the house (Gomart 1998).

Ukraine. Olga V. is 31 years of age and has two sons, 11 and 9. They live in Ukraine. Her ex-husband is an alcoholic and provides no child support. When her older son was 6, she sent him to a state boarding school (*internat*) because she could not afford to raise him. The younger son told the interviewer, "Like my brother, I too want to go to the *internat.* There they eat four times a day. I want so much to eat. My mother has started to drink a lot lately. She washes or repairs things for people, gets some money, and drinks. There's not enough money for food." Indeed, Olga V. stated that since she lost her job as a milkmaid at the collective farm, she cannot even afford to feed her son twice a day. Often she has to decide who will eat, she or her son. "There's nothing to eat. We're constantly hungry. There's nothing to wear. There's no money to buy the child boots, or notebooks, pens or a bookbag. My life is just grief. That's all.... I don't even want to live. I gave birth to these kids and I have to raise them. But if I didn't, I would have put a rope around my neck and hung myself long ago" (Warner and Dudwick 1996, 15).

street children in Russia is 1 million. The children tend to be in poor health, incompletely vaccinated, and illiterate (or, at best, only occasionally attending school). Many earn money through hard physical work (such as loading at the market) and by begging, stealing, and engaging in prostitution.

Many street children have poorly educated parents or come from families with a history of criminal activity and serious personal problems. In some cases young families left their villages to engage in trade or business; others were unable to farm because they did not have enough able-bodied adults. Other street children were abandoned by young parents and taken in by elderly or disabled grandparents. Some of the street children have single mothers who lost work because of illness or when enterprises with a largely female work force closed. Other street children come from institutions that no longer have the resources to care for them and where viable community-based alternatives do not exist. In Central European countries, a disproportionate number of street children are Roma, many of whom are illiterate.

Figure 1.4 Children in Infant Homes



Note: Number of children in infant homes per 100,000 children ages 0 to 3.
Source: UNICEF (1999).

The Homeless

The most severely excluded persons in Europe and Central Asia are the homeless, the beggars, and the scavengers. These groups are ranked at the bottom of the economic ladder—worse even than those who live in poverty or even in extreme poverty. They are not considered members of normal society. In Bulgaria people referred to the most extreme form of poverty

Box 1.8 Street Children in Georgia

Interviews from Tbilisi, carried out by a volunteer from an NGO that works with them, reported that street children sleep in underground passes, elevators, and in abandoned kiosks. A group of children, ages 6 to 14, sleep in the public toilet near Tbilisi's central market, near the gathering spot of prostitutes and alcoholics. In winter these children sleep in the buildings that house communal boilers if apartment residents do not drive them away. According to the interviewer, this group is the most difficult and troubled of the street children, and many of them are well on their way to becoming fully criminalized (Dudwick 1999).

as *izpadnalite* ("those who have fallen out"). These people no longer have the respect of the community and often survive by rummaging in garbage cans (World Bank 1999b). In Russia and other parts of the former Soviet Union they are referred to as *bomzhi* (a Russian abbreviation signifying a person without a permanent place of residence) or *bichi* (Russian jargon for people who are homeless, or vagabond). Most people regard *bomzhi* with a mixture of pity and disgust. They are seen as drunkards, totally irresponsible, and blamed for their own condition. Most people avoid them because they consider them dirty, smelly and infested with fleas. They tend to be in ill health; a survey in Moscow revealed that 50 percent of those examined had TB. They survive by scavenging from garbage, begging, and stealing (World Bank 1999e; Vinoker and others 1999).

Little is known about the extent of homelessness across the region. Recent estimates from studies in Russia suggest that between 0.5 and 1 percent of the population in large Russian cities may be homeless, and the numbers are thought to be increasing. According to a survey carried out in 1995 of the homeless in St. Petersburg, 70 percent became homeless in the previous five years. Just over one-fifth became homeless in 1994, the year preceding the survey; 14 percent of those surveyed had been living on the street for more than 10 years. Almost 60 percent of the homeless lost their housing as result of previous criminal conviction and imprisonment, since imprisonment for more than six months deprives them of *propiska* and the right to occupy state-owned housing (Vinoker and others 1999, 19).

