

Chapter I: Profile and Dynamics of Poverty and Inequality

1.1 *Poverty Measurement in Ukraine: A new approach*

The Government of Ukraine defined poverty as a notion of *absolute* basic needs concept but operationalized it with a *relative* measure. The Government explicitly recognized the problem of poverty as the inability of the household to provide itself with basic needs (Decrees of August 15, 2001 and December 21, 2001). This definition of poverty coincides with the concept of an *absolute* threshold of consumption below which individuals could not satisfy their basic needs and are, thus, in poverty. The Government, however, established an official methodology with a *relative poverty line* at the level of well-being that equals 75% of median expenditures per equivalent adult will be used. This means that the headcount index will be equal to the share of the population whose well-being is below this level. According to this relative measure, however, the resulting poverty incidence did not show any variation despite economic growth between 1998 and 2002 (UCSR, 2003). The monitoring of poverty needed in the context of the Millennium Development Goals (MDG) agreement has relied on other measures that are unrelated to the concept of basic needs, such as the use of a \$4.30 line adjusted for purchasing power parity (Ministry of Economy, 2003).

In addition, another *absolute* measure of minimum consumption has been established but lacks relevance due to its normative nature. An official *Subsistence Minimum* is the cost of a consumption basket that is administratively defined to reach a *desirable* level of consumption from different items. This consumption basket is defined for the main social and demographic population groups.¹ The major weaknesses of the subsistence minimum are its disconnection with consumption levels and patterns of the Ukraine population and the valuation of such basket. While average consumption of meat in the subsistence minimum is about 7 kg per month, the average consumption per capita observed in the household survey has been between 3 and 4 kg between 1999 and 2003. In addition, the valuation of the subsistence minimum basket is done with average prices across all the population and not the prices that are faced by those close to the poverty line. This way, the estimated cost of the Subsistence Minimum in Ukraine reaches about UAH 342 per month in 2002, representing more than 70 percent of the population. In any case, a fixed consumption basket is very likely to change as relative prices and consumer preferences vary over time and new products are introduced in a dynamic transition economy.

A joint assessment of the poverty methodology by Ukraine experts and World Bank staff suggests that the relative measure, while useful for its simplicity, may not provide an accurate description of dynamics of poverty. Some of the major disadvantages of the existing *relative line* are: (i) it does not enable comparisons over time, making the linkages with growth and sectoral development very unclear; (ii) it is not linked with any notion of minimum consumption, lacking any real content in terms of living standards; (iii) the relative line could be affected by distributional changes without changes in the fraction below an absolute poverty line. A relative line, however, could be effectively used for poverty targeting purposes since it provides a threshold to identify certain targeted population. Of course, the threshold could be adjusted responding to budgetary reasons and may not reflect the actual needs of the population.

¹ The law on subsistence minimum was adopted on 15 July 1999, with the subsequent approval of the Methodology for Calculating Individual Subsistence Minimum for Main Socio-Demographic Groups (May 17, 2000, #109/95/157).

Moreover, in rapidly growing economies where inequality in incomes (and consumption) usually emerge the relative measurement of poverty may provide a distorting picture.

The joint team of Ukraine experts and World Bank staff derived an alternative methodology that incorporates best practices on poverty estimation. The joint team addressed major issues regarding the two central elements in poverty analysis: the welfare aggregate and the poverty line. The State Statistical Committee of Ukraine (SSCU) has been collecting a detailed amount of information on households' incomes and expenditures and aggregate measures of expenditures and incomes have been produced for 1999-2003. The joint Ukraine-World Bank team exploits these rich datasets in this report to refine the measurement of poverty and characterize the problem of poverty.²

The welfare aggregate

The new welfare aggregate reflects long term consumption by avoiding lumpy purchases and accounting for regional price differences. Estimation of wellbeing is complicated by the existence of different indicators such as income, cash expenditures or consumption. Consumption is usually described as the best measure of long-run wellbeing since it already incorporates behavioral responses to buffer shocks in income (such as lack of employment) or expenditures (such as catastrophic health expenses). Following Deaton and Zaidi (2002) and other best international practices the new consumption aggregate in Ukraine captures current expenditures that represent increases in wellbeing and hence did not include tax expenditures, durables, health expenditures, and repayment of debts and interests. In addition, the consumption aggregate accounts for regional prices differences. Prices differences across economic regions and types of settlement are significant and have been accounted for in the new consumption aggregate by using disaggregated regional price indexes. This way, individuals consuming the same quantity of specific items but facing differences in prices will not differ in their value of consumption and hence in their poverty level.

The poverty line

The new absolute poverty line reflects the consumption level and structure of the Ukraine population, especially that of the poor. Following the nutritional guidelines and specific caloric requirements for different demographic groups, the average requirement per person per day in Ukraine is 2,508 calories.³ The cost of the corresponding food basket is estimated using the consumption structure and prices of households around the calorie threshold. Average consumption per capita for those around the calorie threshold is lower than that specified in the Subsistence Minimum as seen in Table 1.1. Moreover, there is a very different composition of food since those around the calorie threshold rely more on carbohydrates (breads, cereals, potato) rather than meat and fruit consumption as suggested by the official guidelines.

In addition, the 2,508-calorie basket is valued at the “prices of the poor.” Different socioeconomic groups differ in their consumption patterns and in the quality of products consumed. In fact, there is abundant evidence in other countries that prices -- as observed in household surveys -- show significant variation across income groups. Some of this variation is associated with quality choices but also to different purchase patterns (such as bulk purchases).

