

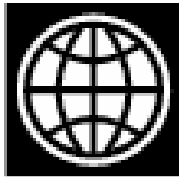
Report No. 27431-BY

**BELARUS: POVERTY ASSESSMENT
Can Poverty Reduction and Access to Services Be Sustained?**

Main Report

November 2004

Europe and Central Asia Region
Human Development Sector Unit



Document of the World Bank

Currency Exchange Rates

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Currency Unit: [Belarusian Ruble](#)

US\$ 1 = 2,162.5 BYR

Weight and Measures

Metric System

FISCAL YEAR

January 1 to December 31

ACRONYMS AND ABBREVIATIONS

ALMP	Active Labor Market Programs	IMF	International Monetary Fund
BSM	Budget of Subsistence Minimum	IMR	Infant Mortality Rate
BYR	Belarusian Ruble	IVD	Intravenous Drugs
CAE	Consumption per Adult Equivalent	LFPR	Labor Force Participation Rate
CBN	Cost of Basic Needs	MCB	Minimum Consumption Budget
CEE	Central and Eastern Europe	MDG	Millennium Development Goal
CHD	Cardiovascular Heart Disease	ME	Ministry of Economy
CIS	Commonwealth of Independent States	MLSP	Ministry of Labor and Social Protection
CPI	Consumer Price Index	MoSA	Ministry of Statistics and Analysis
CVD	Cardiovascular Diseases	NBB	National Bank of Belarus
EBRD	European Bank for Reconstruction and Development	NIS	New Independent States
ECA	Europe and Central Asia Region	OECD	Organization for Economic Cooperation and Development
FSU	Former Soviet Union	PAYG	Pay-as-you-go
GDP	Gross Domestic Product	SP	Social Protection
GIC	Growth Incidence Curves	TB	Tuberculosis
GMI	Guaranteed Minimum Income	TSA	Targeted Social Assistance
GOB	Government of Belarus	UNICEF	United Nation's Children Fund
HIES	Household Income and Expenditure Survey	WB	World Bank
ILO	International Labor Organization	WHO	World Health Organization

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Executive Summary

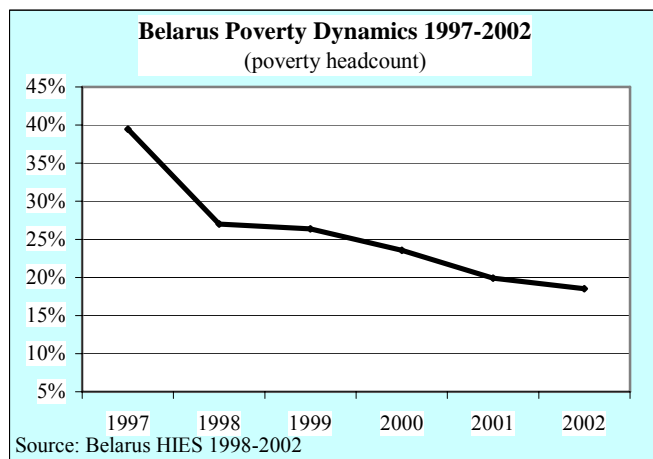
 Building on the strong poverty analysis conducted by the government for almost a decade, this Poverty Assessment offers a number of improvements to the methodology for measuring poverty and living conditions in Belarus and contributes an in-depth analysis of the multiple dimensions of poverty—particularly the non-income dimensions (education and health). The poverty assessment also indicates concrete options for the government to strengthen its poverty reduction strategy. The main findings can be summed up as follows:

- Poverty has declined over time and is low compared to other transition countries.
- The gains in poverty reduction are shallow and fragile. A key source of economic vulnerability is administratively-set real wage growth which has outstripped productivity growth, jeopardizing the sustainability of growth *and* poverty reduction. The reduction of Russian energy subsidies to Belarus further affects enterprises and their ability to invest while sustaining a social subsidy in the form of high wage levels. In a high cost, low flexibility business environment, the ability of the economy to create new jobs remains elusive. It is thus important for Belarus to take the opportunity to analyze the significant underlying risks the economy faces and the uncertainties it poses for poverty reduction and growth.
- Income inequality has remained relatively low but significant inequalities are emerging in the ability of different groups of households to access education and health services. The performance-enhancing reforms in education, health and social protection which Belarus has embarked on are in the right direction. These reforms need to be deepened, however, in order to generate the efficiency gains (savings) that can be redirected towards addressing equity concerns.
- Belarus' poverty monitoring and analysis system has potential to be a "good practice" model for the region.

