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Globalisation and Rural Poverty in Transition Economies

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I. Overview[1]

The canvas of our discourse is exceptionally large, even by the generous standards of the subject matter. In addition, the three key words in the title, that is "globalisation", "poverty" and "transition", are in themselves problematic and amenable to different interpretations depending on the context used. For these reasons, we may be excused, perhaps, if this document is regarded as work in progress - albeit, based on our technical cooperation experience working with these concepts, or with thematic schemes related to poverty.

As a working proposition, we shall define globalisation as the a process of growing interdependence and connectivity among nations, no less in the area of policy framework and choice. This definition is by no means incontestable but it does, on purpose, stress that it is a process, rather than any given change, and it goes beyond measurable economic attributes, e.g. trade or foreign direct investment, in national income. That one cannot reduce globalisation to purely economic phenomena it is, more or less, accepted, however that even the part of globalisation that deals with economics is far more than flows of trade, investment, or finance, is more contentious. Yet this is precisely what it is suggested here[2]. It is the policy openness, and external deregulation, that characterises the contemporary aspect of globalisation, as much as technological improvements in transport, communications and information industries, rather than the commercial, and product intermingling of countries which was a trait of the earlier wave of globalisation.

"Poverty" though still subject to debate is less prone to indeterminate controversy – after all there is an irreducible minimum that even the sceptics will be forced to accept as evidence of its existence. At the international level, the one dollar a day minimum, for severe poverty seems to have captured popular imagination, as well as targeting by international agencies – though it would be an uncommonly brave person to accept to live on a dollar a day even under the media attention of virtual reality! Yet, 1.2 billion people are said to live in absolute poverty, of the one dollar a day variety, and some three quarter of these work and live in rural areas. [3] Difficulties surface when one deals with the relative concept of poverty, which is usually the case for the countries under examination, on at least two counts[4].

First, there is the issue where to set the relative poverty line, whether income or expenditure, and second is how to compare this against other poverty indicators including subjective, or self-assessed poverty, ownership of assets, living conditions, or calorie intake. It is clear that the higher the relative poverty line is set, notably as a share of income or expenditure, with regard to the reference value, then the higher the share of poverty in the total. One may counter this, by pointing out that what would matter is not one point in time but a series of measurements over time to find a trend in poverty change. Even this, however, may not suffice for if the average, or the anchor point, around which the relative shares of income or expenditure are taken is in itself shifting rapidly then a case can be made for changing the relative measurement of poverty. This is not purely a theoretical possibility, for it is precisely what happened with the rapid falls in income in transitional economies where the indicator meant that it was only relative to a steeply declining average income and living standards. To put it simply a 60 percent relative poverty line on a per capita household expenditure of US $ 1000, per year, is qualitatively a very different proposition to a 60 percent of average per capita consumption expenditure that has fallen to US $ 500 per year[5]. This can also work in the opposite direction, where in the case of rapid increases of average incomes or expenditure, as in China, the relative measure loses its potency in capturing the truly poor. Second, there is the problem that different indicators of poverty may offer conflicting or ambiguous results regarding urban versus rural poverty, or for that matter any comparison between two sets or categories or households. In the case of Poland, for example, objective indicators for poverty usually give a consistent picture of rural households having a higher incidence of poverty, or risk of being poor, than urban households. However, when these same households were asked to self-evaluate their circumstances in terms of material well being, urban households were sometimes more likely to think themselves as poor than rural ones[6].

For our purposes here, we have strived to adhere to the national definitions of poverty, whenever possible, while paying some attention to parallel comparisons with international estimates – where these were readily available. Increasingly, there is an enhanced sophistication of measuring different dimensions, as well as turning the spotlight at the micro level, of rural poverty thanks to household budget or expenditure surveys. It is not uncommon to have some ten divisions, or more, of household categories, each sub-divided several times for which different indicators of poverty are measured[7]. Thus, at the micro-level there is a plethora of information for different segments, or cells, of households which can provide very useful profiles of the rural poor, risks amongst them, and targeting of support or entitlements. However, the value of such analysis, based purely on the micro-data of household surveys, without a good understanding of the policy context, both national and international, is limited. It is on par with analysis of unemployment purely as a supply-side phenomenon focusing on the attributes or profiles of the unemployed, e.g. education, skills, age, gender, mobility and wage rigidities, without considering aggregate demand and the impact of macro or global policies at the national level. And there also an artificial bifurcation, that one may wish to avoid, between the analysts dealing with methodological, and measurement, issues of poverty, rural and otherwise, and those that deal with remedial policies, or prevention,. There is a trade-off between for ever scanning the analytical horizon for more and more details and insights on who the poor are, and the thinking about policies that prevent or reduce their overall numbers. In the case of the rural poor, there is the further complication that the analysts providing the profiles are usually not the same investigators dealing with macro policies, including fiscal and monetary and social policies, which set the overall boundaries within which the incidence of poverty can increase or decrease. Finally, there is still the issue on what is "rural" that IFAD having prepared several reports on this matter makes the case that it is timely to bring some closer coherence or stricter definitions to its measurement. It is not sufficient to know that rural means primarily activities or people having to do with farms, and that settlements are usually between five to ten thousand persons "separated by farmland, pasture, trees or scrubland"[8].

The boundaries of the issue of which countries are in transition may be less difficult to delimitate, than globalisation and poverty, but no less contentious. In principle, The Economic Survey for Europe, 2001, identifies some 25 countries in transition, namely 12 in Eastern

Europe, 3 Baltic States, and 12 Commonwealth of Independent States, and this does not include such countries as China, Mongolia or Vietnam[9]. What all these countries had in common previously was that they were command economies that progressively, and at different pace, have been introducing market reforms. However, one may be excused in thinking that there the similarity ends. For after all, the structure of their economies was different, their economic performance, especially since 1990, has diverged, their geographic spread, political and cultural locus of reference, and neighbours clearly separates them both individually and as groups. But more to the point, the national and local context on how they deal with policy priorities and issues also have their own uniqueness. Thus, transition, even where it simply means the changes from a command to a market economy, provokes changes that neither by intention or outcome are purely economic. Matters of governance, and democracy, the rule of law and participation of civil society have their own way of evolving in the period of transition that would be foolhardy to credit all of them to economic factors or necessity.