The Growing Divide between the Poor and the Rich

The poor see the rich as people who have gotten where they are, not by hard work and by taking advantage of new opportunities, but by exploiting their connections and through corrupt behavior. In Kyrgyz Republic, for example, informants explained that the very rich are "those that have made their fortune at the expense of the nation," selling metals, cotton, and other raw materials on conditions unfavorable for the country (World Bank 1999d, 39). The poor resent the conspicuous consumption of the rich, a change from the more discrete behavior of the rich in the past. The sense that the rich are those who have profited dishonestly from their official positions at the expense of the poor contributes strongly to social divisiveness, reduces credibility in the state, and leads to a sense of helplessness among the poor who have neither the connections nor the opportunities to enrich them-

selves. The very poor go hungry, while the rich "have been plundering everything and eating so much that they cannot carry their own stomachs" (Institute of Philosophy and Sociology 1998, 8).

Notes

1. This chapter draws heavily on World Bank (2000d), as well as the qualitative poverty assessments in Narayan (2000b) and the national synthesis papers for the "Voices of the Poor" consultation exercise summarized in Narayan and others (2000a).

2. These estimates are based on World Bank (2000d), which reports poverty estimates for the Europe and Central Asia Region, including Turkey. The estimates reported here do not include Turkey. The poverty line is set at $2.15 in 1993 purchasing power parity (PPP) terms. With the notable exception of Russia and a few other countries, the 1998 estimates are largely based on poverty rates projected from earlier surveys. Time series comparisons are problematic because of noncomparability of surveys before and after the transition (Milanovic 1998). An additional problem is the hyperinflation in many countries, especially in the former Soviet Union, which occurred during the first half of the 1990s. Hyperinflation introduces a potentially large margin of error in the calculation of the poverty lines in local currency for household surveys conducted in the post-hyperinflation period using the inflation-adjusted poverty lines based on the 1993 PPP rate.

Since the estimates reported in World Bank (2000d), new household survey data have become available as well as PPP rates based on 1996 price surveys. These estimates are reported in table 1.1. The 1996 PPP rates yield lower estimates of poverty than the 1993 rates, notably for Russia (box 1.2). Estimates of aggregate poverty for the region in 1998 based on 1996 rates are likely to be lower than estimates based on the 1993 rates. The trend, however, would remain unchanged.

3. The estimates based on the 1996 PPP rates are considered more reliable than the 1993 PPP rates because they take into account recent changes in the price structure following periods of hyperinflation in the early 1990s, trade liberalization, and real exchange rate realignment. The 1996 estimates are not comparable to estimates based on the 1993 rate.

4. The national poverty lines of Armenia, Georgia, and the Kyrgyz Republic fall between the $2.15 standard and $3.50 in 1996 PPP. The poverty line for Kazakhstan is roughly $4.70.

5. In principle, even if incomes are underreported, expenditures should be more reliable and take into account informal sources of income. So the size of the informal economy should not bias the survey results.

6. A study of household surveys in Latin America comes to this conclusion (Szekely and Hilgert 1999).

7. The CPI indices also have some deficiencies, including in a number of cases lack of good regional price deflators for many countries.

8. See World Bank (2000f) for a discussion of poverty lines.

9. Many Central European countries have not established official poverty lines, however.

10. Some important benefits, such as the earned income tax credit, and certain costs, such as the cost of child care, are excluded.

11. For a discussion of the spatial adjustment issues facing cities in the region, see World Bank (2000a).

References

Bilesim International, Kazakhstan. 1997. *Privatization in Agriculture in Akmola and Former Taldy-Korgan Oblasts*. Report prepared for World Bank, Environmentally and Socially Sustainable Development Sector Unit, Europe and Central Asia Region. Washington, D.C. Processed.

Commander, Simon, Andrei Tolstopiatenko, and Ruslan Yemtsov. 1999. "Channels of Redistribution: Inequality and Poverty in the Russian Transition." *Economics of Transition Journal* 7 (2): 411–47.

De Soto, Hermine G., and Nora Dudwick. 1999. "Poverty in Moldova: The Social Dimensions of Transition 1999." In *Moldova Poverty Assessment,* vol. 2: Technical Papers, Report 19846-MD. Washington, D.C.: World Bank. October.

Dudwick, Nora. 1995. "A Qualitative Assessment of the Living Standards of the Armenian Population, October 1994–March 1995." Working Paper 1. In *Armenia Poverty Assessment*. Washington, D.C.: World Bank.

———. 1997. *Land Reform in Moldova*. Report prepared for World Bank, Environmentally and Socially Sustainable Development Sector Unit, Europe and Central Asia Region. Washington, D.C. Processed.

