

Box 2.2. What happened to public transportation?

ECA countries began transition with a greater reliance on public transportation than is true in other regions. Subsequent years have seen the continued collapse of public transportation and an associated rapid motorization. Despite this background, and despite the importance of public transportation (especially for the poor), only 35 percent of surveys included the most basic indicator of public transport availability (distance to nearest bus stop). The surveys did not include questions about the use or quality of public transportation, such as number of trips or the average commuting time to work. Finally, although the surveys did include expenditures on public transportation, the large number of people who are exempted from payment or who simply do not pay makes the data of little use, since one cannot establish who rides public transportation to begin with. As a result, the authors reluctantly excluded public transportation from this study.

3. Economic Overview

The overall impact of the transition on the state of the economy of countries in the ECA region is illustrated by the large changes in the most basic economic indicators – primarily, national incomes. The degree to which national income has been affected ranges widely among transition economies. There is a sharp divergence across the region, both in terms of output and level of national poverty.

3.1. Uneven economic recovery across the region

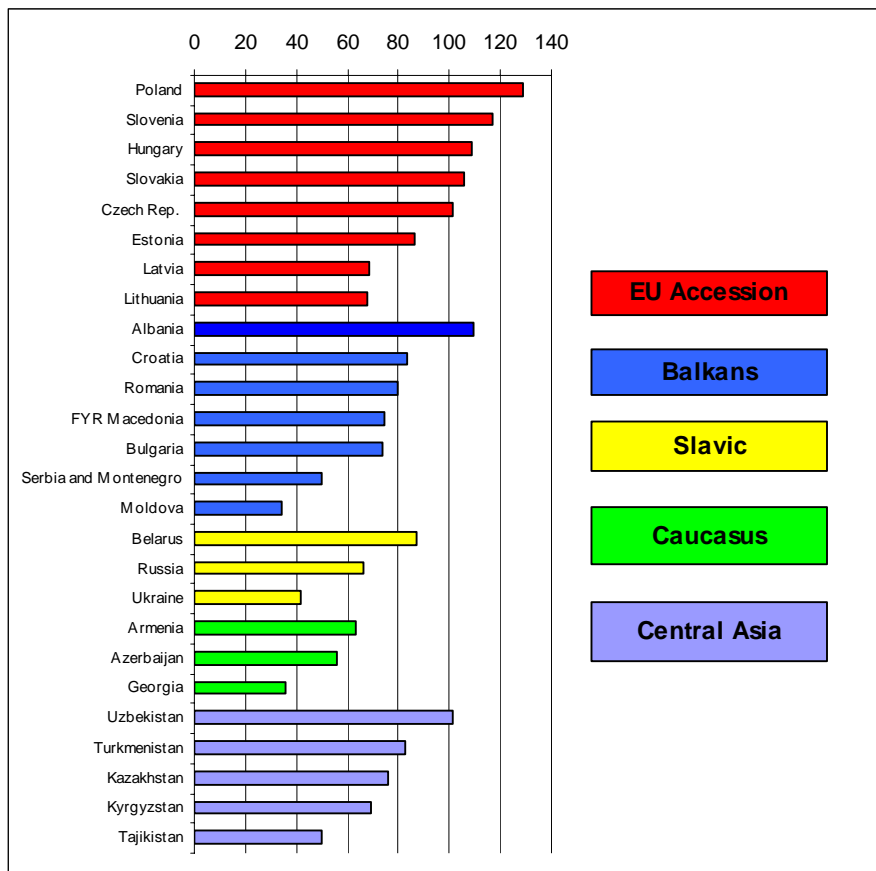
Available data points to a large diversity across the region in the degree to which countries have recovered from the initial transition shocks. Figure 3.1 provides information on the change in real GDP level from 1989 to 2001 by countries and country groups.⁹ As Figure 3.1 presents, by the end of 2001, five of the accession countries (Poland, Slovenia, Hungary, Slovakia, Czech Republic,) out of 8, reached and even exceeded their pre-transition GDP level. The success rate among other transition countries is lower. Of the seven Balkan countries, only Albania managed to exceed its pre-transition GDP level. Among the three Slavic countries, only Belarus did so and in Central Asia, this was true only of Uzbekistan. In nine countries (Romania, Kazakhstan, FYR Macedonia, Bulgaria, Kyrgyzstan, Latvia, Lithuania, Russia, Armenia), GDP levels were about 60-80 percent of their pre-transition level. And in six countries (Azerbaijan, Tajikistan, FR Yugoslavia, Ukraine, Georgia, Moldova), GDP levels stood at only 35 to 55 percent of their 1989 levels.