If it is true, that irrespective of the powerful forces of globalisation and transition, the national context is still of importance, no less because it could exercise a latitude at the pace of transition, then this is an additional reason for dealing, whenever possible, with a sample of individual countries[10]. Poland is one of the countries we have in mind, not only because we are professionally familiar but because it represents a group of countries, which also includes Hungary, The Czech Republic, and Slovenia, that are among the advance group of the next wave to join the European Union. This group of countries are clearly ahead of other command economies now in the process of transition and this is reflected in per capita incomes, productivity levels and structure of output. In addition Foreign Direct Investment, FDI, has been significant and more tellingly it is qualitatively different from the inflows of foreign capital that has been received by other transitional economies but confined to the energy and raw material sectors. Lithuania is a second country that is more explicitly represented in this work, being less developed and perhaps less proximate than Poland, vis a vis, the European Union, but a small country currently at the periphery of Europe but clearly wishing to be part of it. In many respects, it is reminiscing of the smaller countries in the European Union, notably Ireland, at the time of applying for entry, in the early 1970s, with a significant rural population, relatively low incomes and with a demographic bias in the rural sector that was skewed towards the older age groups.

Romania presents its own set of challenges both in terms of globalisation and transition, with substantially lower incomes than either of the previous two countries, a sizeable rural population, and higher rural to urban income differences and poverty. However, these differences though important they do not go to the heart of the matter in describing Romania's relative backwardness, for neither the forces of transition, in terms of growth rates of output and standards of living, or globalisation, in terms of accessibility to markets and the European Union have worked, to-date, in its favour. Romania, in recent years symbolised a rather half way house between a command and a market economy with serious imbalances, including high inflation and exorbitant interest rates, with falling living standards and in terms of economic and trade groups relatively isolated. China is included to provide a comparison, and a contrast, to the rest of the group that both in terms of scale and experience is substantively different from the other countries, and notably the European, transition. The absolute number of people lifted out of poverty during the last two decades are estimated in hundreds of millions and the relative decrease is equally significant. On official estimates rural poverty declined from about 260 million in 1978 to 42 million in 1998, or from a third to one-twentieth of the rural population. Even with internationally determined indicators, the decrease both in absolute and relative terms, was no less impressive[11].

Does this conceptual framework matters ? We think it matters a great deal and for the following reasons:

First, for the European countries in transition, the proximity or otherwise of joining the EU has an immense impact on the policy choices of individual countries, the degree of external openness of their economies and on the direction of trade and FDI;

Second, the stage of the negotiations for entry include discussions not only on transfers and subsidies, including accession funds, but also sectoral policies, notably agriculture and the rural sector, as well as on banking and the legal system. Hence, the outcome of the negotiations determines not only the terms of entry but rather the policy framework for the post-entry period;

Third, once negotiations are completed, conditionalities fulfilled, and entry gained the transfers and subsidies, which often take the form of structural or equalization funds, are not likely to be allocated as intended, or go to persons and regions according to greatest need, but will have an element that will depend on who can take best advantage of the system. Benefits of entry are not only a matter of negotiations but also on the composition of the negotiating teams and the interests that they represent. Rural areas, and especially where they are characterized by an ageing, small land holdings population, and a dwindling electorate will have an uphill struggle to gain a share of the pie despite the level of poverty or deprivation in their mist; and

Fourth, the purpose of including China in the group is to provide a counterpoint to something that both in terms of economic performance, as well as reduction of poverty, are unequivocally impressive. Yet, China does not belong to a trading group, such as the EU, its transition to market forces is still conditioned by a strong regulatory environment by the state, and its pace of external liberalisation modest[12]. Neither its domestic savings and investment, which is in excess of 40 percent of GDP, nor the inflow of FDI, which in 1998 was about US $ 44 billion, seemed to have been unduly affected by its eagerness to keep policy options and instruments primarily national.

II. Poverty and rural poverty

Poverty, and especially its rural context, is usually associated with Least Developed Countries, LDCs. Three quarters of the LDCs population is rural, and poverty, which is said to engulf more than half of the population, is primarily rural. Indeed, most work on rural poverty usually focuses on LDCs, where poverty is at its most acute and on the assumption that poverty in the other parts of the world is usually an urban phenomenon. However, this is not the case with Transitional economies, where the rural populations is still significant, often exceeding thirty percent of the total, and where rural poverty is consistently higher, often twice as high, as urban poverty. In the case of China, and many of the countries within Commonwealth of Independent States, CIS, the rural population is not only in excess of 50 percent of the total but the rate of outflow from the rural areas is such that without tackling poverty at source, which is primarily the rural areas, there can be no credible strategy for combating overall poverty[13].

Two clear episodes in the trend of poverty for economies in transition, especially in the Russian Federation, Eastern Europe and the Baltic Countries, may be set out. The immediate impact of the dismantling of the command economy, and the economic anomie that followed, had in many cases a devastating effect. As the following two tables show, in terms of the growth of output there was a significant, and precipitous decline, until about the middle of the 1990s, while increasing, and persistently high, rates of unemployment are evident throughout the post transition period.

Real GNP Annual Growth

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Armenia	-7.4	-17.4	-52.6	-14.8	5.4	6.9	5.8	3.3			
Bulgaria	-9.1	-11.7	-7.3	-1.5	1.8	2.1	-10.9	-7.00	3.50	2.40	5.00
Estonia	-8.1	-7.9	-14.2	-8.5	-1.8	4.3	3,91	10,62	4,72	-1,08	
Kazakhstan	-0.4	-13	-2.9	-10.4	-17.8	-8.9	1.1	1.8			
Kyrgyzstan	3	-5	-19	-16	-20	-5.4	5.6	10.4			
Latvia	2.9	-10.4	-34.9	-14.9	0.6	-0.8	3,3	8,6	3,9	0,1	
Lithuania	-5	-13.4	-37.7	-17.1	-11.3	2.3	4,7	7,3	5,1	-4,2	2,6
Poland	-11.6	-7	2.6	3.8	5.2	7,00	6,00	6,80	4,80	4,10	4.0
Romania	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.1	-4.8	-2,3	1.6
Russia	-4	-13	-14.5	-8.7	-12.6	-4	-3,5	0,9	-4,9	3,0	7,7
Ukraine	-3.4	-11.6	-13.7	-14.2	-23	-12,20	-10,00	-0,42	-3,25	-3,86	

Source: Kolodko, G., From Shock to Therapy. The Political Economy of Postsocialist Transformations; The World Bank; UNDP, HDR Romania 2000.

Unemployment Rate

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Armenia	...	...	3.5	6.2	5.6	8.1	9.7	11			
Bulgaria	1.6	10.5	13.2	16.3	14.1	11,4	11,1	14,0	12,2	13,8	17,9
Estonia	...	...	...	5	5.1	9,8	10,0	9,7	9,9	12,3	13,7
Kazakhstan	0	0	0.5	0.5	8	11	13	13.5			
Kyrgyzstan	...	0	0.1	0.2	4.1	5.7	7.8	7.5			
Latvia	...	...	2.3	4.7	6.4	6,4	7,2	7,5	7,6	9,7	
Lithuania	...	0.3	1.3	4.2	3.8	6,12	7,13	5,90	6,40	8,37	11,53
Poland	6.3	12.2	14.3	16.4	16	14.9	13.6	11,5	10,0	12,0	15,0
Romania	….	…	8.2	10,4	10,9	9,95	7,45	7,48	9,26	11,38	10,93
Russia	0	0	4.8	5.7	7.5	8,5	9,6	10,8	11,9	12,6	10,2
Ukraine	0	0	0.3	0.4	0.4	0,45	1,18	2,46	3,61	5,10	0,45

Source: Kolodko, G., From Shock to Therapy. The Political Economy of Postsocialist Transformations; The World Bank; UNDP: HDR Romania 2000.