I. Poverty Levels Have Declined Over Time

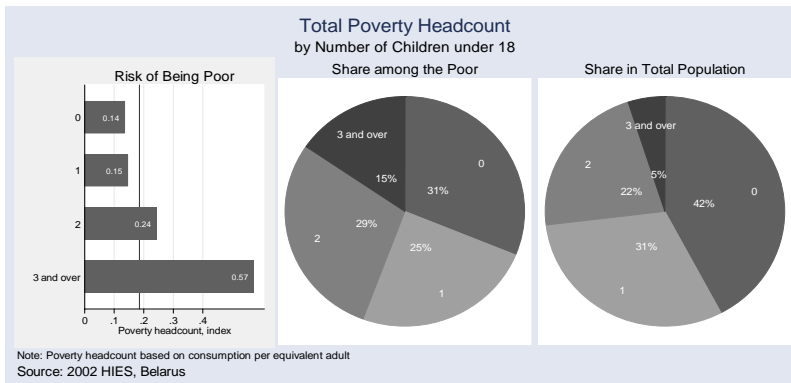
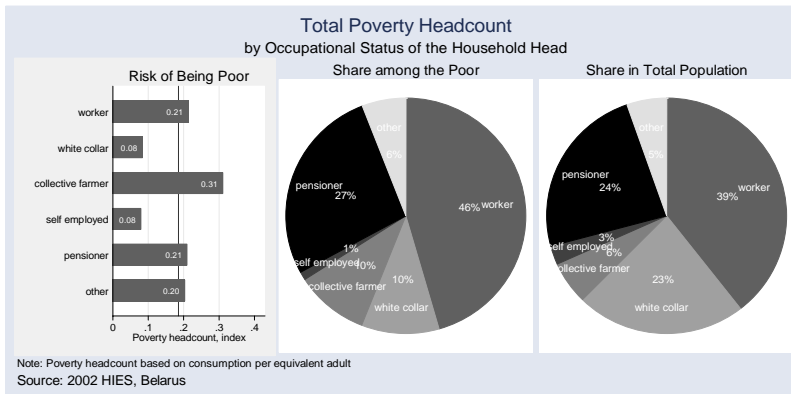
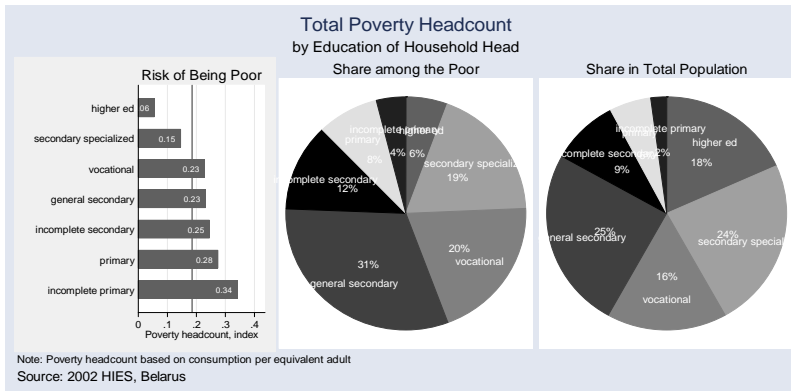
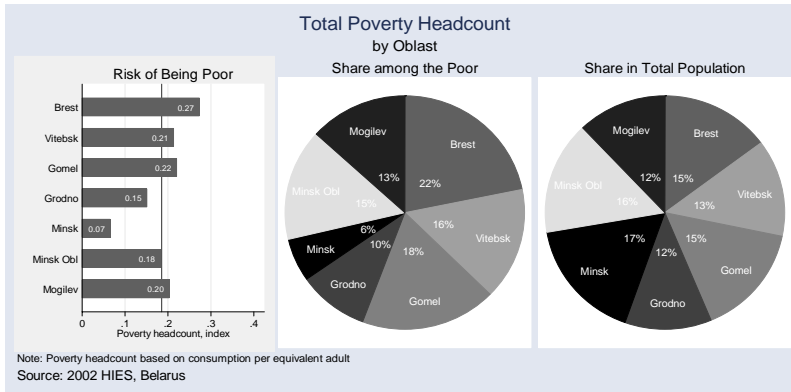
Over the last years (1997-2002), poverty has fallen substantially in Belarus. Poverty in Belarus is defined in this assessment as the proportion of the population whose consumption falls below a level sufficient to cover the cost of 2700 calories per adult per day (equivalent to 2400 calories per person per day), plus a significant allowance for non-food goods and services. Extreme poverty is defined at a lower level of consumption on the non-food dimension.

Figure I



- **Dynamics of poverty.** In 2002 the poverty headcount ratio was 18.5%, which is less than half of the 1997 level (Figure I). The dent in other measures of poverty was even greater: extreme poverty headcount fell to from 19% to 7% during the same period
- **Inequality.** Belarus also has relatively low consumption inequality within the region, although the Gini ratio has risen marginally during this period. The low inequality is linked to compressed wages; administered prices; and generous social transfers.