Besides the large changes in overall GDP, the patterns of growth in different sectors have also differed greatly. As shown in Figure 3.2, between 1990 and 2000, in most countries in the region, there was a large decline of output in industry, manufacturing, and agriculture, while there was an increase in services. The very weak performance in agriculture (almost universally negligible or negative growth, except for Albania and the Czech Republic) explains why urban-to-rural migration during the early transition years has stopped. Economic prospects remain better in the urban areas. However, the equally dismal record in manufacturing (except in the EU accession countries of Hungary and to a lesser extent, Slovakia, Slovenia and Estonia) has meant considerable unemployment especially from retrenchment in the traditional state-owned enterprises.

⁹ For the purposes of this study, transition countries were classified into five groups: first wave EU accession countries, Balkans, Slavic, Caucasus and Central Asia. The use of these groups allows us to draw out broader patterns among countries that share similar patterns of urban development and face similar urban problems. In developing these groupings, consideration was given to factors such as urbanization, level of income and economic structure. Classification of Moldova was problematic and its inclusion with the Balkans admittedly rather arbitrary. In the case of Kazakhstan, the structure of the economy would suggest affiliation with Russia and the other Slavic countries, but Kazakhstan is less urbanized and ultimately it was included with the other Central Asian countries.

Growth in services has been inadequate to make up for these declines in the primary and secondary sectors. Moreover, across the region economy wide employment losses have far outweighed production losses.¹⁰

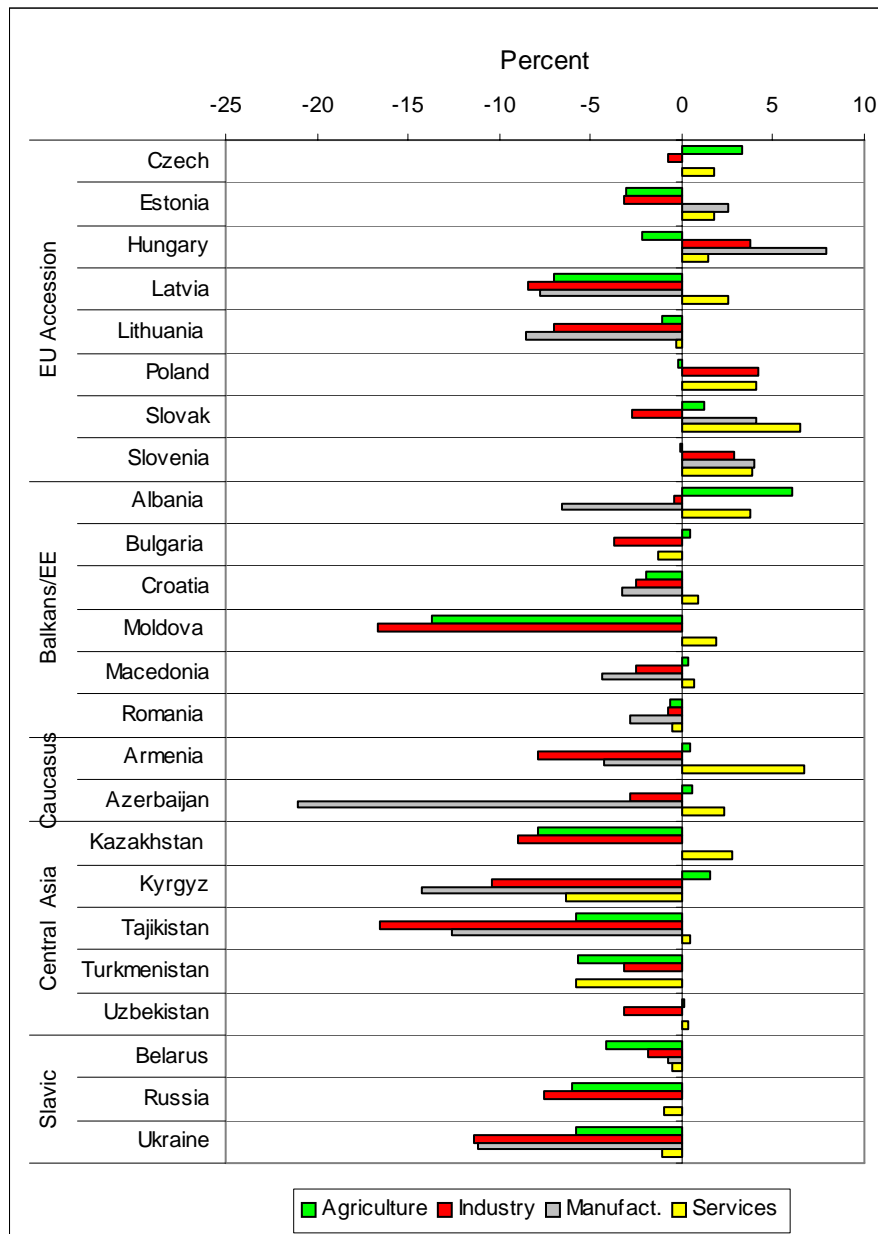
Figure 3.1. Real GDP level in 2001 relative to 1989
(1989=100)