The next table, presents evidence on the incidence of poverty in a good number of transitional economies in Europe. In addition to the usual caveats about a possible variability in the quality of the data for the different countries in the group, two points are noteworthy: First, the considerable difference in the incidence of poverty among transitional economies, and second, the sharp increase in this incidence when the poverty threshold is increased from two to four US dollars.

Labor force poverty in |Central and Eastern Europe, 1995-1999

Country	Year	Poverty rate 2 USD PPP/day	4 USD PPP/day
Moldova	1999	55.4	84.6
Russia	1998	18.8	50.3
Albania	1996	11.5	58.6
Romania	1998	6.8	44.5
Macedonia	1996	6.7	43.9
Latvia	1998	6.6	34.8
Bulgaria	1995	3.1	18.2
Lithuania	1999	3.1	22.5
Ukraine	1999	3.0	29.4
Slovakia	1997	2.6	8.6
Estonia	1998	2.1	19.3
Hungary	1997	1.3	15.4
Poland	1998	1.2	18.4
Belarus	1999	1.0	10.4
Croatia	1998	0.2	4.0
Czech Republic	1996	0.0	0.8
Slovenia	1997/8	0.0	0.7

Note: poverty estimate thresholds expressed in USD/day/adult equivalent, purchasing power parity in 1996
Source: World Bank, 2000. Making Transition Work for Everyone. Poverty and Inequality in Europe and Central Asia.

In the initial stage of transition, all the social and economic indicators worsened, or in popular parlance "headed south", with increases in poverty and unemployment as the most visible effect. Even when an allowance is made that poverty existed during the years of the command economy, but not officially acknowledged, the increase in the numbers and rate of poverty cannot be disputed. During this stage, or episode, which had different durations for different countries, open and grinding poverty was said to be primarily associated with urban areas. Families and communities in rural areas had access to lands and forests, in addition to farming, that they were able to exploit for food and fuel. In urban areas the fuse between losing a job and destitution, or between hyperinflation and plummeting living standards, was much shorter. There is evidence from both the Eastern Europe and the Baltic Countries, that in the early stages of transition there was a shift of population, especially among the ranks of the newly unemployed and the senior citizens, from urban to rural areas, or communities, as a coping strategy for survival. This varied in scale, and was more visible in those cases that were re-introducing privatisation of land, such as the Baltic States, than in those countries, such as Poland, that had always a strong tradition of non-collectivised agriculture. The other reason, however, why urban poverty was much more prominent is because of the media's ready accessibility to urban areas, and less so to the rurally dispersed poor, and that poverty in rural areas is likely to carry a greater social opprobrium and thus hidden.

The second episode regarding trends of poverty in transitional economies is that when the dust has settled, and the main economic changes were nominally in place, successive estimates show that the incidence of rural poverty was higher than urban poverty. And here is the crux of the matter that rural poverty has its own idiosyncrasies and dimensions and it never comes alone. Time and again work has shown, including our own work in Poland and Lithuania, that incidence of poverty in rural areas, and the risk of poverty, is concentrated among certain groups. Small scale farmers, anything below 5 to 10 hectares in East Europe and the Baltic counties, with traditional crops of grain and mixed farming, especially if the farm owners are relatively old, make them and their families vulnerable to poverty. Since, in many of these countries a disproportionate number of farmers are relatively old or approaching retirement their occupational mobility and future incomes, because of the low social security contributions, are also adversely affected. Families with more than two children, especially if there is only one person employed with low educational qualifications, are again vulnerable to high rates of poverty. Gross income in rural areas is often below half of the national average in many of the transitional economies. This is a reflection both of the relative scarcity of jobs in rural areas and also that the rural labour force is relatively less well trained, and in less diversified occupations, than the labour force in urban areas. Though in some cases, e.g. Lithuania and Poland, gender differences regarding poverty, as opposed to income differentials, are said to be not significant, single-parent household, whether urban or rural are likely to be caught in a poverty trap. It is well known that the proportion attending tertiary education from rural areas is lower than elsewhere, and more tellingly the proportion of those with tertiary education returning to work in the rural areas is relatively very small.

In addition to the ageing of the rural population, there is evidence to suggests that urban families spent more on the education of their children than rural ones. Neither bodes well for the future. For if educational expenditure in urban areas outstrips rural, while the rural labour force is ageing, and is less well qualified then these factors will make for a less resilient, educated, and entrepreneurial labour force further on. The nature of rural poverty in transitional economies, at present, begets greater vulnerability to poverty for future generations. Coupled with this, is the fact that state educational facilities in rural areas, and the ability to attract young teachers, is relatively worse than in urban areas. Hence, rural areas are not only prone to more poverty but more likely to be affected by social exclusion – meaning access to public goods and networks that strengthen the social fabric and the ability of families and communities to thrive. Thus, there is a vicious circle at work that needs to be broken - the stock and entrants to the labour force in rural areas does not make it attractive for companies to invest there. But in the absence of inward investment to rural areas, relative poverty remains higher than urban areas and occupational and labour mobility for the work force, and the new entrants, is condemn to remain low.

Together with the modest growth of output, and high unemployment noted earlier, the rest of the macroeconomic picture has not been altogether too encouraging. The table below, for example, provides recent, namely 1998, estimates on the external debt, inflation, government bond yields, and the Official Development Assistance, ODA, for a number of economies in transition.