Figure II a–d: A Mini Profile of Poverty (2002)--Poverty Headcount by (a) Oblast (b) Education of Household Head (c) Occupation of Household Head and (d) Number of Children Aged Under 18



- **Regional comparison.** Compared to other transition economies, Belarus has one of the lowest poverty rates at the lower regional line of \$2.15 per capita per day (measured with purchasing power parity or PPP). In 2002, less than 1.6% of Belarus' population was living on less than PPP \$2.15 a day. At the upper regional line of PPP \$4.30 a day, slightly more than one quarter of the population is poor. At this higher poverty line, Belarus is in the middle of the regional distribution and worse off compared to Central or Eastern European economies, or the Baltics.

Some groups face a higher poverty risk than others.

- **Spatially.** In Minsk City, the risk of poverty is just a third of the national average (Figure IIa). Rural people face the highest poverty risk and represent the largest share of poor people (39% of the total number of poor people). Poverty (and extreme poverty) risk is higher in Brest, Gomel and Mogilev oblasts, where 53% of the poor live.

- **Education.** A strong finding is that the risk of being poor drops substantially with better education (Figure IIb). A deep poverty pocket is those households whose

heads have incomplete primary education (poverty risk of nearly 34%). While this group represents 4% of the total poor, the majority of poor people are in households whose heads finished at most middle or vocational schooling levels. Wage earners with higher education earn 58-66% more than those with basic education only, all other factors being equal.

- **Occupation.** The risk of poverty is higher for collective farmers, lower for those who are white-collar and self-employed workers (Figure IIc). Collective farmer and pensioner households face the highest risk of extreme poverty, while blue-collar workers and pensioners constitute over 70% of the extremely poor population.
- **Number of children.** The risk of being poor increases with the number of children, moderately up to 2 children but steeply thereafter (Figure II d). Even after accounting for the lower cost of children relative to adults, families with 3 or more children have 3 times the average risk of being poor. These households, however, form a fairly small share of the total number of poor (15%). Thus, they constitute a small but significant, deep pocket of poverty.
- **Gender.** Poverty in Belarus also has a strong gender aspect which accentuated from 1995 to 2002. In 2002, female-headed households consumed 10% less than similar households headed by men, up from -4.7% in 1995 and -4.5% in 1998. Average wages for females, despite their much higher educational attainment, are 81.5% of the average wages for males.

Perceptions of Poverty

The decline in overall poverty levels and the containment of consumption inequality does not tell a complete story of poverty and living conditions in Belarus. An informal qualitative survey conducted for this poverty assessment paints a picture of a population where significant numbers of people, old and young, employed and unemployed, rural and urban, face a great deal of economic strain. People observe that they have experienced a decline in the quality of life, as described by deteriorating affordability of health, education, leisure and other non-income dimensions of well-being. They also note a rise in inequality, reinforcing a sense of increased relative deprivation. There seems to be a greater reliance on coping strategies some of which may pose long-term risks, such as the reliance on cheaper sources of calories which can involve fatty foods which contribute to the rise of chronic diseases. Rural areas are seeing the out-migration of the younger working aged population, leaving many villages with only the elderly or incapacitated.

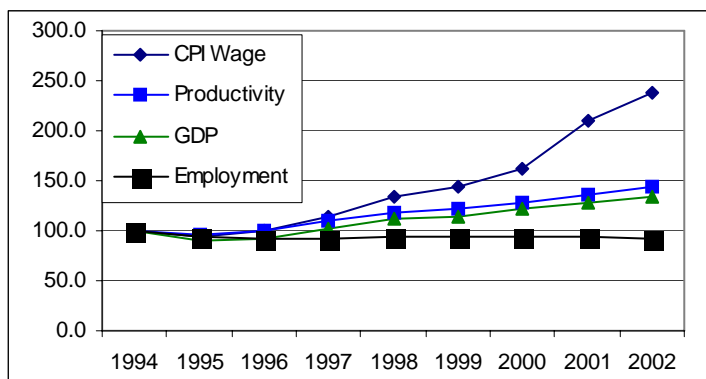
The qualitative information complements and in some way "ground-truths" the quantitative analysis. It is a small, informal survey, however, and Belarusian authorities may wish to consider a more *systematic participatory poverty analysis* to augment the data collected via the household survey.

II. Poverty Reduction Gains are "Shallow" and Fragile

A closer analysis of Belarus' achievements of the last decade indicates that the gains in household welfare are "shallow" and may be vulnerable to the regional economic changes which have recently gathered momentum.

- **"Clustering" of incomes.** A substantial share of the non-poor population have incomes that are just above the poverty line, while most poor people are clustered close to the poverty line. The former category faces a substantial risk of becoming poor. Economic shocks can push large number of individuals into poverty. A 5% reduction in real consumption will raise total poverty headcount from 18.5% to 21.9%, pushing about 340,000 people below the poverty line. A larger shock that reduces real consumption by 10% may increase total poverty headcount to 25.3%. On the other hand, growth may have a substantial poverty reduction impact: a 20% increase in real consumption across the population will halve total poverty.