Source: UNICEF MONEE project database

¹⁰ The World Bank. 2000. *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia*. Washington, D.C.

Figure 3.2. Sectoral output growth between 1990 and 2000
(Average annual % growth)



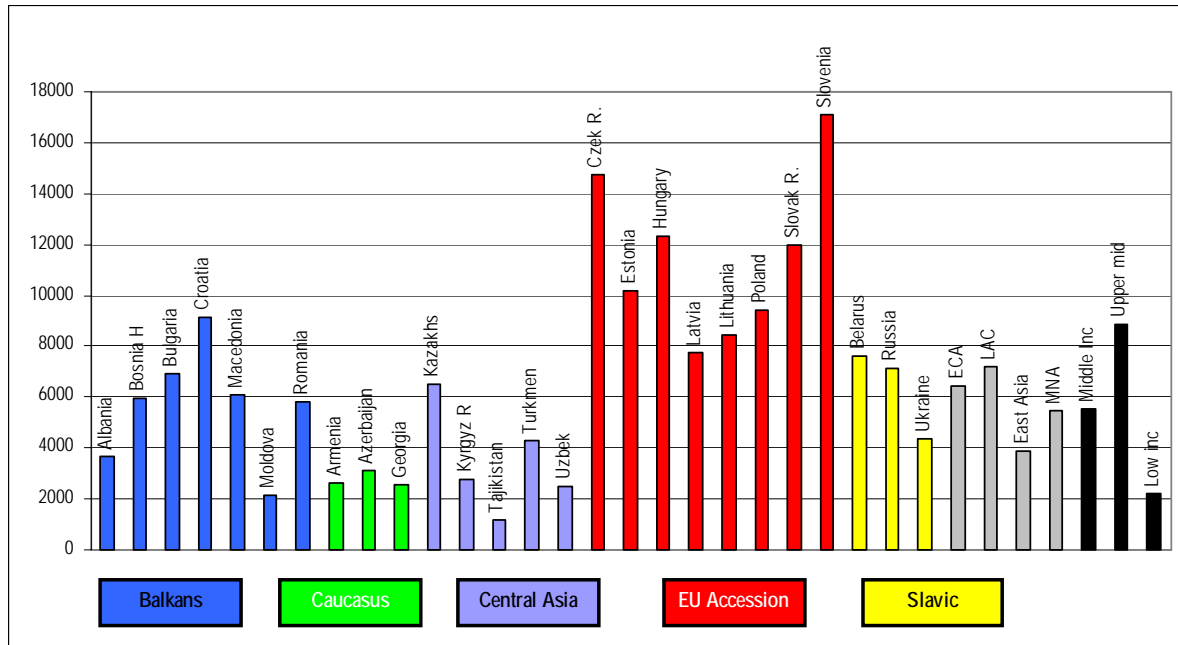
Source: WDI 2002

3.2. Large disparities in national income and national income poverty

There are large disparities in GDP per capita across countries in the region. In 2001 GDP per capita ranged from nearly \$1,000 in Tajikistan to above \$8,000 in Lithuania. And 11 out of 16 countries for which data are reported were below the ECA average, i.e. GDP per capita of around \$6,500. Although a wide divergence in incomes was evident even before transition, the uneven economic recovery and reform process has tended to widen the gap between the less developed and the more developed countries in the region. Most of the countries that experienced recovery or growth in real GDP since 1989 as shown on Figure 3.1, are in the upper middle income ranking (WDI), with the exception of Uzbekistan, while the poorest performers

according to that graph are in the low income ranking (with the exception of Latvia and Lithuania). In 8 out of 16 ECA countries reported in Figure 3.3, GDP per capita is now below the average of that in East Asia.

Figure 3.3. GDP per capita ppp in ECA countries compared to other regions 2001