Selected Indicators: External Debt, Inflation, Bond Yields and ODA

Country	External Debt per cent of GNP 1998	Inflation per cent 1998	Average Yield Government Bonds - per cent 1998	Official Develop. Assistance(ODA) per cent of GNP 1998
Lithuania	17	2.4	10.7	1.2
Poland	28	8.5	19.1	0.6
Romania	23	40.7	64.0	0.9
Russia	62	84.5	45.8	0.4
Bulgaria	78	0.9	6.2	1.9
Albania	20	7.8	27.5	7.8

Source: World Development Report, 2000/2001, World Bank, 2001, and Economic Survey for Europe, Economic Commission of Europe, UN, 2001

Although inflation was still of concern in 1998, equally worrisome were the high borrowing rates that governments in transitional economies had to pay, often a multiple of the inflation rate, the accumulation of external debt, and the modest inflow of ODA and FDI. With the depression of household incomes, and the closure of many enterprises, in the post-transition period, Gross Domestic Savings, GDS, also declined substantially. In the case of Lithuania, GDS, as a share of GDP, declined from 24 percent to 12 percent between 1990 and 1999, Latvia from 39 percent to 10 percent, and for Romania the fall was from 21 percent to 10 percent in the same period. It would seem that country after country, in the group of transitional economies, the suppression of incomes and the demise of many enterprises went hand in hand with an abrupt decline of domestic savings and a rise in interest or borrowing rates. One would have thought that this is the exact opposite, namely high borrowing rates and low savings ratios, of what a healthy macroeconomic profile should be. In comparison, China enjoys an exceptionally high GDS, at about 42 percent, that fuels the domestic appetite for Gross Domestic Investment, at about 40 percent, while the borrowing rates in relation to the general price increases are more in tandem. In this manner, if the exceptionally high interest rates, and the low domestic savings ratios, are the outcome of the process of globalising many of the transitional economies then the ensuing economic climate is neither conducive to growth nor to a pro-poor economic environment.

III. What works and what does not

Any analysis on policy initiatives and measures, must in principle address concerns at three levels:

First, at the international level - particularly how globalisation affects transitional economies;

Second, the regional level, and in this case how entry, or distance of entry, from the European Union, affects the candidate nations and processes to eradicate poverty; and

Third, the circumstance and response by particular countries which can make all the difference between success and failure.

Even though one may think in terms of globalisation process without transition one cannot conceive at present the latter process, namely transition, without on how it is impacted by globalisation. Thus the relationship is not commutative, but asymmetric – it goes from globalisation to transition with only a little feed back on how to take on board concerns of economies in transition. There is a whole host of literature, including Helleiner, 2000, Taylor, 2000, Giddens, 2000, Langmore, 2001, Ocambo, 2001, and Therborn, 2001, critical of different aspects of globalisation including its impact on the policy making capacities of individual nations. In addition, the architecture of international institutions, and what is called global governance, lags behind the swiftness and inequalities created by the process of globalisation. These asymmetries, and inequalities, do affect countries in transition but it would be a mistake to place them all at the doors of globalisation. In the case of East European economies, and the Baltic countries, transition and globalisation merged into each other, with the latter providing an extra urgency to the reforms already admitted. In this restricted sense, globalisation for transitional economies was intended as high-octane pro-market reforms. The reduction in the role of the state was an explicit purpose of the transition – the near economic anomie that followed was not programmed but neither was it the result of the process of globalisation. True, and as the following table shows, measures of inequality, such as the Gini index, increased in the post transition period but this deterioration in egalitarianism was not as severe as the other adverse effects of transition such as the precipitous fall in living standards and unemployment.

Gini index in several transition countries (1989-1997)

	1989	1997
Hungary	22.5	25.4
Czech Republic	19.8	23.9
Poland	27.5	33.4
Bulgaria	33.1[a]	36.6
Lithuania	26.2	30.9
Romania	21.0	28.0
Russia	26.5	38.5[b]

[a] 1992; [b] 1995

Source: UNDP, Poverty in Romania, Bucharest 2001.

But it was not only individuals, such as those noted previously, that raised the alarm regarding the unequal processes of globalisation. A series of UN conferences held during the nineties, including Rio, Copenhagen and Beijing, and culminating in the Millennium Assembly, September, 2000, sought to push for a greater balance between market liberalisation and social and economic development. Again globalisation came under scrutiny especially as it distributed both benefits and costs in a very uneven manner. The High Level Panel on Financing for Development, appointed by the UN Secretary General, accepted that global economic decision-making has become increasingly concentrated in a few countries and that the world has not a fully satisfactory system to anticipate and counter global economic shocks. So at the international level, and as far as the management of finance and development is concerned, the present state can be described as "steady as we go" or "from pillar to post" depending on whether one regards the current lull in initiatives, despite the various recommendations, as time to digest the various proposals or an impasse.

At the regional level, for East European and Baltic countries, in transition, their positioning vis as vis the European Union has been a major preoccupation. In principle, there is no East European, or Baltic, nation that has expressed an interest of staying out of the European Union – but the timetable for membership, as well as negotiations of entry with individual countries, is very much the prerogative of the EU. Indeed, the recent, namely 2000, negative result of the Referendum in Ireland in expanding EU membership indicates that reluctance within the EU in admitting new members soon, may be stronger than domestic opposition from candidate nations. The EU promises to confer benefits to candidate countries both before and after admission. There are already accession grants in place to enable the countries that in principle have been accepted for membership to prepare for entry. Once entry is gained there are different type of grants and other inducements that aim at bringing up the living standards of the new entrants to the average of the existing members. There are also significant trade barriers, tariff as well as non-tariff, notably the Common Agricultural Policy, CAP, that aim at securing the price structure, and avoid world market vicissitudes, of the main EU agricultural products. The smaller agricultural countries in the EU, including Ireland, Greece and Portugal, have benefited from this protection, both in terms of incomes and in terms of physical infrastructure, and there is no reason why the potential new entrants from East Europe, and the Baltic, will not be equal beneficiaries.

Yet, which countries will benefit and how far, meaning whether rural poverty will perceptibly decline, is not easily gauged. It may be pointed out, at this stage, however, that there are good reasons to think that the capacity to respond to the EU challenge varies and not all potential entrants from transitional economies will benefit equally. Indeed, in some cases, as with small farmers on land of low productivity, the assistance may be too late to make any radical difference. In these groups, small scale farmers of advanced years and of low education, market incentives may not be strong signals for change with the sober implication that rural poverty among them will stay relatively high both before and after membership.

At the individual country level, some of the focal areas of concern requiring attention for poverty reduction are set out below:

Severity of Poverty: In some countries, including Lithuania and Poland, though rural poverty is higher than urban its severity is not very deep – in the case of Lithuania it was estimated that 1 percent of GDP, would be sufficient to lift most households out of the officially prescribed poverty level. Hence, political will is absolutely necessary if the required resources will be mobilised for the purpose of poverty eradication.

Geographical Distribution: Poverty is never equally, or randomly, dispersed in individual countries or through out the transitional economies. For regions of higher incidence special measures can be designed to deal with their unique concerns and problems – backward regions do not break out of their predicament unaided. Broad policies must complement region-specific initiatives, and mobilising community and civil society groups, to strengthen social inclusion and fight poverty.

Land Ownership: China found land reform a strong ally in its fight against rural poverty and so has Poland. Security of tenure, access to credit, off-farm jobs, and eliminating the discriminations and constraints that inflict women in rural activities, have time and again been canvassed as effective anti-poverty measures. Yet despite the available evidence on the poverty-reducing impact of land reform, and on eliminating gender inequalities, IFAD has found that in most cases the rural poor have not benefited from land and tenurial reform[14].