² A detailed discussion of the new methodology and alternative methods is found in Libanova et al (2004).

³ The average requirement reflects the need by different demographic groups and the demographic composition of the Ukraine population.

In assessing the value of the food basket, the revised methodology used the prices faced by the households in the lower consumption groups to reflect their quality choices and purchasing patterns. The resulting value of the food basket is UAH 101 per month in 2002 and 106.3 per month in 2003. If the same basket is valued at the prices of the average population, the cost of the basket would be 12 percent more expensive.

Table 1.1: Ukraine Cost of the subsistence minimum basket and the 2,508-calorie basket in 2002
(costs based on 2002 UAH)

Foodstuffs list	Subsistence Minimum			2508-calorie food Line		
	kg p/c	UAH p/c	% of cost	kg p/c	UAH p/c	% of cost
Bread products and cereals	9.8	17.6	9.9%	9.8	16.5	16.4%
Meat and meat products	6.9	65.5	36.8%	2.2	18.7	18.5%
Fish and seafood	0.9	5.0	2.8%	1.1	5.0	4.9%
Milk and milk products	12.3	22.9	12.9%	6.9	10.6	10.5%
Eggs, count	18.0	4.6	2.6%	15.4	3.9	3.8%
Butter	0.5	4.7	2.6%	0.2	2.0	2.0%
Margarine and other animal fats	0.1	0.8	0.4%	0.7	4.1	4.1%
Vegetable oil	0.5	2.4	1.3%	1.0	4.3	4.2%
Fruit	5.6	10.2	5.7%	2.9	4.7	4.7%
Vegetables	8.6	14.9	8.4%	6.9	10.0	9.9%
Potatoes	8.0	8.1	4.5%	8.4	7.6	7.6%
Sugar and confectionery	2.6	11.6	6.5%	2.6	10.8	10.7%
Sauces, seasonings, spices	0.3	1.2	0.7%	0.5	1.2	1.2%
Coffee, tea, cocoa	0.1	2.3	1.3%	0.0	0.0	0.0%
Soft drinks and juices	5.9	6.4	3.6%	1.6	1.6	1.6%
Total		178.2	100.0%		101.0	100.0%

Source: Libanova et al. (2004)

In addition, a non-food allowance is estimated using the share of non food consumption for the same population around the calorie threshold. The share on food consumption in the consumption aggregate is close to 70 percent. The allocation of a proportional non-food allowance aims to reflect the overall budget for non food items without specifying the exact items that may differ across regions and households according to their preferences and needs.

The resulting poverty line is UAH 151.1 per person per month in 2003 (UAH 1,812 per year), and the underlying food basket is valued at UAH 106.3 per person per month.

1.2 Poverty and Inequality Levels in 1999-2003

In 2003 about 19 percent of the population consumed less than the absolute line of UAH 151 per capita. By 2003 about 9 million people lived in poverty in Ukraine, this is with levels of consumption that did not suffice to cover a food basket of 2,500 calories per day and a non food allowance (about UAH 151 per month or UAH 1,812.8 per year). Using the cost of the

food basket as an extreme threshold for poverty measurement less than 5 percent of the population, or 2.3 million, consumed less than the cost of the food basket (Table 1.2).⁴

Closing the poverty gap, the distance between actual consumption of the poor and the poverty line, would cost about 1.3 percent of GDP in 2003. The average consumption deficit for those below the poverty line is about UAH 31 per person per month (UAH 376 per year) which, consolidated across households, would represent about 1.3 percent of GDP (Table 2). By another measure the average relative poverty gap, given as the ratio of the poverty gap to the poverty headcount, for Ukraine is 0.207. This measure of poverty gap is comparable to that found in other countries such Poland (0.253), Belarus (0.255), but much lower than Russia with 0.321 (World Bank, 2005). The actual cost of closing the poverty gap, however, may be higher because of imperfect targeting, mobility in the poverty pool, and costly administrative delivery mechanisms. The cost of the gap to the food line is much smaller and reflects that three out of four in poverty are above the food line.

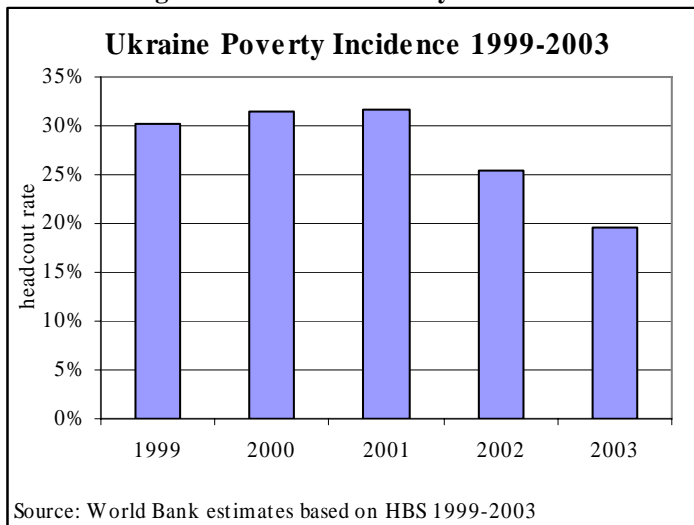
Table 1.2: Ukraine Poverty Headcount and Poverty Gap, 2003
(figures in UAH per year, except when noted)

	Poverty Line	Food Line
Cost of minimum consumption level	1,812.8	1,275.0
Poverty headcount (% below line)	18.8%	4.8%
Number of poor (thousands)	8,934	2,293
<i>Memo items:</i>		
Average consumption deficit for the poor	376.3	238.8
Aggregate poverty gap (in million UAH)	3,362	548
Aggregate poverty gap as % of GDP	1.3%	0.2%
GDP 2003 (billions UAH)	264.2	264.2
Population (thousands)	47,442	47,442

Source: World Bank estimates.

