



# **DIMENSIONS OF URBAN POVERTY IN EUROPE AND CENTRAL ASIA REGION**

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Europe and Central Asia Region**

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## 1. Introduction

### 1.1. Motivation and objectives of the study

The economic crisis in East and Central Europe (ECA) over the past decade, and the associated increase in poverty, have been well documented. (*Transition*<sup>1</sup>) The rise in income or expenditure poverty has resulted from the loss of enterprise jobs, the decline of agriculture, and cutbacks in public sector employment. Many elements of the safety net, such as housing and public services provided by government and formerly provided by state enterprises have sharply deteriorated, resulting also in deprivation in terms of the non-income aspects of well-being. The effects of these phenomena on the urban population have been particularly stark—resulting in more dramatic rates of urban poverty in ECA than in other low or middle-income countries—an outcome that has been less well researched.

The aim of this study is to contribute to a better understanding of the extent and nature of poverty in urban areas of this region, giving particular attention to the disparities within urban areas between capital cities and secondary cities (drawing comparisons with rural areas where this is useful), and focusing on dimensions of poverty related to provision of network infrastructure and energy services in cities.<sup>2</sup> The paper is intended to fill gaps in knowledge about access of the poor to infrastructure and energy services, and about urban poverty across the region, by systematically using available survey data to develop a regional profile of these dimensions of poverty. The study was prepared as an input into ECSIE strategy and ECA poverty work and, as such, was intended to be of use to Bank staff in their work.

### 1.2. The context of urban poverty in ECA: the socialist legacy

Urban poverty in ECA reflects a particular history and character of the urban context, rooted in the socialist legacy of these countries. (*Commissars*<sup>3</sup>) Relative to their GDP per capita, the transition countries are over-urbanized—with a higher share of urban population than is typical for their income level, because of the planned drive towards industrialization under socialism (Figure 1.1). While central planning dictated the establishment and location of industrial firms, many of the normal developments that would accompany market-based urban growth and respond to household demands were suppressed. In particular, urban land was more heavily tied up in industrial use than is typical in market-based cities. Where privately owned, housing became a relatively illiquid asset because of regulations and other factors suppressing a housing market, but residents of state- or enterprise-owned housing also had little residential mobility.

While access to urban infrastructure of water and sanitation, electricity, and district heating was provided to a fairly high share (with almost universal coverage in some cases) of the urban population in most of the region at the time of transition, urban infrastructure was heavily subsidized and few systems were commercially viable as state subsidies were reduced. Shares of household expenditures on housing and utilities in the transition countries have risen several-fold since the transition, yet remain very low compared to OECD averages. Maintenance of the infrastructure facilities and services (as well as maintenance of (formerly) state-owned housing) has deteriorated to the point where reliability and even access are becoming significant welfare issues. Because most of the ECA economies were so heavily industrialized, with liberalization the inherited rigidities hampered the supply response in creation of jobs, housing, land and