The Labour Market: There are two attributes that tell against rural labour, first its demographic character, and in particular its ageing, and second its educational and training background which leads to low productivity. Despite efforts in different countries, it is still the case that farmers, especially on smaller holdings, tend to be on average older and less mobile that the rest of the population, and second that there is little incentive for younger professionals, especially in health and education, to settle in rural areas.

Gender Bias: Closer attention must be paid to policies and supports to enable women to operate in the market on equal footing with men, including access to loans. It is known that women in agriculture are more likely to use the products, or income derived, for their families, "putting bread on the table", and on family health or on education for their children. In this sense there are positive externalities to the family, and society, by policies that encourage remunerative activities for rural women.

Empowerment of Civil Society and Devolution: Social cohesion, and participation, is unthinkable without political and social structures that reflect and organise at grass roots levels and especially the rural population. Yet Community Based Associations, CBOs, and Non-Governmental Organisations, NGOs, are much more likely to be found in an urban than rural setting with media attention focusing accordingly. Further, in a number of transitional economies the legal status of CBOs and NGOs is not clear so that even when they are present and have the capacities they may not be able to undertake activities on behalf of public sector institutions.

Macroeconomic Environment: In the above we assume a macroeconomic environment that is not only benigh but pro-poor and in line with the commitments given at the Copenhagen Social Summit, 1995, and reaffirmed at the Special Session on in 2000. That is, we take on good faith that the political will is a given, the various commitments and poverty strategy are in place, and there is a genuine search for lifting the rural poor out of their destitution.

Annex 1. The measurement of poverty; examples from transitional economies

When estimating the extent of poverty in a given society it is important to determine which criteria should be used to differentiate between impoverished groups and the rest of the population. The most frequently employed criterion in this case is a poverty line based on money categories. Such a poverty lines are calculated on the basis of the value of income or expenditure per capita (or equivalent adult) in a household, and are based on absolute criteria (the estimated minimum subsistence level or social minimum). Other possible criteria include the relative poverty line (e.g., set at 50 per cent of the median income or expenditure per capita in households), the subjective poverty line based on, for example, the Leiden method, the structural poverty line, calculated on the basis of the share of expenditure an individual assigns to food (like modified Orshansky's method used in Bulgaria[15]).

The relative poverty line offers possibilities for comparison, especially when dealing with poverty profiles. The relative poverty line accords with the observation that poverty, from the point of view of people who are impoverished, is primarily relative in character. The relative poverty line has been used in five country reports. Four Poverty Strategy Initiative, PSI, reports used the relative poverty line set at 50 per cent of median <u>income or expenditure</u> per capita (or equivalent adult). This approach resulted in comparatively low poverty headcount figures, notably, 7-10 per cent in Estonia, 12 per cent in Latvia, 6-7 per cent in Bulgaria, 10 per cent in Lithuania. This is due to the character of income distribution in these countries: a large percentage of the population earn low incomes, while significant differences appear in the upper half of the scale, and especially between the top 5-10 per cent of society and the rest. Taking this into account, the Central Statistical Office in Poland has set the relative poverty line at 50 per cent of the arithmetic mean value of expenditure per equivalent adult in a domestic household; 14-15 per cent of the population are estimated to be living below this relative poverty line (poverty depth in Poland is estimated at approximately 20 per cent). Similar estimates for Bulgaria would increase the percentage of the relatively impoverished to more than 12 per cent of the population, and in Lithuania to 16.6 per cent. Because relative poverty lines are greatly influenced by the income distributions, they have been treated in the documents in question with some scepticism, despite their popularity and theoretical legitimacy. Nevertheless, in Lithuanian PSI seminar reports the authors suggest using relative poverty line[16] as the basic criterion, and ascribing auxiliary functions to others[17]. In the PSI seminar paper "Poverty Monitoring"[18]one can find interesting proposal of using relative poverty line at constant prices for monitoring poverty. Lithuanian experts prefer the relative poverty line to normative lines like the minimum subsistence level, which are common, understandable and reflect the dynamics of poverty, but also prone to be biased by subjectivism in setting up the consumer basket and pressure of interest groups.[19]

On the other hand, the authors of the Estonian report regard the relative line has having limited practical significance and suggest other solutions: "Considering Estonia's relatively low level of incomes it would not be appropriate to use the *relative poverty* line, (...) a methodology needs to be found in order to determine the *absolute poverty level*"[20]. The Estonian approach is carefully elaborated and should be considered by others while looking for poverty lines in monetary terms. We will not go into the details of the empirical estimation of the poverty line, but the reader can see the box with the basic conceptual outline of this method.

According to methodology generally in use, the poverty line should be defined as income poverty.

- The *income poor* are those households whose income is less than the poverty line.
- The aim of the present section is to determine, as objectively as possible, the income poverty line. For this purpose, poverty lines which have been determined using various methods are used as aids. These poverty lines determine the various facets of poverty — the so-called *poverty components*, and the poverty lines are somewhat strict in the sense that the situation of households who live below these is (also in the sense of internationally recognised criteria) apparently completely unsatisfactory.
- It is probable that the various poverty components determine somewhat different households as being poor.
- The *food poor* are those households where expenditure on food per consumption unit is less than the value of the minimal food basket. There are 29.9 per cent of such households in Estonia (1997 data).
- The *consumption poor* are those households whose consumption level (per consumption unit) is below half the consumption median (700 kroons per month per consumption unit). There are 8.5 per cent of such households in Estonia (1997 data).
- The *life style poor* are those households for whom the inevitable expenditures (food and housing) form more than 80 per cent of consumption expenditures. There are 24.1 per cent of such households in Estonia (1997).
- The *housing poor* are those households who live in dormitory accommodation or who have per household member (not counting the kitchen) 1/2 room or less. In Estonia, there are 7.7 per cent housing poor households (1997 data).
- The *subjective* poor are those households who consider themselves poor.
- Permitting the use of subjective assessments in the definition of objective criteria is to a degree disputable. Therefore, the determination of subjective poverty is not used in defining the poverty line, and only the four *objective poverty criteria* are used. However, it is still possible to use the subjective poverty criteria to check the absolute poverty line which has been determined.