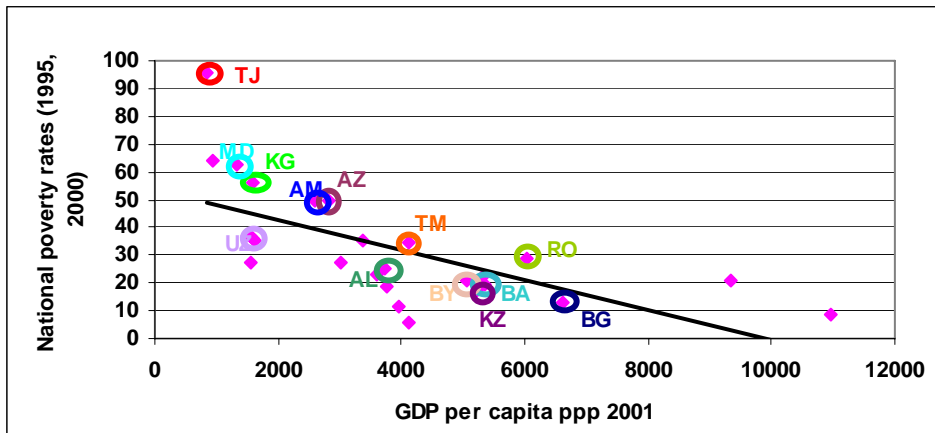


Source: WDI

Besides important differences in national income across countries, the region is also characterized by large disparities in national poverty levels. Each country in the region has its own country-specific poverty line, and thus the differences in so-called “national” poverty rates across countries are not strictly comparable. However, because these national rates reflect what is widely accepted as the incidence of poverty in each country (see Section 4), it is interesting to see how these vary across countries in the region with different level of national income.

Figure 3.4 presents national poverty rates and GDP per capita for several countries in the ECA region and other countries with similar level of income. What is notable is that many ECA countries (Tajikistan, Kyrgyz Republic, Armenia, Azerbaijan, Romania and Moldova) reported in the figure are above the trend line with considerable margins in terms of poverty rates. This indicates that these ECA countries have higher poverty levels than would be expected at their levels of income. However, not all countries in the ECA region face the same incidence of poverty. While national poverty tends to be the highest in Tajikistan, the Kyrgyz Republic and Moldova, it is much less pronounced in Bulgaria, Albania, Belarus, Bosnia, and Kazakhstan.