Figure III Belarus: GDP, employment, productivity and CPI-deflated wages in 1994-2002, %



effect is found. For example, wage arrears are a symptom of strained enterprise finances and performance. This report documents the pervasive use of wage arrears and in-kind substitutes as a form of wage adjustment. In the last quarter of 2002, 52% of rural workers faced an average delay of 14 days in wage payments, while 35% of urban workers faced an average 12 day delay. Direct evidence of increasing strain on enterprises is also available: the number of loss making enterprises rose from 1737 in 1996 to 4082 in 2002.

- **Real wages and labor productivity.** Real wages more than doubled in the last 7 years, much exceeding the growth in labor productivity (Figure III). This trend is reported to have caused major disruptions in enterprise profitability, investment activities, and corporate finances. Under this burden, it is difficult to see how enterprises can maintain their profitability or competitiveness in international markets. Direct and indirect evidence to this effect is found. For example, wage arrears are a symptom of strained enterprise finances and performance. This report documents the pervasive use of wage arrears and in-kind substitutes as a form of wage adjustment. In the last quarter of 2002, 52% of rural workers faced an average delay of 14 days in wage payments, while 35% of urban workers faced an average 12 day delay. Direct evidence of increasing strain on enterprises is also available: the number of loss making enterprises rose from 1737 in 1996 to 4082 in 2002.
- **Russian subsidies.** Russia, the main trading partner for Belarus in both input and output markets, has typically provided implicit (via continuing to buy higher-priced, lower quality Belarusian goods) and explicit subsidies (especially in energy) to Belarus. In 2002/3, however, it started to reduce the subsidies it has been providing on utilities. The latest reports indicate that Russia's Gazprom supplied gas to Belarus at 660 Russian rubles for 1000 cubic meters between May 1 and July 1, 2002 and at 760 rubles since July 1. On January 1, 2003, it raised the price to 912 rubles (around \$30 at the official exchange rate at present). The government, which has typically subsidized utility prices for households and service institutions, has begun to reduce this generally untargeted subsidy and is passing through a higher share of the production cost of energy to consumers. The implications of this decline in energy subsidies is three fold. *First*, in the short-term, a negative impact on households, especially poor ones, can be expected via a higher cost-of-living. *Second*, among enterprises which use energy as input, profitability is likely to be further affected as costs rise but price, wage and employment parameters remain constrained by policy. *Third*, if the willingness of Russia to reduce this important subsidy is a harbinger of a deeper change in its political economy stance, then Belarus faces much broader uncertainty in its future growth prospects.
- **Job creation potential.** There are signs of growing strain on the labor market. While compared to other transition countries the overall unemployment rate in Belarus is modest, a disturbingly large number of younger people are unemployed, especially those with general education levels only. The registered unemployment rate has also tended to increase over the years. Moreover, very little of the high labor turn-over observed in Belarus has to do with hiring and placement in *new jobs*; mostly, turnover reflects inter-firm mobility of labor. Employment rates among poor males are almost 13% lower than among non-poor males. Minimum wage levels are also far below the subsistence minimum level. One of the consequences is that the number of working poor is relatively high. As a coping strategy, the poor and extreme poor tend to have much longer work hours than the non-poor, which was still not sufficient to offset differences in remuneration levels between the two groups.

- **Crowding out effect of wage bills.** Public service institutions also maintain higher than necessary employment levels, driven by social stability considerations rather than efficiency. For example, despite the demographics-driven decline in student body size at pre-school and general secondary levels, the number of teachers actually *rose* during the last few years. The large wage bills create additional strain on local authorities' resources, contributing to low remuneration levels, a crowding out of essential non-wage inputs to services, such as drugs, textbooks, facility maintenance, etc., and a decline in quality of services.

Cost-of-Living Deflator for Social Policies

Official price indexes, such as CPI, reflect the increase in cost of living for an average household. Social policies, however, are usually targeted to specific subpopulations like the pensioners or the poor. In a number of cases, the CPI and the cost of living of specific subpopulations are not the same. In the United States, for example, the Cost of Living Adjustment (COLA) used for pension indexation underestimates the actual cost of living of the elderly because of raising health care costs. In Poland, the cost of living for the poor did not follow the CPI because of different inflation rates for food products and their different relative weight in the consumption basket of the poor (World Bank, 2004). This study documents this pattern in Belarus and provides a cost of living estimator to be used for social transfers. The study constructed a cost-of-living index to render household consumption levels comparable across regions and over time. As in many other countries, it is found that differences between cost of living estimates based on household survey data and CPI are related to differences in consumption structure and source of price data. These differences are particularly apparent from 1999 onwards: starting with 1999 the survey-based cost-of-living increases faster than the food CPI. Since the CPI is used to index various transfer programs and wages, deviations of the CPI measure from actual cost-of-living trends in the country will have implications for the ability of wage earners and social transfer beneficiaries to maintain their living standards at adequate levels. This suggests a need to establish a price index for social transfers that incorporates differences due to price collection practices, which may need to include a larger share of transactions from unofficial marketing channels.