The absolute poverty line must be determined in such a way that income poverty defined with its help covers in an optimum manner all the poverty components which have been defined via the above-listed criteria (including food poor, consumption poor, life-style poor and housing poor households).
This task can be mathematically worded as follows: *the poverty line must be determined such that the applicable income poverty is the best match possible with all the poverty component criteria.*

Poverty Reduction in Estonia, Tartu 1999, p.63

Classical poverty lines are income- or expenditure-based. In cases of long-term, structural poverty the correlation between income-related poverty and other dimensions of poverty, such as under-nourishment, an inability to satisfy housing and consumer needs, and also subjective poverty, increases. In a situation where poverty to a large extent has resulted from the sudden coincidence of various factors, such as the collapse of the Soviet Union and systemic transformation, and thus is transitional in the majority of cases, this correlation is not necessarily strong. The analysis carried out in Estonia shows that "the various poverty criteria are quite weakly correlated, both between themselves and also with income poverty (independent of the determination of the specific poverty line). This indicates that all the poor households are not poor in the same way". Nevertheless, Estonians propose to determine the poverty line as an income level at which we can claim with at least 50 per cent certainty that a domestic household is also poor in other areas. Estonian experts believe that:

> "It is natural to determine the poverty line in such a manner that at least 50 per cent of poor households defined with the help of all various objective criteria fall below it. In comparing various poverty criteria distributions it became apparent that the *lowest poverty line fulfilling the presented conditions would be 1270 kroons*. Estimates show that 87 per cent of *consumption poor* (consumption expenditures form less than half of the consumption expenditure median), 58 per cent of *life-style poor* (over 80 per cent of consumption expenditures are mandatory costs), 66 per cent of *food poor* (food expenditures are less than the cost of a minimal food basket) and 50 per cent of *housing poor* (less than 1/2 room per household member, or they live in dormitory accommodation) are below a poverty line which is determined in this way."[21].

The Estonian approach uses objective criteria (income and expenditures) to determine poverty lines. The authors of the reports in the countries studied are rather sceptical about taking into account subjective criteria of poverty, although a sense of deprivation do seem to be a natural indicator of poverty. This scepticism is reinforced by the results of research carried out in Latvia, which show that people's subjective assessments of their own deteriorating conditions contrast with objective indicators of this situation[22]

The authors of the poverty reports prepared in transition countries usually made use of a combination of poverty lines. The most prominent example in this respect is the Bulgarian report *The Republic of Bulgaria: Poverty in Transition*, which discussed in detail the advantages and disadvantages of various poverty lines. For further poverty analysis authors adopted two poverty lines:

- The lowest poverty line corresponding to the basic minimum income used to define the rate of social welfare assistance (BLG 29500 per capita a month) – 3.9 per cent of households were located below this line in 1997.
- The upper poverty line calculated on the basis of a modified version of Orshansky's[23] method (BLG 95500) – 65.5 per cent of households found themselves below this line in 1996.

The Bulgarian PSI, Appendix 4, report gives the estimated percentage of households outside the lower and upper poverty limits, using ten methods for calculating the poverty line, nine of which also give lower and upper variants of the poverty line – a total of 19 poverty lines. Taking into account the lower poverty limits, the various normative methods and the subjective method produced similar results: 53-68 per cent of households are living below the poverty line (23.9 per cent according to the poverty line of the Institute for Trade Union and Social Studies). Rather different results were obtained when variants of the relative poverty line were used (4.2 per cent-49.2 per cent), while the Basic Minimal Income line, which is administrative rather than analytical in character, clearly underestimates the scale of poverty (3,9 per cent). The poverty headcount spread based on these two lines is extreme.[24]

Using multiple criteria for is fully acceptable for researchers, but policy makers prefer to have one poverty line, which could be used for social policy purposes. The choice of one, particular poverty line as a criteria of social assistance is always political in nature – underline the authors of Bulgarian report, and their opinion is not an isolated one. However, the reviewed reports show that both for analytical purposes and policy making a combination of poverty lines can be very useful. Poverty is not a discrete concept but rather a *layered* phenomenon, "i.e. all poor people are not poor in the same way. Differentiating between poverty layers has a vital socio-political importance, since poverty of varying intensity requires the implementation of differing intervention strategies"[25]. Using a combination of poverty lines is an attempt to take this fact into account.

In Poland 5.4 per cent of the population is defined as living below the minimum subsistence line, while 50.4 per cent of the population is deemed to be living below the social minimum line; 26.3 per cent of the population lives below the official poverty line entitling such people to receive benefit[26]. The authors of the Polish report also use the criterion of registered poverty, which covers people receiving social welfare, and thus with incomes below the official minimum, plus unemployed persons registered at employment centres (both recipients and non-recipients of benefit). When such a definition is adopted, the poverty rate is estimated at 27.7 per cent. In Latvia the poverty profile was estimated on the basis of three thresholds, while in Estonia a normative criterion of poverty was used involving a division into three categories: direct poverty, poverty endangering the ability of an individual to cope, and poverty risk areas.

In the Moldovan case, four poverty lines have been proposed, calculated at 30 per cent, 40 per cent, 50 per cent and 100 per cent of the subsistence minimum. Twenty one per cent of the population lives below the first of these lines, and are thus in a state of extreme poverty, while 76.8 per cent lives below the subsistence minimum. The poverty depth in Moldova is also large, 40 per cent in the case of the first line and 52 per cent in the case of the second. The share of expenditure on food in the most impoverished households is 66.4 per cent in the towns and 73.4 per cent in the countryside.[27] The latter indicator allows us indirectly to describe – by means of comparison – the situation in Turkmenistan, for which we do not have any data on the extent of poverty. We do know, however, from the *Living Conditions Survey*[28], that the share of expenditure on food amounts on average to 68 per cent in Turkmenistan, and thus is more or less the same as in the case of the most impoverished social group in Moldova. Kyrgyzstan is also one of the poorest states in the region. Sixty two per cent of the population (75 per cent in the countryside) is living below the poverty line, calculated on the basis of the so-called national poverty line (estimated on the basis of total monthly expenditure per capita at which a person consumes minimum calories for biological existence)[29]. These three states together with Tajikistan are experiencing absolute poverty in its most acute form and had the lowest general level of economic development in the region even prior to the transformation and the outbreak of local armed conflicts (Moldova, Tajikistan).

Tajikistan is currently the poorest state to have emerged from the rubble of the old Soviet Union. It currently lies in 108th place in world ranking of human development. According to various sources and criteria, 70-96 per cent of the population is currently living in conditions of poverty. According to data from the Tajikistan Living Standards Survey 1999, 87 per cent of households have a monthly expenditure of up to 20,000 Tajik roubles (less than USD 12 at market rates), and 27 per cent spend up to TR 8,000 (USD 4.60). A report published by Goskomstat reveals that only 3.5 per cent of households (2.8 per cent of the rural population and 5.9 per cent of the urban population) have an expenditure greater than $1PPP per capita per day (TR 30,000 per month)[30].

This does not mean that the situation is much better in the other countries discussed in the analysis. One country experiencing serious problems is Armenia, one third of whose economic potential was destroyed by an earthquake in 1988 and where coupon privatisation has failed to bring about qualitative changes in the management of enterprises[31]. In Ukraine, which is suffering from the effects of the Chernobyl disaster and major long-term crisis – a result of the failure to introduce fundamental economic reforms – GNP and living standards have declined dramatically[32]. In Bulgaria real wages fell in 1997 to 40 per cent of their 1990 level[33].