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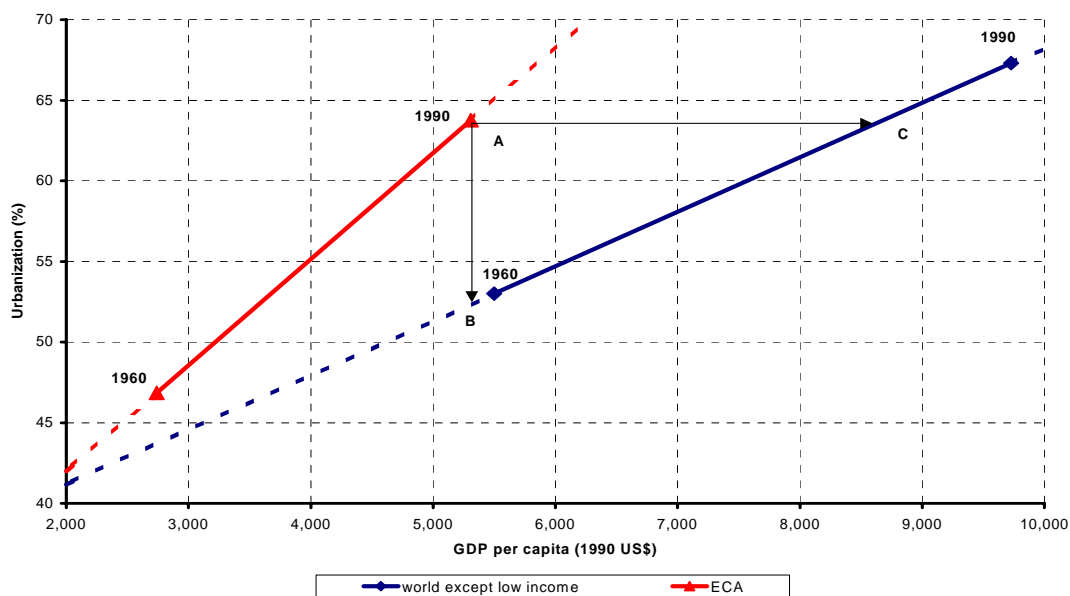
<sup>1</sup> World Bank, *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia*. Washington, D.C. 2000. (hereafter *Transition*)

<sup>2</sup> Even in developed countries, network infrastructure is not necessarily available in rural areas. However, this does not necessarily mean rural residents lack adequate sources of heating, water and sanitation since viable solutions for rural areas may differ from those for urban areas.

<sup>3</sup> World Bank, *From Commissars to Mayors: Poverty and Cities in Transition Economies*. Long version draft. 2000. (hereafter *Commissars*).

urban services. Poverty in the region has therefore been greater than an economic depression alone would have created.<sup>4</sup>

**Figure 1.1. Patterns of urbanization and growth in the transition economies and middle income countries, 1960-1990**



Source: *Commissars to Mayors*, p. 7

Much of this poverty has appeared in urban areas of the region. In most analysis of poverty in most countries, poverty is found to be predominantly rural (with a higher incidence in rural areas even if the majority of the total poor are not rural), for a variety of economic, social and political reasons. Yet although urban economies in general offer individuals a wide range of opportunity through a deep and diverse labor market, and the relative density of urban settlement makes it possible for many services to be provided at lower cost and with greater quality than in the rural context, urban poverty remains a reality even in high income countries. Poverty in cities can result from in-migration of the poor from elsewhere; it can also result from cyclical or structural mismatching of workers with available jobs; and from institutional or governance failures, whereby access to assets such as housing and services does not respond to demand of some groups who become increasingly excluded and disadvantaged. In the ECA countries rural-to-urban migration is no longer significant, although urban-to-urban migration continues. Income poverty in cities is therefore more an issue of the economy's response to transition and other shocks, and of growing inadequacies in services—all of which undermine residents' sense of security and empowerment and raise their vulnerability. Much of the inadequate supply response reflects the partial (or rudimentary) progress of structural reforms in some of the countries, which cripples the urban economy's ability to foster enterprise and ensure good matching of workers to jobs.

Apart from the overall high levels of urbanization, the distribution of urban population, economic activity and infrastructure were not balanced across the system of cities in the transition economies.<sup>5</sup> A common

<sup>4</sup> Defining structural poverty as the difference between observed poverty rates and those implied by change in GDP alone, it has been estimated that a 1.3 percentage point increase in structural poverty is associated with every additional percentage point of over-industrialization. Based on data for 13 countries in ECA. Source: *Commissars*, Box 5.1.