III. Emerging Inequalities in Ability to Access Education and Health Services

Belarus has some of the best education and health indicators in the region and an extensive coverage of basic services that are mostly subsidized. Despite such achievements, however, service quality is under strain and disparities in access are emerging in both education and health care systems. From 1995 to 2002, moreover, regional disparities in household consumption levels widened gradually, both between the capital city and the rest of the regions, and between the regions themselves, contributing to increasing disparities in households' ability to afford services. In the context of the next phase of the assessment of poverty in Belarus, these distributional issues in household living conditions need to be analyzed further. For now, as we consider ways to address these disparities, it is worth bearing in mind that equity and efficiency objectives are not necessarily in conflict. There is an opportunity to achieve greater efficiency *and* greater equity if reforms are designed appropriately, since savings from efficiency gains can be re-invested to address the needs of poorer household groups and essential expenditures.

Disparities in education. There is a need to ensure that the emerging pattern of the rural and poorer segments of society being left behind in access to good quality education is reversed.

- The analysis undertaken shows a clear relationship between the education level of an individual, access to economic opportunities, and their poverty status. The higher the economic status of the household, the higher is the share of the population with higher and specialized secondary education. The poorest groups tend to have larger shares of population with only a basic education or less.

- New types of schools, such as lyceums, where a more modern, higher quality general secondary education is offered, are being utilized largely by the better off urban households. Qualitative evidence also suggests that poorer households are increasingly unable to afford the higher quality higher education options that exist.
- Amongst 17-22-year-olds, individuals in the poorest quintile (poorest 20% of the population) are half as likely to receive a merit-based scholarship as individuals in the richest quintile, and grant amounts received are roughly 60% of those received by the richest.
- While local government budgets—which provide about 80% of public education financing—do not demonstrate much variation across oblasts in per capita recurrent expenditures for education, they do show variation in per capita *capital* expenditures. Oblasts with higher per capita capital expenditures have a lower rate of schools needing repairs and lower poverty.
- We also find that at all levels of education; there are now sizeable *private* expenditures on education. At the preschool and basic education levels, these constitute a heavier burden on the poorer segments of society, while at the post-basic level, the burden is heavier for the richer segments which may be seen as evidence of the ability of richer households to purchase better quality education.

Disparities in health. The poverty assessment finds a significant level of child malnutrition: 13% of under-5 children are stunted, a condition which is typically associated with long-term deprivation. It also finds significant socioeconomic differences in health status indicators.

- The prevalence of stunting among the poor (17%) is twice that among the better off, and even worse in rural areas (22%).

Lifestyle Risks, Chronic Disease and Poverty

Poverty related patterns are also evident in morbidity and risk factors associated with chronic diseases. Some lifestyle risks, such as smoking, are closely associated with low-income status, especially for males. Others, like alcohol consumption and fat intake, are spread across all socioeconomic groups and even higher for the better off. The levels of alcohol and fat intake among the poor—while lower than that of the rich—do represent an important lifestyle risk factor for those in poverty, and it is particularly high in rural areas. Household outlays on alcohol and tobacco represent more than 3% of a poor household's total consumption. Shifting expenditures from those items to welfare improving consumption goods and services would reduce poverty prevalence by 8%. It would also generate savings for the health care system by reducing the number of cases of chronic diseases. These savings can be channeled towards improving services in poorer areas or for poorer segments of the population.

- Despite overall good health service coverage, geographic inequalities are observed. Allocation of budgets and medical resources across regions is quite uniform due to the normative system of budgeting. The small variation that remains suggests that regions with more need (e.g. higher stunting rates) or with less ability to pay (higher poverty prevalence) *do not* have higher levels of medical personnel.
- This poverty assessment also analyzed which socio-economic groups benefit more from public expenditures on health. Belarus has a distinctive pattern of public health expenditures compared to other transition countries in the region. *First*, overall health expenditures are progressive, in the sense that the poor benefit relatively more than the better off. Individuals in the poorest quintile (20% of the population) capture almost 23% of government expenditures, compared to only 18% for those in the richest quintile. A *second* important

aspect is that between primary and hospital care, it is hospital care that is the more progressive intervention. This latter finding reflects the curative nature of the system where primary care is less utilized (and in fact is less effective), the free delivery of services (except drugs), and the role of social patients among the poor, whereby particularly the elderly poor tend to use hospitals as a place to be cared for generally, rather than as a place for treating serious health conditions. If the primary health care system improves its effectiveness with the expansion of the Vitebsk pilot health reforms, we should expect to see greater utilization of primary services by the poor. As hospital care becomes more fee-based, however, the use of these facilities by the elderly poor as a safety net can be expected to decline.