The presentation above, shows that there is no simple solution of the issue of poverty measurement and no simple, all-embracing definition of the poverty line can be given. For this reason the Estonian proposal appears an interesting option. This entails treating poverty as absolute rather than relative phenomenon and as stratified problem and adopting a number of poverty lines. This would make it possible to seek different solutions for those "in direct poverty", and different solutions for those who are in less severe economic situations or only endangered by poverty.

Research on the extent and depth of poverty performs an important communicative function: it illustrates the existence of poverty and compels or encourages politicians and the public to take steps to reduce it. All general poverty lines are to some extent arbitrary and do not take into account regional differences, differences between towns and the countryside, or not immediately perceptible differences in the material situations of domestic households, e.g., access to alternative income sources. Nevertheless, they are important for analysing and monitoring poverty. In countries which conduct poverty assessments poverty is on the agenda of public discourse. There is still need for research on policy oriented definition of poverty line. PSI projects in various countries, especially in Bulgaria and Estonia, but also in Lithuania, advanced the discussion on poverty lines trying to merge their scientific soundness with usefulness for policy making.

In summary: all the countries in question have experienced a significant increase in poverty during transition period. Estimates of its extent and depth are contingent upon a poverty line chosen as a criterion. While these states were not very rich before the transformation, they enjoyed a developed social welfare systems and full employment, which ensured a minimum level of existence for the vast majority of population. It alleviated to some extent the problem of poverty. The dramatic increase of poverty was a result of economic crisis, declining real wages and increasing income inequality, irregular wage and pension payments and mass unemployment. However, poverty did exist in these countries already before transition, although it was not recognized as a social problem of the system, but rather as a result of individual failure. Such attitude dimmed the perception of poverty as an urgent issue still in the first years of transition. In the countries where PSI efforts concerned poverty measurement (the Baltic states, Tajikistan, Bulgaria) significant results have been achieved: poverty has been recognised as a critical issue and estimated using scientific standards.

There are also lessons to be learned from the PSI approaches to poverty measurement:

- Poverty is a *layered* phenomenon. A complex approach based on several criteria of poverty gives better picture of a country situation than one, "the best" poverty line. Multiple poverty lines can be used for defining appropriate policies too (see Estonian example). However, policy makers prefer a single solution, which could be easily used for administrative purposes, but the choice of such unique poverty line is a political issue.
- Absolute poverty lines seem to be better suited for transition countries and for monitoring poverty, when relative poverty lines are perhaps better for richer countries; however both approaches have advantages and disadvantages, the final choice of should be well justified and making use of both approaches should be considered.
- There are interesting approaches which have been successfully implemented in transition countries like Bulgaria[34] (modified Orshansky's approach) and Estonia[35] (layered concept

based on absolute poverty concept analysed in multiple dimensions) and can be tried in other countries.

- There is still a need for research on poverty measurement: multiple indicators and poverty lines, their discriminating power, reliability and validity, and correlation with other social indicators, non-monetary approaches and poverty profiles of particular poverty layers.
- In the future more effort more effort should be put in international comparability and sound methodology of poverty measurement, and facilitate international discourse and exchange of solutions.

Annex 2. Economic profiles of countries in transition

Box 1. Lithuania – Economic profile and rural poverty

Lithuania, population 3.7 million, ranked 47 out of 162 countries in the listing of the HDR (UNDP, 2001). According to the WDR (WB 2000/2001) GNP per capita was US $ 6093, at a Purchasing Power Parity, PPP, while GNP per capita is US $ 2620. Gender disparities of income are significant with men earning roughly in the ratio of 8: 5 relative to women (UNDP, 2001). Estimates of poverty vary, with the international measure of US $ 4 dollars per day, placing the poor at 30 percent of the population, while with National Measures, based on an estimate of 50 percent of the household consumption, the poor are said to be 16 percent of the total population. The national poverty line (set at 274 Litas, 2000, equivalent to about US $ 70 Dollars per month) is a more austere measurement than the international measure of US $ 4 dollars per day. Using the international comparison, poverty in Lithuania is lower than Estonia's, at 37 percent, but higher than Latvia's at 22 percent of the population. The Gini Index, at 32.4 is close to Latvia and Poland, a little lower than Estonia, and significantly less than Russia.

Economic performance since 1990 has been mixed with low inflation, and a stable currency, coupled with a declining per capita income, and high interest rates. For the period 1990-1999, GDP per head has declined, on average, by about 3.9 percent, yields on short term government securities for 1998 were 28 percent, while annual inflation was 2.4 percent. The rural population is still significant at 32 percent, while the structure of the economy is rapidly changing with a steep decline in the output of the agricultural sector. Between 1990 and 1999 the share of agriculture in output, namely GDP, fell from 27 to 10 percent, while that of services increased from 42 to 57 percent. With the contraction of total GDP, between 1990 and 1999, the shares of exports and imports in total output have declined. For the same period, that is 1990 to 1999, the share of exports to GDP has fallen from about 50 to 40 percent and that of imports from about 60 to 50 percent. Despite these declines, the economy in terms of international trade is fairly open, with exports and imports far higher than those of most developed countries.

The incidence of poverty in rural areas has been consistently higher than urban areas, whether bigger conurbations or small towns, with a tendency to increase for recent years. For 1999, the relative poverty headcount for rural areas was 28 percent, while for the five big conurbations was 7 percent, and for the smaller towns 16 percent. By comparison the national average was approximately 16 percent. On the accepted definition of a national poverty line, which is based on an estimate of 50 percent of household expenditure, 40 percent of farmers, 36 percent of households with 3 children or more, and 26 percent of persons with low educational skills, are poor. Given the structure of the rural sector, including small and low productivity farms, an ageing population, the immediate prospect of a significant relative decline in rural poverty is not bright.

Source: HDR, UNDP (2001), and WDR, W.B., 2000/2001

Box 2. Poland: Economic profile and rural poverty

Poland, with a population of 38.6 million, ranks 38 out of 162 countries in the HDR index of UNDP, 2001. Though GNP per capita is about US $ 3960, 1999, when measured on a Purchasing Power Parity basis, per capita GDP is estimated at US $ 8450.What is noteworthy about the country is not only its relatively high scoring in terms of the Human Development Index, but the steady increase in the value of the HD coefficient, and its ranking, since 1992. Its economic performance during the 1990s, has been impressive, registering an average annual growth rate of GDP of 4.4 percent – which was double the rate achieved during the previous decade. Despite this commendable economic record, the population below the income poverty line, of US $ 4 dollars a day, was 20 percent. Life expectancy for women, at 77.3 years, is higher than for men, at 69 years, but the order is reversed at the place of work where the ratio of men's earned income to that of women is about 10: 6.