⁴ The cost of the food basket is used an extreme poverty line given that alternative estimates of upper and lower poverty lines using different estimates of share of non food, as suggested in Ravallion (1998), do not provide enough difference in their levels.

Figure 1.1: Ukraine Poverty Incidence



Poverty incidence has been reduced by almost 40 percent between 2000 and 2003. Figure 1.1 shows the fraction of population below the poverty line between 1999 and 2003. Poverty incidence in Ukraine stayed slightly above 30 percent between 1999 and 2001, despite fast economic growth. Only in 2002 and 2003, a very rapid poverty reduction was observed in Ukraine. The close to 40 percent drop in the poverty headcount is one of the fastest reductions in the region and associated with fast economic

growth of more than 7 percent per year. This declining trend is corroborated by subjective indicators of well-being where poverty is measured as lack of resources for certain expenditures. According to his subjective indicator, the fraction of households lacking resources for food declined from one half in 1999 to less than one third by 2003 (Oksamynta and Khmelko, 2004).

Compared to other transition countries using comparable welfare measures and poverty

**Table 1.3: ECA Poverty Headcount Rates
(% of population below \$4.3 PPP Poverty Line)**

	1998-99	2002-03
Moldova	93.0	85.0
Kazakhstan	82.6	75.6
Albania	.	69.7
Romania	62.5	62.0
Turkey	.	59.3
Russia	46.4	41.4
Bulgaria	17.3	30.6
Lithuania	22.5	29.7
Poland	23.2	27.2
Ukraine	29.4	22.2
Belarus	48.4	21.4
Hungary	19.6	12.4

Source: World Bank (2000), and World Bank (2005a). Note: All poverty estimates using 2000 PPPs, except Lithuania and Ukraine 1998-99 for which the 1996 PPP line was used. No major differences are found for these countries in using different PPP estimates.

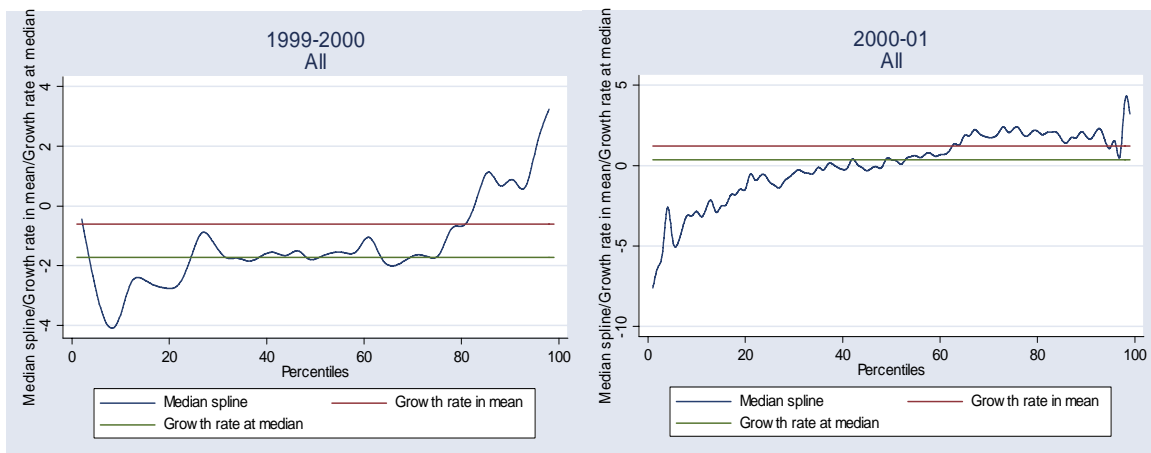
lines, Ukraine has one of the lowest poverty rates in the region. Comparison of poverty levels is always difficult due to differences in measurements of welfare across countries or differences in their specific poverty lines. The World Bank has recently estimated comparable welfare measure and poverty lines that enable to compare the incidence of poverty across countries (World Bank, 2005a). Table 1.3 shows estimates of poverty incidence using a line of US\$4.30 adjusted for purchasing power parity. Poverty incidence in Ukraine is among the lowest of the region, much lower than Russia, Poland, Bulgaria or Lithuania.⁵ In addition, the

⁵ Notice the poverty headcount rate showed by Ukraine does not match the poverty rate in 2003 because a different poverty line is used in the referred study.

reduction of poverty in Ukraine has been faster than in those countries since by 1999 Ukraine showed slightly higher poverty. The poverty reduction after the nineties has been as dramatic as in Belarus or Hungary where poverty rate were reduced by 40 to 50 percent.