- Household expenditures on health care are relatively low. In fact, average households spent less on health care than on alcohol. These low expenditures, however, have important effects on poverty. Out-of-pocket payments for health care, when shifting resources from consumption, increase the poverty rate by 1.6 percentage points. Moreover, we observe in the health systems of other transition economies which are relying increasingly on patients' contributions to finance their activities, that household economic conditions, and poverty in particular, have a direct impact on the ability to seek care. It is clear from some of the more poignant accounts in our informal qualitative survey, that the potential costs (informal and formal) of health care are already preventing some of the poorest households from accessing health care.

IV. Towards an Effective and Sustainable Poverty Reduction Strategy

The poverty reduction and inequality performance of Belarus is impressive but vulnerable, both to economy-wide and household-level shocks. Broad-based growth that translates into *new* jobs and higher incomes is a critical element of Belarus' poverty reduction strategy. In order to achieve this on a sustained basis, Belarus will need to address the issue of enterprise productivity and profitability. The Belarus strategy to fight poverty would also need to ensure that the poor are able to build their human capital to take advantage of new employment and income opportunities. Belarus has already embarked on a number of reforms to support these objectives, especially in the last 2-3 years and especially in terms of institutional reforms to its education, health and social protection service delivery and financing systems, and the reduction in the generalized, untargeted utility subsidy for households. These reforms are serious and commendable. A deepening of these measures will strengthen Belarus' poverty reduction strategy and render less vulnerable the gains in poverty reduction it has already made.

Economic opportunities. The key arena where low-income households will find greater economic opportunities is likely to be in a dynamic labor market.

- *Regional development policies.* Even after controlling for other household characteristics, location remains powerful in explaining poverty. This means that households with the same characteristics are more likely to be poor if located in a peripheral area than in the capital city. In other words, poverty in poor areas is not only due to an agglomeration of low-endowed households (with characteristics that are related to poverty: large size family, lower education, etc.), but directly linked to the low average income of the area. This finding points toward the importance of regional development policies in oblasts where poverty is highest, e.g. Brest, Gomel, and Mogilev.
- *Stimulating creation of new jobs.* Continued increases in youth (and other) unemployment rates indicate the need for the economy to generate *new* jobs. There are at least two options for doing so. The *first* option is to restructure existing enterprises to improve their

productivity, thereby improving their ability to compete and widen their markets. The analysis indicates that this would require a gradual reduction in the government's reliance on administered wage and employment policies. To improve competitive performance, in the short term enterprises, whether state-owned or in the private-sector, may need to shed labor to re-align wage rates, the wage bill and labor productivity, with associated social costs. Yet increased profitability in the medium-term would be beneficial for the increased competitiveness of these firms, with better prospects for the generation of new jobs.

- A *second* option to create new jobs, which can be pursued in parallel to the first, is to remove the apparent barriers to growth of the SME sector. Compared to other transition countries, employment in the SME sector and self-employment in Belarus is insignificant. This may be explained by the fact that Belarus has one of the most expensive private business registration processes in the region. Streamlining of the start-up process and taxation policies vis-à-vis SMEs will be important to stimulate investments and introduce greater dynamism into labor market opportunities.

Education system efficiency and equity. Belarus devotes large resources to the education sector (6.8% of GDP and 19.0% of total public expenditures in 2001). Alongside equity considerations, efficiency remains a challenge in Belarus. The dimensions of efficiency and equity in education outcomes and spending are closely linked, since public savings gained from efficiency improvements are necessary to create the fiscal space for pro-poor measures (also true for the health care system) which can improve education outcomes for low-income households. Belarus has begun a restructuring process that needs to be assessed and deepened if it is to improve the effectiveness *and* equity of its education system.

- *Re-sizing the teaching force.* A key option for general secondary, given shrinking student body size, very low student-teacher ratios (even compared to the OECD), and low teacher pay, is that of resizing the teaching force combined with increases in compensation. This could be accomplished through the use of multigrade teaching in the smaller schools, cross-training teachers in related subjects, and increasing teaching loads in exchange for better pay.
- *Freeing-up needed resources.* After wages, the next two largest categories of public spending are *school meals*, which are not well-targeted to the needy, and *utilities*, where prices are increasing. These expenditures arguably crowd out important items such as materials and maintenance of facilities, thereby diminishing important pedagogical inputs that contribute to the quality of education outcomes. Two options may be considered. *First*, regarding school meals, Belarus could consider moving away from universal subsidies of meals at the basic education level to means-tested provision only for the needy. *Second*, regarding utilities, options include better insulation of schools, use of more energy-efficient equipment, and a reduced school week from six to five days—this last reform already introduced during the preparation of the report.
- *Improving equity.* Several measures may be taken in order to address the disparities in access to various education benefits. *First*, given the individual (private) nature of benefits accruing from specialized secondary and higher education, there is a case for reducing merit-based scholarships and instead striving for more pro-poor targeting through need-based scholarships. *Second*, the new, more dynamic institutions appear to be benefiting children from wealthier urban households. One of the reasons for this could be that entry into such schools is on a competitive basis, thereby excluding children from relatively disadvantaged backgrounds. In order to remove the bias against children from poorer backgrounds, entry to the new types of schools could be provided on a non-competitive basis. During the