Figure 3.4. National poverty level in ECA countries and comparators

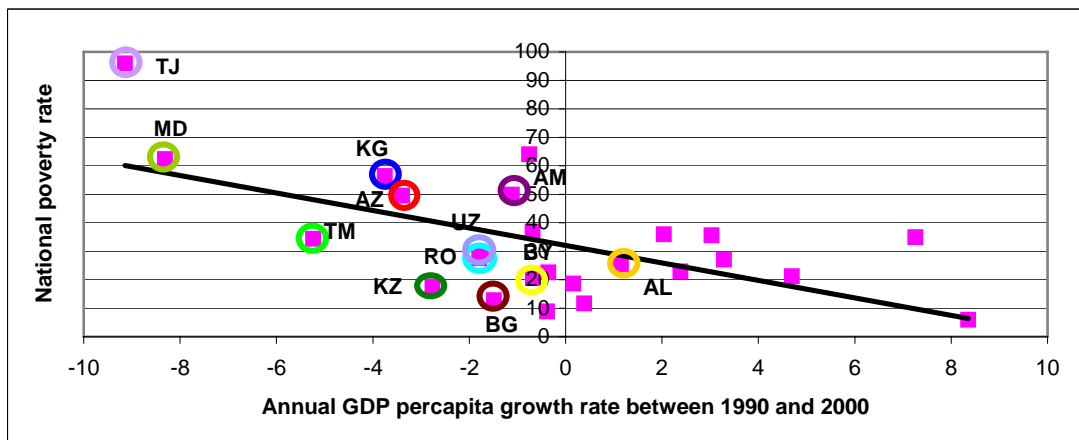


AL=Albania; AM=Armenia; AZ=Azerbaijan; BA=Bosnia-Herzegovina; BG=Bulgaria; BY=Belarus; KZ=Kazakhstan; KG=Kyrgyz; MD=Moldova; RO=Romania; TM=Turkmenistan; TJ=Tajikistan; UZ=Uzbekistan

Source: WDI and staff calculations

There is also a relationship (although not very strong) between the change in GDP and poverty levels, whereby ECA countries with greater declines in GDP over the past decade show the highest rates of poverty incidence (Figure 3.5).

Figure 3.5. National poverty and GDP per capita growth

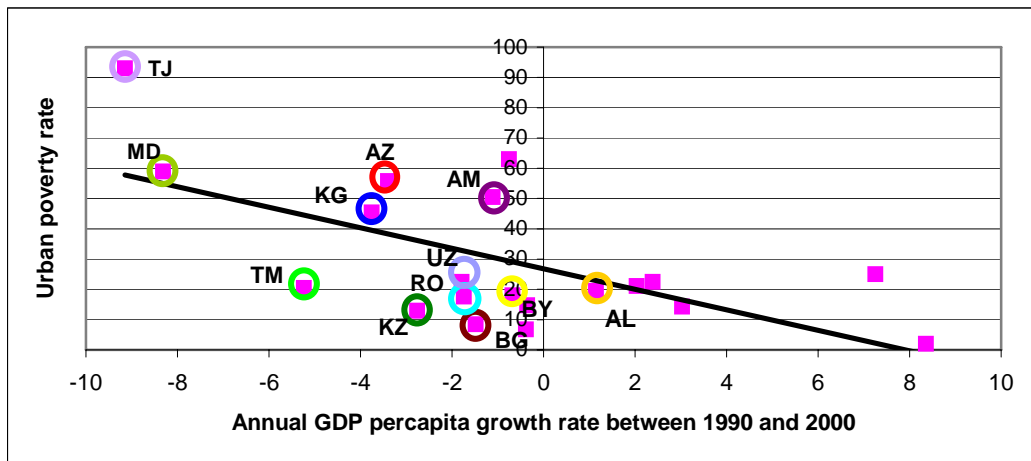


AL=Albania; AM=Armenia; AZ=Azerbaijan; BG=Bulgaria; BY=Belarus; KZ=Kazakhstan; KG=Kyrgyz; MD=Moldova; RO=Romania; TM=Turkmenistan; TJ=Tajikistan; UZ=Uzbekistan

Source: WDI and staff calculations

An equivalent relationship between urban poverty rates and GDP growth is shown in Figure 3.6 below. Countries where GDP has fallen more sharply tend to be those with higher rates of urban poverty. This suggests that the prolonged economic recession in these countries has had strong impacts on urban households.