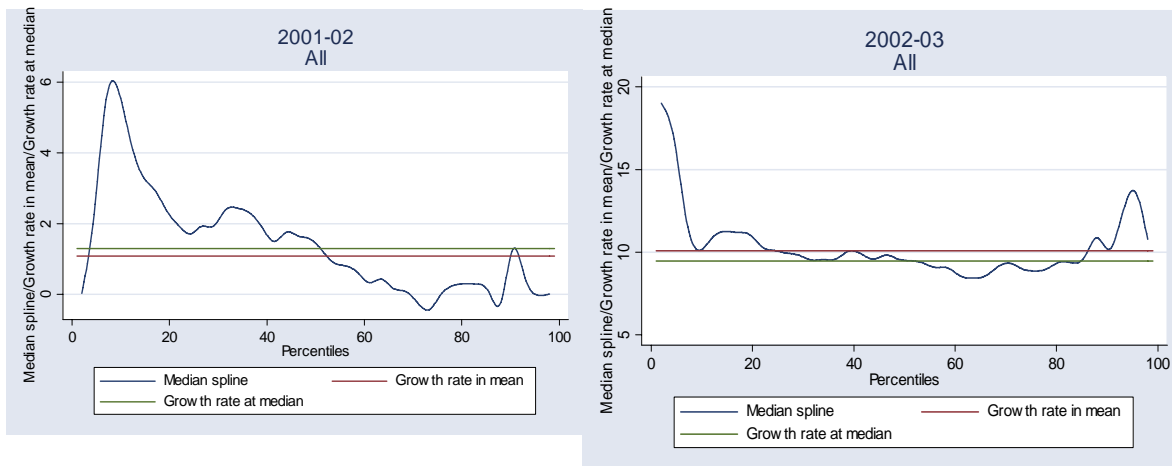
Poverty-growth linkages show two different stages in the recovery process. These two periods, 1999-2001 and 2001-2003 are distinctively different in their linkages with growth and distribution. While the overall 1999-2003 span was characterized by fast growth of more than 7 percent per year, during the first part the benefits of such growth were disproportionately going to the better off. The growth-incidence curves (Figures 1.2 and 1.3) show the increase in real consumption across the consumption distribution (Ravallion and Chen, 2002). Those individuals in the upper percentiles of the welfare distribution (80 and above in the horizontal axis) evidence not only the larger gains in consumption but the only positive ones. This reflects that growth between 1999 and 2001 was not fully translated into better incomes, and it was only translated into higher consumption for the top of the welfare distribution. A decomposition of changes in poverty due to changes in growth and changes in inequality corroborates that the poverty-reduction effects of growth were fully offset by increasing inequality during these years.

Figure 1.2: Ukraine Growth-Incidence Curves 1999-2001



The period 2001- 2003 shows a pro-poor pattern. In the next years, particularly between 2001 and 2002, a pro-poor growth is observed. In both years all percentiles of welfare had positive changes in welfare, but the poorest groups -- left segment of the horizontal axis -- had larger gains in consumption. Noticeably, these larger changes in consumption for the poor were simply catching up with previous losses while the better off households continued benefiting from growth. Between 2002 and 2003 all households from different welfare groups benefited from growth in the same proportion. In any case, the same relative gains for the poor and the better off represent larger absolute gains for those households with higher welfare.

Figure 1.3: Ukraine Growth Incidence Curves 2001-2003



Inequality in Ukraine is among the lowest in the region but showed a rapid spike in 2001. Inequality can be measured using three different dimensions: incomes, expenditures and the new consumption aggregate (Table 1.4). Household consumption levels show lower inequality than expenditures, due to the exclusion of consumption components that may increase the dispersion in consumption such as durables and the better reflection of real consumption once regional price differences are accounted for. The estimated consumption Gini coefficient is about 0.27 compared to almost .30 in expenditures. Other indicators of inequality such as the ratio of welfare measures between the top and bottom quintiles corroborate this finding. Inequality measures for Ukraine are among the lowest in the region, bettering countries like Belarus (0.29), Poland (0.32), Russia (0.34), and Lithuania (0.30), though still behind Hungary (0.25) (World Bank, 2005a). Between 1999 and 2001 inequality in expenditures per capita evidence a small but distinguishable increase from 0.285 to 0.303, only to be controlled back to 0.289 by 2003 (Annex 1). The evidence from growth-incidence curves is corroborated by inequality information showing the potential inequality trends in a growing economy.

Table 1.4: Ukraine Inequality measures, 2003 (all in per capita terms)

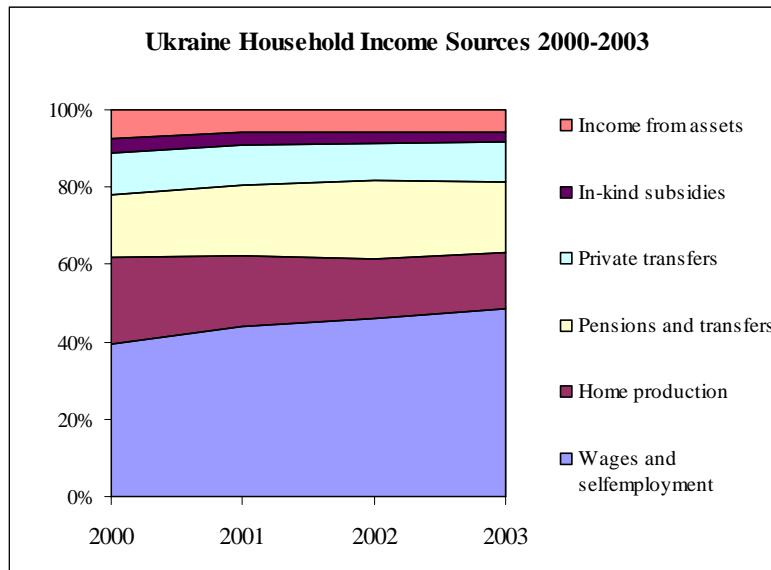
	Expenditures	Consumption	Income
Gini	29.8	27.4	27.1
Q5/Q1 ratio	4.4	3.9	3.8
Theil E(0)	14.6	12.3	12.1
Theil E(1)	15.8	12.7	13.2