preparation of this report the Government expanded these new type of schools to achieve national coverage and, thus, is expected that these equally benefit the poor and rural children. *Third*, there is need to evaluate the ongoing policy of school closures in remote rural areas given the risk it entails of further reducing enrollment and attendance rates in these areas. *Fourth*, the Republican government may also consider a redistributive intervention to the more needy oblasts to counter the observed pro-rich variation in capital spending across oblasts.

Health system efficiency and equity. Similar to the education system, Belarus will be better placed to address emerging inequalities in access and utilization of services and health outcomes, if it improves the efficiency of service delivery and harnesses the savings for pro-poor purposes. A pro-poor health policy thus requires not only interventions targeted to the poor, but overall improvements in the effectiveness of the health care delivery system.

- *Life-style risks.* In this light, addressing life style risk factors, which in the case of alcohol and fat consumption affect the rich more than the poor, become a pertinent issue for a poverty reduction strategy. Evidence from several countries suggests that preventive activities that improve lifestyle patterns can both reduce specific morbidities and their associated health care costs. To address lifestyle risks, besides information and education campaigns, instruments that affect the incentives for behavior change can also be adopted. Price and tax policies regarding alcohol and tobacco could also be explored further.
- *Protection against catastrophic costs.* As the health care system increases its reliance on households contributions for services, mechanisms to financially protect the poor from chronic and catastrophic health expenditures need to be in place to ensure that such expenses do not push people into poverty and destitution. An option is to introduce a means-tested catastrophic health assistance program to prevent destitution effects of health conditions.

Social protection system efficiency and equity. More than 14% of GDP or 30% of the consolidated budget in 2002 was channeled to social assistance and insurance. Quasi-fiscal social transfers by enterprises according to explicit or implicit government mandates were, moreover, estimated at about 2-3% of GDP in 2002. The social protection system is almost universal, covering about 4 in 5 persons. Without direct social protection transfers, poverty would have been higher. Due to the large coverage, however, most social protection benefits (with the exception of pensions) are small compared to household consumption needs. We found that even programs that have explicit poverty reduction goals inadequately cover the poor, while entailing substantial leakage to the non poor. To generate a larger reduction in poverty within the same resource envelope, there is scope for rationalization of privileges, consolidation, and improvements in social assistance program design.

- *Expanding the TSA program.* The innovations in means testing, targeting and one-stop action initiated under the Targeted Social Assistance (TSA) program are in the right direction. The plan to phase-out untargeted privileges is also praiseworthy: these funds could instead be channeled to expand targeted programs such as the TSA.
- *Child allowances and pensions.* Families with children under age 16 are numerous, they are nurturing the future of the country, and their ability to engage in the labor market is constrained. Yet child allowance, which is one of the best performing social programs, still covers less than 30% of the poor and provides far less adequacy of benefits than pensions. Thus, efforts to improve the pro-poor coverage and adequacy of the child allowance may be considered a high priority. Regarding the pension fund, freeing it from the obligation of

financing non-pension benefits (e.g. child allowances, maternity/birth benefits) will restore the financial equilibrium and incentives for workers and corporate tax payers to contribute.

- *Using means-testing.* Despite difficulties of measuring non-formal incomes, means testing is still likely to be a better option for Belarus than categorical or geographical targeting of social protection transfers to poor people. Geographic targeting or targeting using household or individual characteristics will entail substantial inclusion and exclusion errors. This is because groups with the highest risk of poverty represent a small share of the total poor, while the largest share of the poor is found among large socio-economic groups such as workers or pensioners, who also include households that are not necessarily poor.

Local level accountability mechanisms. A key question for Belarus is whether there are strong incentives for local-level policy makers and service providers to respond to the demands of their poorer constituents. In the informal qualitative survey there are multiple instances where people seem to convey a lack of trust and powerlessness vis-à-vis their local authorities and service providers: for example, “...in hospital, even if you are dying, a nurse will not come to you unless you give her a chocolate bar or any other gift...” and “...the procedure is humiliating both physically and morally. I felt miserable and humble because I could not resist humiliation to which my son was subjected...I think that our poverty helps officials responsible for enforcement of laws to pretend that there’s no relevant law...”. This type of experience can only reduce the effectiveness of Belarus’ development policies. Further investigation of this phenomenon would be important for government to build stronger local level accountability mechanisms.