———. 1999. "Georgia: A Qualitative Study of Impoverishment and Coping Strategies." In *Georgia Poverty and Income Distribution,* vol. 2: Technical Papers, Report 19348-G. Washington, D.C.: World Bank.

Falkingham, Jane. 2000. "From Security to Uncertainty: The Impact of Economic Change on Child Welfare in Central Asia." Innocenti Working Paper 76. Florence: UNICEF Innocenti Research Centre.

Foley, Mark. 1997. "Static and Dynamic Analyses of Poverty in Russia." In *Poverty in Russia: Public Policy and Private Responses*, ed. Jeni Klugman. Washington, D.C.: World Bank.

Gomart, Elizabeth. 1998. "Social Assessment of the Poorest of the Poor in Armenia, November-December 1997." World Bank, Environmentally and Socially Sustainable Development Sector Unit, Europe and Central Asia Region. Washington, D.C. Processed.

Holt, Sharon. 1995. "Using Land as a System of Social Protection: An Analysis of Rural Poverty in Armenia in the Aftermath of Land Privatization." Armenia Poverty Assessment Paper 3. Washington, D.C.: World Bank.

Institute of Philosophy and Sociology. 1998. *Listening to the Poor: A Social Assessment of Poverty in Latvia, 1998: Report on Research Findings (March–June 1998)*. Prepared by the Institute of Philosophy and Sociology in Riga for World Bank, Environmentally and Socially Sustainable Development Sector Unit, Europe and Central Asia Region. Washington, D.C. Processed.

Kuehnast, Kathleen. 1993. "Women and Economic Changes in Kyrgyzstan: Coping Mechanisms and Attitudes Toward Social Policies: A Beneficiary Assessment." World Bank, Human Development Sector Unit, Europe and Central Asia Region, Washington, D.C. Processed.

Lampietti, Julian A., and others. 2000. *Utility Pricing and the Poor: Lessons from Armenia*. Washington, D.C.: World Bank.

Leon, David A., and others. 1997. "Huge Variation in Russian Mortality Rates, 1984–94: Artefact, Alcohol, or What?" *The Lancet* 350: 383-88.

Lewis, Maureen, 2000. "Who Is Paying for Health Care in Europe and Central Asia?" World Bank, Human Development Sector Unit, Europe and Central Asia Region, Washington, D.C.

Lokshin, Michael, and Martin Ravallion. 2000. "Welfare Impact of Russia's Financial Crisis and the Response of the Public Safety Net." Background Papers: Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia. World Bank, Washington, D.C.

Lovei, Laslo. 2000. *Maintaining Utility Services for the Poor: Policies and Practices in Central and Eastern Europe and the Former Soviet Union*. World Bank Energy Sector Unit, Europe and Central Asia Region. Washington, D.C.

McKee, Martin. 1999. "Alcohol in Russia." *Alcohol and Alcoholism* 34(6): 824–29.

Milanovic, Branko. 1998. *Income, Inequality, and Poverty during the Transition to a Market Economy*. Washington, D.C.: World Bank.

Mroz, T., D. Mancini, and B. Popkin. 1999. "Monitoring Economic Conditions in the Russian Federation: The Russian Longitudinal Monitoring Survey 1992–98." Report submitted to the U.S. Agency for International Development. Carolina Population Center, University of North Carolina at Chapel Hill, North Carolina. March.

Narayan, Deepa, and others. 1999. *Global Synthesis: Consultations with the Poor.* Washington, D.C.: World Bank.

———. 2000a. *Crying out for Change: Voices of the Poor.* New York: Oxford University Press.

———. 2000b. *Voices of the Poor: Can Anyone Hear Us? New York:* Oxford University Press.

Olcott, Martha, and Natalia Udalova. 2000. "Drug Trafficking on the Great Silk Road: The Security Environment in Central Asia." World Papers 11, March. Carnegie Endowment for International Peace.

High Commissioner on National Minorities, Organization for Security and Co-operation in Europe (OSCE). 2000. *Report on the Situation of Roma and Sinti in the OSCE Area.* The Hague.

Ravallion, Martin, and Michael Lokshin. 1999. "Subjective Economic Welfare." Policy Research Working Paper 2106. Washington, D.C.: World Bank.

Ringold, Dena. 2000. "Roma and the Transition in Central and Eastern Europe: Trends and Challenges." World Bank, Human Development Sector Unit, Europe and Central Asia. Washington, D.C.