Source: WB estimates. The Theil "mean log deviation index" E(0) captures inequality at the bottom of the distribution while Theil "entropy" E(1) captures inequality at the top of the distribution.

among the lowest in the region, bettering countries like Belarus (0.29), Poland (0.32), Russia (0.34), and Lithuania (0.30), though still behind Hungary (0.25) (World Bank, 2005a). Between 1999 and 2001 inequality in expenditures per capita evidence a small but distinguishable increase from 0.285 to 0.303, only to be controlled back to 0.289 by 2003 (Annex 1). The evidence from growth-incidence curves is corroborated by inequality information showing the potential inequality trends in a growing economy.

1.3 Income Structure of the population

Figure 1.4: Income Structure of households

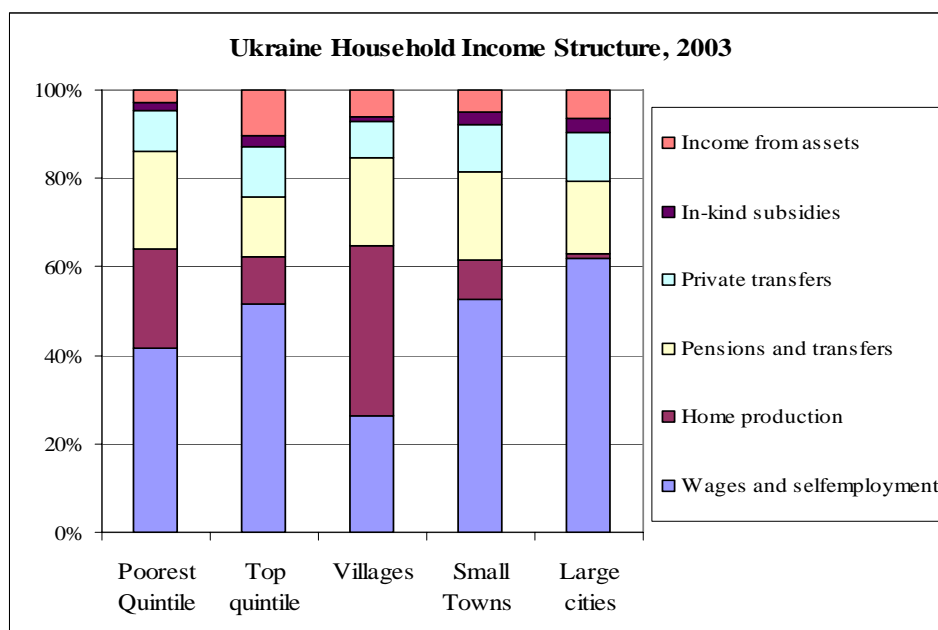


Incomes in Ukraine are increasingly in cash, reducing the incidence of barter trade. The bulk of incomes in Ukraine are coming from wages and salaries (more than 44 percent), pensions and other transfers (almost 20 percent) and income from home productive activities (cash and in-kind). As can be seen in Figure 1.4, wages and salaries, and pensions are the fastest income components in Ukraine. The fast growth of wages and salaries between 1999 and 2003 has increased its

share in the households' income from 34 to 44 percent of their incomes. Real pensions declined more than 8 percent per year between 1998 and 2000. Since 2001 pensions showed a very fast increase and by 2003 pensions in real terms were more than twice those of 2001. The fast increase of pensions, however, was below the increase in labor earnings and only maintained their relative importance in the household income. Interestingly, the share of home production incomes (including in-kind consumption and sales from agriculture) has declined over time given the increased role of land and harvest markets in rural areas. In-kind consumption (a component of home production income) represents only 9 percent across all households, but it is 23 percent in villages and more than 15 percent among the poor. Still, these shares are about one half of their level in 1999.⁶

⁶ See Annex 2 for detailed description of households' income by type of settlement and consumption quintiles.