Figure 3.6. Urban poverty and GDP per capita growth



AL=Albania; AM=Armenia; AZ=Azerbaijan; BG=Bulgaria; BY=Belarus; KZ=Kazakhstan; KG=Kyrgyz; MD=Moldova; RO=Romania; TM=Turkmenistan; TJ=Tajikistan; UZ=Uzbekistan

Source: WDI and staff calculations

On the one hand, urban and national poverty rates are much higher than would be expected (notwithstanding their negative growth rates for the past ten years) in a few countries (Tajikistan, Azerbaijan, Armenia). On the other hand, urban and national poverty rates are lower than would be expected (given the rates of GDP change) in other countries (e.g. Albania, Romania, Bulgaria, Belarus, and Turkmenistan). These differences likely result from country-specific progress on structural reforms, wage policies and employment strategies.

Analysis of patterns and trends in poverty across the ECA countries reveals some commonalities, according to *Transition*. The countries with the highest poverty incidence—Central Asia and the Caucasus, plus Moldova—have been those in which the progress of structural reform and liberalization has been very incomplete, and which have been least successful in switching from state enterprise to private sector-based output and employment. Employment has fallen even more sharply than output across the region, and in most countries the labor force participation has declined as well. Poverty outcomes have been worsened by policies that have contributed to sharply rising inequality in virtually all the transition economies. While part of this rise in inequality is a natural and necessary outgrowth of the shift to market-based wages and returns on assets and education, much of the increasing inequality reflects the gap between individuals stuck in nonproductive and publicly funded activities, and those able to exploit new opportunities.

3.3. Migration and urban change

During the past decade, transition countries have experienced large international and domestic migration flows, which have resulted in unique pressures on urban areas. During the 1990s, three main groups comprised most international migrants in transition countries: (1) Russians and other Slavs who were returning to their historic homelands; (2) people seeking jobs in other countries; and (3) people displaced by conflict. Domestic migration consisted of two main groups, people seeking economic opportunities and internally displaced people.

The first group of international migrants resulted from Soviet policies to promote industrialization across the country. In order to build and run the new factories built in the republics, Russian and other Slavic (Ukrainian and Belarusians) managers and technical specialists were moved to the republics. As a result, at

the beginning of transition, Russians and other non-titular Slavs¹¹ comprised a substantial share of the population as can be seen in the table below. The table also shows that Russians and non-titular Slavs were overwhelmingly concentrated in urban areas. The share of Russians and non-titular Slavs living in urban areas ranged from 69 percent in the Kyrgyz Republic to over 90 percent in Azerbaijan, Estonia, Tajikistan, Turkmenistan and Uzbekistan.

Table 3.1. Urbanization rate for Russians and other non-titular Slavs
(Ukrainians and Belarusans) in 1989

Republic	Total Population	Urbanization rate for total population (%)	Share of Russians & other non-titular Slavs (%)	Urbanization rate for Russians/ non-titular Slavs (%)
Armenia	3,304,776	67	2	86
Azerbaijan	7,021,178	54	6	93
Belarus	10,151,806	65	16	86
Estonia	1,565,662	71	35	92
Georgia	5,400,841	55	7	86
Kazakhstan	16,464,464	57	44	76
Kyrgyz	4,257,755	38	24	69
Latvia	2,666,567	71	42	85
Lithuania	3,674,802	68	12	89
Moldova	4,335,360	47	27	74
Tajikistan	5,092,603	33	9	93
Turkmenistan	3,522,717	45	11	94
Ukraine	51,452,034	67	23	87
Uzbekistan	19,810,077	41	9	94

Source: 1989 Soviet Census.

In the aftermath of transition, industrial collapse and related economic shocks, as well as rapidly changing political situations, meant large numbers of Russians and other ethnic groups who were living outside their historic homelands opted to move. From 1989 to 1998, approximately 3 million ethnic Russians and 1 million ethnic Ukrainians returned to Russia or Ukraine.¹² The departure of large numbers of better off people meant that, on average, those who remained in the cities were poorer.