V. Poverty Monitoring and Analysis System: A Promising Model

Belarus has a system of quantitative household data collection, timely production of basic statistics, regular poverty profile analyses and qualified staff managing the system. The basic architecture exists for a world-class poverty monitoring and analysis system which can assist policymakers in multiple sectors evaluate the poverty impact of policy reforms, assess policy trade-offs, and formulate pro-poor public actions.

- *Measurement of household welfare.* The methodology for measuring household consumption—hence poverty levels—used in Belarus is adequate, but has not always led to results consistent with GDP or wage trends. MOSA and the poverty assessment team have worked closely in developing some modifications to adult equivalency scales, spatial and inter-temporal cost-of-living deflators, etc. which can improve the reliability of the analysis. Highly productive discussions were held between the two teams and the government’s Working Group was very responsive to suggestions for improvements. We hope that these ideas will be considered for incorporation into Belarus’ ongoing monitoring of poverty.
- *Coverage of non-income dimensions.* Belarus’ regular household survey, while highly detailed in collection of income and consumption data, is somewhat weak in coverage of non-income dimensions. Yet with a few modifications of the regular survey—as was attempted with the special module for this poverty assessment—the analysis of education, health, and social protection dimensions could be immensely improved. Given the distributional issues which have been identified, these dimensions are likely to acquire greater importance.
- *Qualitative information.* The poverty analysis conducted in Belarus—including this assessment—relies heavily on quantitative data. In order to validate the quantitative results, and to answer the “why” question behind some of the findings, a regular qualitative or participatory poverty analysis could be introduced in an appropriate institution.

- *Panel data.* The analysis of some key poverty dynamics—such as poverty traps—was not possible given the absence of panel data, that is, data collected on the same households every year. Belarus could designate, say, 10% of the HIES sample to be tracked over time.
- *Analytical outreach to encourage data use.* While the data collection and production system is strong, there is scope to improve the dissemination of the data and to increase its use in policy analysis. A two-pronged strategy has been shown to be effective in other countries: outreach and capacity-building of line agencies, academies and universities in poverty analysis; and the establishment of an ongoing Study Fund that promotes the use of poverty data to analyze poverty impact of policies.

Preface. The Context for This Poverty Assessment

One of the more affluent republics of the former Soviet Union, Belarus recovered GDP growth relatively rapidly after the initial economic shock associated with independence, reduced poverty levels significantly, maintained wide coverage of basic education and health services, and achieved this without gross exacerbation of inequality. The policy framework in place has been successful in maintaining living standards and reducing poverty better than in several transition economies. Yet the economy's ability to create new jobs is not strong and youth unemployment is high. The achievements are also increasingly under strain as Russia reduces its energy subsidies to Belarus and local enterprises cope with multiple rounds of administered wage increases. A central question before this poverty assessment, thus, is whether Belarus is adequately pursuing the institutional and policy reforms which can help it to manage its sources of vulnerability and sustain its performance into the future.

Objectives and scope. This poverty assessment analyzes the evolution of poverty and living standards in Belarus during 1997-2002. It updates the understanding of poverty, inequality, and economic opportunities in Belarus during this period; analyzes the non-income dimensions of poverty more thoroughly than has been possible to date; and assesses the distributional impact of various public subsidies. It probes the distributional impact and sustainability of service delivery reforms which have been initiated in recent years in several sectors. It also aims to build local capacity to improve the measurement and analysis of poverty, and encourage use of distributional analysis in policy formulation. This poverty assessment thus strives both to strengthen local capacity *and* the conversation around future policy options.

Process and audience. This is not the first use of the Household Income and Expenditure Survey (HIES) data to inform public policy about the scope and causes of poverty in Belarus. In 1995 the Government of Belarus and World Bank produced a poverty assessment, and since then the Ministry of Statistics and Analysis (MOSA) has done annual and quarterly analyses. This Poverty Assessment starts from this fertile analytical basis.

The Ministry of Labor and Social Protection (MOLSP) chaired a multi-agency committee to guide this assessment. The MOSA carried out much of the preliminary data preparation as well as contributing to key decisions shaping the methodology to measure poverty. Line agencies and the Bank team jointly reviewed the different stages of the analysis and discussed preliminary findings at multiple forums within government (Republican and one local), civic groups, and donors. The main audiences for this poverty assessment are policymakers—both senior and at the technical level—and civic groups in Belarus who wish to engage with the government in shaping the development and reform program.

This report represents a synthesis of the analytical findings, contained in the detailed technical background papers targeted to technical level counterparts. The report provides policy recommendations likely to have a high impact in improving poverty reduction prospects, and is offered for the consideration of policymakers.

Future follow-up. Given Belarus' strong tradition of poverty analysis and the dynamic exchanges on poverty measurement and analysis that took place in the course of this poverty assessment, further collaboration on this front is likely to be very productive. Government may wish to take into account these fruitful exchanges as it considers whether to initiate a next phase of analytical collaboration with other development partners in the areas of poverty monitoring, analysis, dissemination and capacity-building.