Figure 1.5: Ukraine Household Income Structure



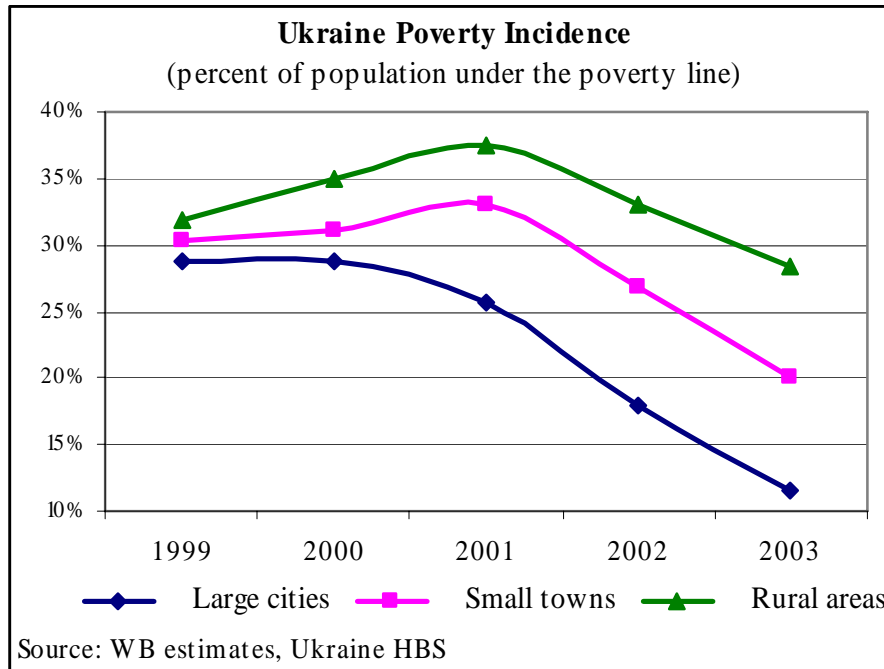
The role of wage and pension incomes is not as important for the poor. Among the poor, average household incomes are mainly coming from by wages, salaries and income from self-employment (slightly more than 40 percent), cash and in-kind incomes from agriculture (23 percent), pension and social assistance transfers (21 percent), and other incomes. While real wages and pensions increased about 17 percent per year between 2000 and 2003, incomes from sale of agricultural products almost doubled in the same period, still representing a small fraction of their incomes. The rapid decline in household size in rural areas and among the poor, partly due to out-migration, has improved per-capita measures of income over time but not as fast as the increases for other areas where households are smaller.

1.4 Who Are the Poor?

Poverty is an increasingly rural phenomenon. Evolution of poverty in Ukraine is marked by increasing disparities between types of settlements: large cities, small towns and villages in rural areas. Poverty reduction has been slower in rural areas and small towns compared to large cities. In 1999 these types of settlements had similar levels of poverty across locations, partly because large cities and some small towns were facing the short run effects of the Russian crisis, as other countries in the region.⁷ By 2003 poverty rate in rural areas was more than twice that of large cities, increasing the regional disparities in living conditions. The capital city, Kyiv, has the lowest poverty incidence in 2003 with less than 6 percent.

⁷ Moldova is another country where the direct effects of the Russian crisis were mainly observed in urban areas (World Bank, 2004c).

Figure 1.6: Ukraine Poverty Incidence



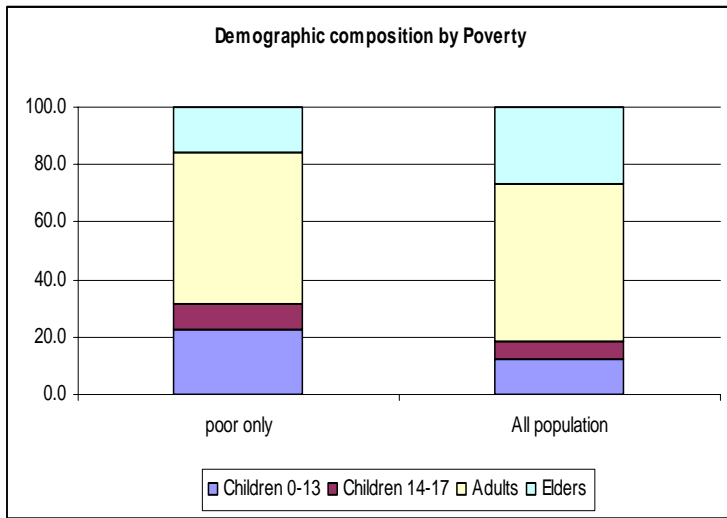
Disparities across economic regions reflect these emerging gaps in poverty. Economic regions in Ukraine also show a pattern of differentiated poverty levels (Figure 1.7) that are associated to their urbanization levels and type of economic activity. While most of the regions have poverty levels around the national average, regions in Eastern Ukraine such as Sumy, Kharkiv, and Poltava, have lower than the average (light orange). These are more urban oblasts and where industrial centers are located. The Western and the Black Sea Coast regions, where more agricultural and rural oblasts are located, have higher poverty rates than the average (dark orange). These differences on poverty incidence across economic regions, however, are blurred by variation within regions, such as settlement types or municipalities.

Still there are pockets of poverty within some regions. The Donetsk economic region (including Donetsk and Lugansk oblasts) corresponds to the Donbass, the traditional center of coal mining in Ukraine. This is a heavily industrialized and densely populated area where two municipalities, Gorlovka and Stakhanov, suffered from mine closures at large scale during the nineties. While this region shows an average poverty rate, there are large pockets of poor population in former mining towns that showed significantly higher levels of poverty according to evidence comparable to that of the Household Budget Survey as well as qualitative information (Haney and Shkaratan, 2003). The estimation of poverty at the local level, such as municipalities, requires other methods to accurately describe the relative importance of poverty compared to other municipalities.

Figure 1.7: Ukraine Relative risk of poverty



Figure 1.8: Demographic composition of Poverty



The differentiated reduction of poverty has changed the profile of the poor in Ukraine. In 1999 about 36 percent of the poor lived in large cities, 35 percent in rural areas and less than 30 percent in small towns. The large proportion of poor in large cities in 1999 reflected, in part, the effects of the Russian crisis that affected mostly urban areas in the region. By 2003, instead, almost half of the poor in Ukraine live in rural areas and still 30 percent in

small towns. Still, in regions with average levels of poverty there are large pockets of poverty, particularly in one-company towns or other mining towns in the Donetsk region. The economic regions with the larger number of poor are Black Sea Coast (1.45 million), Carpathians (1.33 million), Donetsk (1.30 million), and Polissya (1.22 million).