One of the results of the large international migration flows in the region can be seen in the table below. As the top half of the table shows, only 11 countries worldwide experienced absolute declines in urban populations from 1990-2002. And all 11 of those countries were transition countries.¹³ From 1990-2002, of 187 countries for which data are available, only 18 experienced ruralization. Of these, 11 countries were found in the ECA region.¹⁴ To a large extent, ruralization and absolute urban population decrease can be explained by high levels of emigration from urban areas, although in some cases population declines due to low fertility rates and conflict-related emigration are also important contributing factors.

¹¹ Slavs here refer to Belarusans and Ukrainians except for Belarusans in Belarus and Ukrainians in Ukraine, who are considered titular nationalities.

¹² United Nations. 2002. "International Migration from Countries with Economies in Transition: 1980-1999." Mimeo.

¹³ Croatia, Czech Republic, Slovenia, Russian Federation, Ukraine, Lithuania, Bulgaria, Kazakhstan, Moldova, Estonia, and Latvia.

¹⁴ Czech Republic, Russia, Kazakhstan, Slovenia, Estonia, Azerbaijan, Kyrgyz Republic, Uzbekistan, Tajikistan, Moldova and Latvia.

Table 3.2. World urban population growth and urbanization change

	1960-1970	1970-1980	1980-1990	1990-2002
Countries with growing urban populations	189	188	191	188
Countries with shrinking urban populations	0	4	1	11
Of these, in ECA	0	0	0	11
Total	189	192	192	199
Urbanizing Countries	178	180	174	169
De-urbanizing (ruralizing) countries	10	9	17	18
Of these, in ECA	0	2	4	11
Total	188	189	191	187

Source: SIMA.

Box 3.1. Migration in the Kyrgyz Republic

Kyrgyz is atypical in the ECA region in that it is still primarily rural and rapidly urbanizing, resulting in a 45 percent increase in the number of residents in Bishkek alone in seven years. It is estimated that one third of the national population (one million people) has moved within the country over the past ten years, although the official system of residency registration has been unable to keep up with the changes and the requirement of residency permits (*propiska*) is evidently not being enforced.¹⁵ While rural to urban migration is normal for a country at this level of development, the government is concerned that the very rapid pace since the transition strains both the rural and urban economies, and therefore it seeks to manage (i.e., reduce and stabilize) the internal movements. What is interesting is that with large scale emigration of the Russian-speaking population from the Kyrgyz Republic and internal relocation of inhabitants from poor mountainous areas into the two main cities (Bishkek and Osh), the socioeconomic profile of these cities is becoming poorer and their human capital base is lower than before. Therefore, an explicit understanding of urban poverty is becoming more urgent.

According to a 2000 survey of migrants to urban areas (IOM 2001)¹ the economic motivation (search for employment) was paramount to their decision. They come mainly to the two largest cities and most report that their expectations were met, even when city life is hard. The main concerns expressed by the migrants surveyed were access to cash, housing and employment. When asked what conditions would impel them to return to their home area, respondents ranked civil strife and economic deterioration in the city as the main potential factors. However, those who reported a desire to return to their area of origin said they would do so if the government provided or guaranteed a well paid job, housing, loans or grants, or other financial incentives.

On balance, while acknowledging that the urban destination posed many difficulties (after the first-ranked economic concerns, in the second ranking were concerns regarding food and health care, followed by education of children, and last relations with authorities), three-quarters of the migrants were rather satisfied with their situation as “normal or passable”. Yet, the same study of migration concludes that government policy should focus on making conditions more attractive in the rural areas to stem the outflow—which would be highly impractical if the population demands heavy financial incentives. It is clear that while migrants find life in the city economically demanding they have a realistic assessment of the trade-offs they face and believe their prospects are better there. A message that should be taken from the Kyrgyz study is that the large internal flow of residents does create an increasing urban poverty risk and this needs to be addressed—but that this flow is itself a *de facto* poverty reduction strategy that much of the population has chosen for itself, with considerable success.

Source: ¹ International Organization for Migration (IOM), “Internal Migration in the Kyrgyz Republic”, January 2001.