indicator of the concentration of urban population in the largest city, the primacy rate, does not suggest that the socialist regimes particularly favored the major (usually the capital) city. (See Table 1.1) Relative to other low and middle income countries, the primacy rate of countries in the region is not particularly high and the wide range of country values is largely in line with geographic size. Econometric analysis of a global country sample has revealed that urban concentration in general tends to rise then fall with per capita income and to decline with national scale, with increased openness to trade, and with political decentralization (or increased federalism) (Henderson, 2000). Based on this analysis of “optimum” levels of concentration at any given income level, it might be expected that prior to the transition, the ECA countries had a relatively high urban concentration; however, Henderson finds that at the time of transition the ECA countries in his sample were dramatically *less* concentrated than their “expected” or “optimum” level.<sup>6</sup> Despite the presumable “pull” effect of highly centralized government favoring the capital city, socialist planning allocated industry in such a way that alternative urban areas grew more than a market economy would have permitted. However, secondary cities have suffered greatly during the transition from the decline of the noncompetitive state sector; and possibly lacking a strong natural economic and political base, these cities have been harder hit than the capital city, which can rely on government activities and growth of such competitive service sectors as the economy still sustains.

**Table 1.1. Urbanization rates and urban primacy rates by country of ECA region, 2001**

	<b>Urban Population</b> (% of Total) 2001	<b>Population in the Largest City</b> (% of Urban Population) 2001
<b>Region</b> (unweighted averages)		
<b>Balkans</b>	52	28
Albania	43	22
Bosnia and Herzegovina	43	31
Bulgaria	67	22
Croatia	58	42
Macedonia, FYR	59	36
Moldova	42	37
Romania	55	16
Serbia and Montenegro	52	30
<b>Caucasus</b>	59	51
Armenia	67	55
Azerbaijan	52	47
Georgia	57	..
<b>Central Asia</b>	40	27
Kazakhstan	56	13
Kyrgyz Republic	34	43
Tajikistan	28	30
Turkmenistan	45	23
Uzbekistan	37	24
<b>EU Accession</b>	63	29
Czech Republic	75	16
Estonia	69	42
Hungary	65	28
Latvia	60	53
Lithuania	69	24

<sup>5</sup> Henderson, Vernon. 2000. “How Urban Concentration Affects Economic Growth.” Policy Research Working Paper 2326. World Bank, Development Research Group, Washington, D.C.

<sup>6</sup> In another paper he finds Poland also relatively under-concentrated. Uwe Deichmann and Vernon Henderson, “Urban and Regional Dynamics in Poland,” Policy Research Working Paper 2457, World Bank Development Research Group, Washington, D.C. 2000.

	<b>Urban Population</b> (% of Total) 2001	<b>Population in the Largest City</b> (% of Urban Population) 2001
Poland	63	14
Slovak Republic	58	15
Slovenia	49	26
<b>Slavic</b>	70	13
Belarus	70	24
Russian Federation	73	8
Ukraine	68	7
Turkey ( <i>not a transition country</i> )	66	21
<b>Income Group</b> (weighted averages)		
Low income	31	17
Middle income	52	15
Low & middle income	42	16
Europe & Central Asia	63	15
High income	78	17

Source: World Development Indicators, 2003

### 1.3. A framework for viewing urban poverty

This paper views poverty in both income and non-income dimensions, as established in *WDR 2000/01* and as reflected in the World Bank-supported poverty assessments that provide much of the material for this report. In addition the analysis draws upon a framework for understanding urban poverty and vulnerability (the risk of falling into poverty) in terms of three characteristics that imply a relative (though not absolute) distinction with rural poverty.<sup>7</sup> First, the urban economy is highly monetized so that a steady source of cash income is critical and cash expenditures required to avoid poverty. Second, the relative density of urban settlement increases the risks and importance of environmental health and safety measures, many of which are infrastructure related. Third, urban communities are generally more mobile and changeable, and urban social networks more diverse, than is typical in rural areas. Poverty and vulnerability are closely linked to the degree of command of multiple assets and in the urban context, adequate access<sup>8</sup> to housing, infrastructure, energy services. Public transport is an important determinant of whether households can be sufficiently mobile to take advantage of the urban labor market and find employment, as well as a contributor to health, safety, and quality of life.