The poor live in larger households with more children and youth. About 20 percent of the population lives in households with 4 members or more, but these individuals living in large households represent about 40 percent of the poor. This partly reflects the importance of children and youth among the poor: 42 percent of the poor are children and youth (0-24)

compared to only 30 percent in the overall population. The rest of the poor are 47 percent adults (25-64) and 11 percent elderly (65 or more years). The increasing importance of younger populations among the poor and the rapidly aging population in rural areas and small towns suggest a more interesting dynamics within rural areas. In rural areas, about 21 percent of the rural population is elderly (more than 65 years of age) and about half of the rural population lives with an elderly at home. However, the elderly are only 12 percent among the poor. Larger and younger families in rural areas have highest poverty rates, despite the pension benefits that the elderly members can obtain (if present at all).

Figure 1.9: Household structure of poor and non-poor households

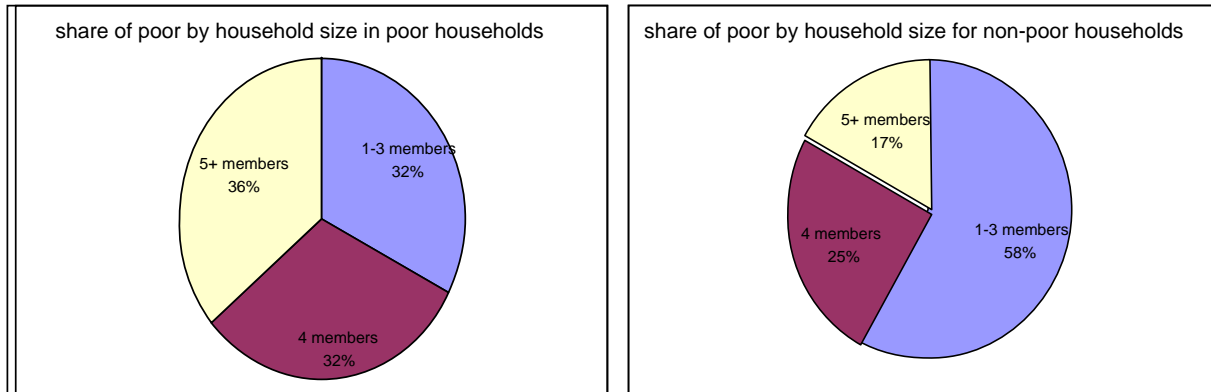
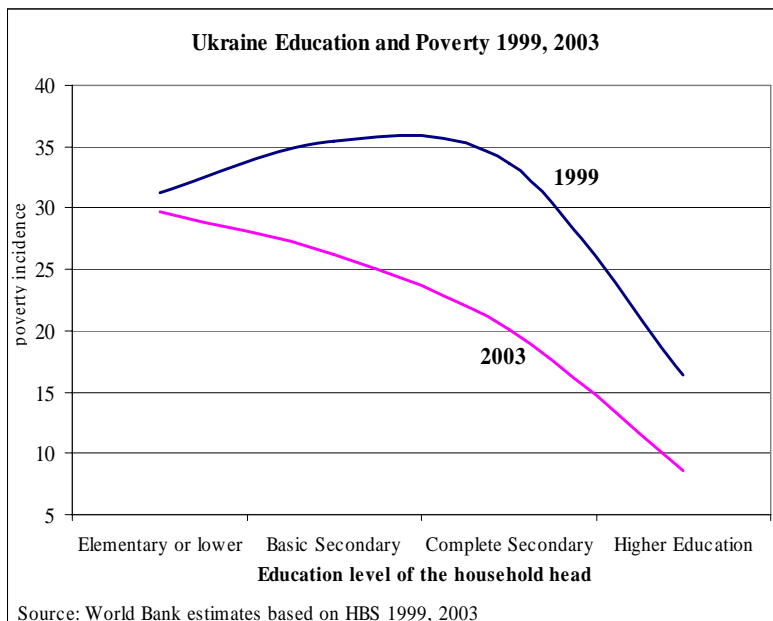


Figure 1.10: Poverty and Education 1999-2003

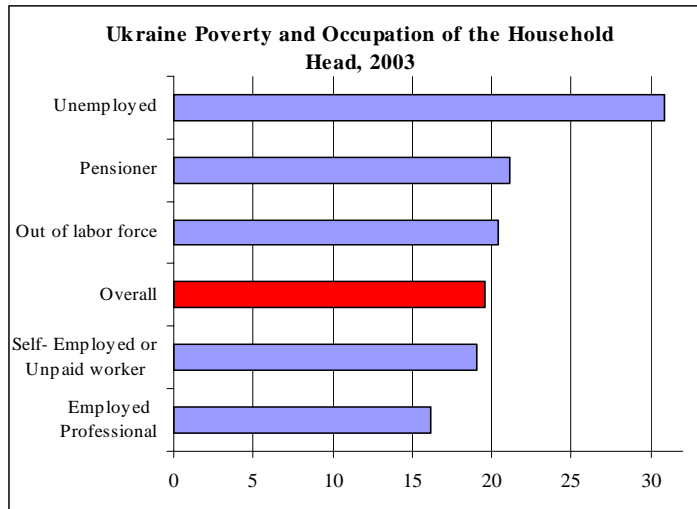


Poverty is closely associated to education of the household head and this relationship has strengthened over time. Ukraine's population has very good educational achievements, since more than 78 percent of the population lives in households with heads that completed Secondary or Higher education. Still, 21 percent of the population lives with heads with basic Secondary education or less, and this fraction is