The decline in the urban population share due to emigration conceals the extent to which rural to urban net migration continues. In Estonia, for example, analysis of internal migration data shows that internal migrants continued to move to the large cities and the immediately surrounding areas during the 1990s. However, the number of internal migrants moving to urban areas was far surpassed by the number of people emigrating from large cities.¹⁶ In Kyrgyz, Kazakhstan, and Moldova researchers found a similar situation, namely that the high level of emigration from large cities concealed continued, and substantial, rural to urban domestic migration.¹⁷ Box 3.1 provides more information about migration in the Kyrgyz Republic.

¹⁵ Under the Soviet system the *propiska* was necessary to acquire basic rights as a resident.

¹⁶ Tammaru, Tiit. 2001. “Urbanization in Estonia in the 1990s: Soviet Legacy and the Logic of Transition.” *Post-Soviet Geography and Economics* 42, No. 7, pp. 504-518.

¹⁷ IOM. 2001. “Internal Migration in the Kyrgyz Republic.” *Mimeo.*; Rowland, R. 2001. “Regional Population

Migration, whether rural-to-urban or international is an important coping strategy in a number of countries. In Armenia, 22 percent of the population live in households with at least one member who is permanently absent, most frequently in Russia and most likely in cities where jobs are easier to find.¹⁸ In Albania, migration (both rural to urban and international) in search of work is the most important coping strategy and estimated remittances total 14 percent of GDP.¹⁹ In Azerbaijan, large numbers of IDPs have moved to the capital, as have more traditional rural to urban migrants. The results have been substantial, albeit largely unofficial, growth in the capital, where as many as 50 percent of all people may now live.

4. Revisiting the Extent and Nature of Urban Poverty

This section investigates the level, sources and forms of poverty in urban areas, paying particular attention to the disparities in urban areas between capital cities and secondary cities, including in access to infrastructure, energy and housing.

4.1. Income poverty

4.1.1. Comparisons of income poverty

The profile of income or consumption poverty is highly variable across ECA countries and the countries do not fit into one general pattern. It is clear, however, that the traditional dichotomy between rural and urban areas hides important disparities within urban areas between the capital city and secondary cities. Table 4.1. summarizes different poverty indicators in each country, according to the latest available year. Note that this table portrays relative poverty, that is, the share of each settlement area's population falling below the lowest quintile of national income.

Poverty incidence. As is true in most of the developing world, the incidence of poverty, or headcount rate (first set of columns in Table 4.1), is considerably higher in rural than in overall urban settlements, with the notable exception of the Caucasus and Moldova (in Kosovo, the two areas are almost even). The urban:rural poverty ratio (last column of the table) indicates this pattern by a ratio exceeding 1.00 in Armenia, Azerbaijan, Georgia and Moldova. It is also striking for the present analysis that in each country, the poverty incidence in Other Urban settlements exceeds that of the Capital City (and in Tajikistan and Bosnia as well as the Caucasus and Moldova, exceeds that of the rural average). This can also be seen by the relative poverty risk ratios (the fourth set of columns in the table), which compare the poverty incidence in each location to that of the country overall. In most countries the poverty risk of residents in secondary cities is two to four times greater than that of residents in the capital.

Degree of income poverty. The poverty gap and severity indicator are two measures revealing how far the populations fall below income thresholds (see second and third sets of columns of Table 4.1). Both indicators produce similar patterns, although the severity indicator shows less disparity between rural and urban averages than does the poverty gap. Again, income poverty is seen to be worse in the rural areas, with the exception of the Caucasus, Moldova and Kosovo. Among urban areas, poverty is significantly worse in secondary cities than in the capital, with the sole exception of Armenia.

Change in Kazakhstan during the 1990s and the Impact of Nationality Population Patterns: Results from the Recent Census of Kazakhstan. *Post-Soviet Geography and Economics*. Vol., 42, No.8, pp. 571-614.; UNHCR. No date.

"The Republic of Moldova: The Process of Migration in 1989-1996.", Table 3.1.

<http://www.unhcr.md/artpdf/migrat.pdf>. Accessed Nov. 26, 2003.

¹⁸ World Bank. 2003. *Armenia Poverty Assessment*.

¹⁹ World Bank. 2003. *Albania Poverty Assessment*.