Schecter, Kate. 1999. "Social Development Strategy Note: Street Children in ECA." World Bank, Environmentally and Socially Sustainable Development Unit, Europe and Central Asia Region. Washington, D.C. Processed.

Shkolnikov, Vladimir, and others. 1999. "Causes of the Russian Mortality Crisis: Evidence and Interpretations." *World Development* 26 (11): 1995–2001.

Stukuls, Diana. 1999. "Body of the Nation: Mothering, Prostitution, and Women's Place in Postcommunist Latvia." *The Slavic Review* 58 (3).

Szekely, Miguel, and Marianne Hilgert. 1999. "What's Behind the Inequality We Measure? An Investigation Using Latin American Data for the 1990s." Washington, D.C.: Inter-American Development Bank. Processed.

UNDP (United Nations Development Programme). 1999. *Human Development Report for Central and Eastern Europe and the CIS, 1999*. New York.

UNHCR Regional Bureau for Europe. 1998. "Social Assessment of the Formerly Deported Population in the Autonomous Republic of Crimea: A Participatory Rapid Appraisal." European Series, vol. 4, no. 1.

UNICEF. 1999. *Women in Transition*. Regional Monitoring Report 6. Florence: UNICEF International Child Development Center.

United Nations. 1997. *National Human Development Report, Tajikistan*. New York.

Vinoker, Anatoly, Joana Godinho, Christopher Dye, and Nico Nagelkerke. 1999. "Russia: TB, HIV/AIDS and STIs: Portrait of a Crisis." World Bank, Human

Development Sector Unit, Europe and Central Asia Region. Washington, D.C. Processed.

Warner, Catherine, and Nora Dudwick. 1996. "An Ethnographic Study of Poverty in Ukraine." Prepared for Europe and Central Asia Region, World Bank.

Wedel, Janine R. 1999. "Trafficking in Women in Central and Eastern Europe and the Former Soviet Union: Highlights of the Problem." Prepared for the Environmentally and Socially Sustainable Development Sector Unit, Europe and Central Asia Region, World Bank. Processed.

Wheeler, Anthony. 1999. "Gypsies in Eastern Europe—Issues and Possible Actions." Washington, D.C.: World Bank, Human Development Unit, Europe and Central Asia Region.

World Bank. 1999a. *Bosnia: Consultations with the Poor* (a study to inform the *World Development Report 2000/1* prepared for the Global Synthesis Workshop, September 22-23, 1999). Poverty Group, Poverty Reduction and Economic Management Network. Washington, D.C.

———. 1999b. *Bulgaria: Consultations with the Poor* (a study to inform the *World Development Report 2000/1* prepared for the Global Synthesis Workshop, September 22-23, 1999). Poverty Group, Poverty Reduction and Economic Management Network. Washington, D.C.

———. 1999c. *Bulgaria: Poverty during the Transition.* Report 18411. Human Development Sector Unit. Europe and Central Asia Region. June 7.

———. 1999d. *Kyrgyz Republic: Consultations with the Poor* (a study to inform the *World Development Report 2000/1* prepared for the Global Synthesis Workshop, September 22-23, 1999). Poverty Group, Poverty Reduction and Economic Management Network. Washington, D.C.

———. 1999e. *Russia: Consultations with the Poor* (a study to inform the *World Development Report 2000/1* prepared for the Global Synthesis Workshop, September 22-23, 1999). Poverty Group, Poverty Reduction and Economic Management Network. Washington, D.C.

———. 1999f. *Russia: Targeting and the Longer-Term Poor.* Report 19377- RU. Washington, D.C. May.

———. 2000a. *From Commisssars to Mayors: Poverty and Cities in Transition Economies.* Washington, D.C.

———. 2000b. "Hungary: Long-Term Poverty, Social Protection, and the Labor Market." vol. 1, Main Report, Report 20645-HU. Washington, D.C. Draft.

———. 2000c. "Info Brief." Washington, D.C.: World Bank, Human Development Unit, Europe and Central Asia Region.

———. 2000d. *Poverty Reduction and the World Bank: Progress in Fiscal 1999.* Report R2000-41. Washington, D.C. March 30.

———. 2000e. *Toward a Social Development Strategy in ECA: Issues and Recommendations*. Environmentally and Socially Sustainable Development Sector Unit. Europe and Central Asia Region. Washington, D.C. June.

———. 2000f. *World Development Report 2000/1: Attacking Poverty*. New York: Oxford University Press.