even large among the poor (30 percent). Figure 1.10 shows the poverty incidence for education level of the household head for 1999 and 2003. Between 1999 and 2003 poverty was reduced across all education levels of household heads, but the reduction in poverty was larger for those in better educated households: poverty for those with heads with Elementary or lower attainment

remained almost unaltered around 30 percent. The more direct link between education and poverty, partly reflects the increased of returns to education in a more dynamic labor market.

Figure 1.11: Poverty and employment



Most of the poor live with employed or pensioner heads, but the risk of poverty is the highest among those with unemployed household heads. While most of the poor live with household heads that are either employed (42 percent) or pensioners (35 percent), still a significant fraction live with unemployed heads (17 percent). The risk of poverty is twice for those with unemployed heads (31 percent) compared to those with employed ones (16

percent). This, however, hides some differences across regions since in small towns, a larger fraction of the poor lives with unemployed heads (22 percent). In rural areas, the poor are equally distributed between households with pensioner or employed heads (39 percent) given the rapidly aging profile of rural settlements.

1.5 What Factors Contribute Most to Poverty?

Different factors are associated with consumption and poverty, and these factors vary depending on the location in the consumption distribution. Factors that affect the level of consumption range from geography, household demographic characteristics, and labor market opportunities, but the role each of these factors play is different for the poor and the non poor. Using regression analysis by consumption quintiles the variation of consumption is decomposed among different factors that are described next.⁸

Location and economic region play key role in the poverty profile. People living in urban areas have, *ceteris paribus*, a significantly higher consumption than people living in rural areas. In 1999, people living in large or small towns had, on average, 10 percent higher consumption than those living in villages. This difference between urban and rural has become more pronounced over the years. By 2003, people living in large towns had, on average, 18 percent higher consumption than those in villages, while people in small towns had 7 percent higher consumption than rural population. Interestingly, these differences by settlement are more marked among those with higher levels of consumption suggesting that the poor in urban areas, although being a small fraction, are equally worse off as those in rural areas.

While most of the variation in poverty is associated to the type of settlement, there are some economic regions that have distinctive levels of consumption and poverty. While most

⁸ See Annex 3 for the detailed results of the regression analyses.

economic regions have rather similar levels of consumption, people living in Kiev city had on average, 27 percent higher consumption than the rest. On the other hand, in 1999, consumption in the Donetsk region was 8 percent lower than the average consumption; however, this difference became insignificant by 2003. For most part of the period between 1999 and 2003, people living in Carpathians region consumed more than the average partly because it includes -- which includes the Transcarpathians a region with better agricultural productivity and human development outcomes (UNDP, 2002). Those in the Black Sea Coast region fared worse than their counterparts in other regions and this gap has been constant over time.

Working age adults, and children in large families play opposite effects on welfare of the poor. Controlling for regional and other household factors, households with higher share of working age adults showed higher consumption levels. The gains due to working age members increase over time, and particularly at the lower tail of the distribution (showing an increased benefit for the poor). This may reflect the increasing role of labor markets in a growing economy, and the gains from labor market participation among the poor. People living in households with a high share of children tend to have lower consumption and, again, these demographic patterns are more pronounced for the poor. The effects are aggravated when households are large, but the household size effects have decreased over time.

Pensioners have an important income effect but may not be important if they are the main source of income. The fraction of pensioners in a household has positive effects on welfare and these effects have increased over time and among the poor partly due to the higher pension incomes in recent years. These positive effects, however, are offset by a negative effect of pensioner heads reflecting the lack of other active labor market members in the household and the household main reliance on pension incomes. In 2003 households with a pensioner head had about 10 percent lower consumption, compared to only 5 percent in previous years.

Less educated, unemployed and female heads significantly reduce the consumption of the household. People living in households where the household head had completed secondary education had 16 percent higher consumption than those living in households where the head had only completed elementary education. Consumption gains to higher education are even larger (more than 30 percent than those with elementary). On the other hand, unemployed household heads had a large negative impact on the household's consumption, with household members consuming 17 percent less than households where the household head was employed. Worse still, the unemployment status of the household head affected the consumption of the poor more than the consumption of the rich. In 2003, the people in the bottom tail with unemployed household head consumed 27 percent less than those with employed household heads; the people at the top of the distribution with unemployed household heads, on the other hand, only consumed 16 percent less than those with employed household head. Gender differences are small but significant since male headed households had 6 percent higher consumption than those living in female headed households.

The national accounts and household survey evidence indicates that that the rapid growth was associated with unequal distribution of the gains in the early period (1999-2001) that benefited the better off, while in the second part (2002-2003) the poorer income groups recovered the lost welfare but still lagging behind in absolute terms. After several years of rapid growth, distinctive geographic patterns of poverty have emerged where the gap between rural and urban areas is increasing. The next two chapters provide some evidence that explains these unbalanced poverty reduction in Ukraine.