The present report focuses on recent developments in income/expenditure poverty and the status of infrastructure/energy/housing as particularly relevant to urban poverty. The social dimensions of poverty and empowerment are discussed more briefly, only because available information is particularly weak in this area. The analysis proceeds from the following hypotheses:

- a) Living standards vary significantly across urban areas--notably, between the capital city and "other urban" (secondary cities), the distinction possible from most of the available household survey databases. These differences are often greater than those between overall urban and rural averages; therefore, to understand patterns of poverty it is necessary to spatially disaggregate the data.

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<sup>7</sup> Moser, C., M. Gatehouse, and H. Garcia. 1996. "Urban Poverty Research Sourcebook Module I: Sub-City Level Household Survey." *Urban Management Program Working Paper Series 5*. UNDP/UNCHS (Habitat)/World Bank, Washington, D.C. ; World Bank. 2002. *A Sourcebook for Poverty Reduction Strategies. Volume 2*. Washington, D.C.

<sup>8</sup> Adequate access here means having the facility to acquire and exchange assets in the land and housing market, such as by moving from one city or urban zone to another in response to opportunity. Note that access to housing assets, in the sense of private home ownership, is not necessarily the purview of upper income groups because state-owned housing under socialism was often a perquisite and so rental housing is not necessarily inferior to privately-owned.

- b) The “other urban areas” have poverty indicators equivalent to, or worse than, those of rural areas, including in terms of access and quality (reliability) of infrastructure.
- c) Although formal access to infrastructure and energy (e.g. utility connections) remains higher in urban areas than rural in most cases, many households, especially in secondary cities, are “infrastructure-poor” because of unreliable and deteriorated services, and these households are hidden by studies that do not examine actual quality. To fully appreciate the welfare implications of inadequate infrastructure services, it is important to take account of the different housing circumstances and options available to urban as compared to rural households.
- d) Income and infrastructure inequality are generally higher in urban than in rural areas, and highest in capital cities. Inequality may have significance for social perceptions of welfare.

It must be stressed, however, that there is no average ECA country and that the economies vary widely across all issues, although there are distinct similarities within the sub-regions (the Balkans, Caucasus, Central Asia, EU Accession, and Slavic countries).

The remainder of this report is organized as follows. Section 2 describes the data used for the empirical analysis and discusses some measurement issues. Section 3 provides an overview of the economic and demographic situation in Europe and Central Asia. The extent and nature of urban poverty in the region is then investigated in Section 4.

## **2. Measurement and Data Issues**

### **2.1. Data sources**

The sources of primary data were sample surveys of households within transition economies of the ECA Region. In most cases the surveys are administered by the statistical agencies within each country with technical assistance from donor organizations. The sophistication and usefulness of the household surveys undertaken in the Region have improved considerably during the 1989 - 2003 period. Most countries have a program of annual Household Budget Surveys (HBS). However the data available from this source were of poor quality until the sampling frameworks were improved in the mid to late 1990s. The HBS approach does not always allow for the calculation of welfare aggregates based on consumption so expenditures or income are used instead. Large flows in population within and among countries in the region in the early transition years also created sampling uncertainties. The most recent surveys have benefited from completion of new national censuses from 1999-2003.

This study used surveys from 20 countries in the ECA region (Table 2.1). The countries that were not included in the study include five of the EU candidate countries (the Czech Republic, Estonia, Latvia, Slovakia, Slovenia), as well as Croatia, Macedonia, Montenegro (although the more populous Serbia was included) and Ukraine. In the case of the first wave EU accession countries, data sets were not easily available and these countries were seen to be of lower priority in terms of future Bank-financed development work. Datasets of sufficient quality were not available for Croatia, Macedonia and Montenegro at the time the data were being assembled. Work on the Ukrainian dataset was not sufficiently advanced to determine the welfare (consumption) aggregate to be used. The final set of surveys that was used to provide the data used in this report is listed below. Annex 1 Measurement and Data Issues, provides more background and detail on the material presented in this chapter.