In terms of trade, the economy is fairly open, with the share of exports to GDP at 26 percent, and a sizeable Foreign Direct Investment, FDI, which is about 4.7 percent of GDP. What has been noted in a number of transitional economies, including Poland and its Baltic neighbours, is the secular decline of Gross Domestic Savings as a share of GDP. In the case of Poland, between 1990 and 1999, this decline was from 32 to 18 percent, but for other transitional economies, including Latvia and Lithuania, the decrease in domestic savings to GDP was even more precipitous. Various reasons have been canvassed for this decline, including the enforced savings under command economies, but the end result is an increasing dependence on foreign funding and borrowing to bridge the gap between domestic mobilization of resources and investment requirements.

A multidimensional analysis of poverty in Poland has been carried out by the Central Statistics Office, CSO, and presented at a seminar in Bratislava, 2000. Three measures of poverty, notably "Monetary", "Living Conditions", and "Subjective" were estimated for different categories of households. The shares of rural, small and medium towns, and big cities, in the total population were, respectively, 32.9 per cent, 33.0 per cent and 34.1 percent. A key finding was that under the objective definitions of poverty, notably monetary and living conditions, rural poverty was at least twice that of urban poverty. For example, under monetary poverty, 15.4 percent of rural households were poor, as opposed to 7.4 percent, for small and medium towns, and 5 percent for big cities. The incidence of poverty, under the living conditions, was even higher with 20.6 percent of rural households classified as poor. In comparison, when the subjective measurement of poverty was used, which was a self evaluation by households, relatively fewer rural households were thought to be poor – 8 percent rural and 10 percent urban. That provides a conundrum for social policy, and civil activists, for if poor households do not recognise their plight how likely are they to seek support or take up their entitlements.

Source: HDR, 2001, WDR, 2000/2001 and International Comparisons of Poverty, 2000

Box 3. Romania: Economic profile and rural poverty

Romania, population 22.5 million, ranks 58 out of 162 countries in the HDI of UNDP, 2001. The WDR, 2000/2001, estimates the GNP per capita at US $ 1570, while GNP measured at PPP basis is US $ 5650. With a large rural and informal sector, these estimates are subject to error but when combine with other social indicators they do point to Romania's relatively low living standards in Europe. The value of the Human Development Index, HDR 2001, has been stagnant over the last two decades, at about 0.780, and the average annual growth rate of GDP has been negative in the 1990s. The rural population is some 44 percent of the total, and 59 percent of the people are said to be living below the US $ 4 dollars. Life expectancy, at about 70 years, has hardly altered in the last three decades, but this masks a significant difference between males, at 66.5 years, and females, at 73.3 years. Though the Gini Index, as a measure of inequality, is relatively low at 28.2, marked gender differences exist in terms of earned income with a ratio of 7: 4 in favour of men.

Overall the economy has declined between 1990 and 1999, but the share of exports to GDP, for the same period, has grown from 17 per cent to 30 per cent, and FDI has increased from negligible amounts to about 3.1 percent of GDP. It is interesting to note that both the shares of agriculture and industry in GDP have declined for the 1990s while that of services has increased. For a relatively poor, and as in the 1990s, declining economy such trends indicate more strategies of coping by the new poor rather than the modernization of an economy and the accompanied shifts to the service sector. Side by side with the opening up of the economy, as measured by the shares of exports to GDP and FDI, between 1990 and 1998, domestic savings decreased from 20 per cent to 10 per cent of GDP, gross domestic investment from 30 per cent to 15 per cent of GDP, while external debt increased from US $ 1.14 billion to 9.51 billion – to stand at 23 per cent of GNP, with a debt service ratio of 31 per cent.

For Romania there is little doubt about the severity of poverty, especially in rural areas and however measured, or about its increase. Branko Milanovic's,1998, estimate of 59 percent poverty, at the four US dollar per head level, has been criticised by presenters of the new estimates, based on 60 per cent consumption expenditure, at the Bratislava Seminar, 2000. In turn, the new estimates show poverty at 40.5 per cent in rural areas and 28.2 per cent in towns - while for all households the poverty ratio is 34 percent. Farmers and the unemployed are by far the most vulnerable groups with poverty rates of about 60 percent. Using the 60 per cent consumption expenditure indicator, poverty has increased from 25 per cent in 1995 to 34 per cent in 1998, without a significant change in the average deviation. With such high incidence of poverty, even small changes in the overall trends, and policy measures, can make a significant difference to the number of families and communities living in poverty.

Source: HDR, UNDP (2001), WDR, W.B. 2000/2001 and ECE, 2001

Box 4. China: Economic profile and rural poverty

" China provides the example of a country with a low initial income and a high level of income poverty that has achieved, since 1980, significant reductions in income poverty and major improvements in the social dimensions of well being.. The experience of China shows that sustained growth can have an impact on income poverty, and that when this growth is combined with a strong rural focus and rapid human development the results are remarkable." The Effectiveness of the WB's Poverty Reduction Strategy, World Bank, 2000.

A major purpose of including China is to provide a comparison that both in scale and experience is said to be substantively different from the European countries in transition.

Formally, China ranks 87 out of 162 countries in the UNDP's, 2001, HDI. The trend of this ranking has been consistently upwards beginning with a HDI of 0.522, 1975, and ending with 0.718 in 1999 – the position of China in this listing has also improved from 111, in 1992, to 87 currently. All the components of the HDI, including life expectancy and literacy rates, show substantial improvements, but perhaps the most pervasive has been the growth of the economy - with GDP increasing in real terms by about 10 percent annually throughout the 1980s and 1990s. At present, life expectancy is about 70.2 years, adult literacy rates estimated at 83.5 percent, and GNP per capita at about US $ 780, while on PPP basis GNP is said to be US $ 3291. The total population is about 1.26 billion with 70 percent rural, and 25 percent below the age of 15 – in comparison, with the other three countries, the proportion below the age of 15 was 20 percent. In short, China has not only a huge labour force, but also a vast reservoir of labour, both in the rural sector and in prospective new recruits, that can fuel future economic expansion.

As expected from a high growth economy, shares of domestic investment and savings in GDP are exceptionally high, at about 40 per cent and 42 per cent respectively, and FDI increased from about US $ 3.5 billion in 1990 to US $ 43.8 billion in 1998. Though this may demonstrate the competitiveness and attraction of China for foreign companies, the share of net foreign direct investment in GDP is still a modest 3.9 percent (1999). Also in relative terms the present value of external debt to GNP is about 15 per cent, and the debt service a modest 9 percent. In comparison with the other three European countries the Gini index for China is higher, at 40.3, and this indicator of inequality is further reinforced when the shares of income or consumption of the richest 10 percent of the population is taken into account – which for China stands at 30.4 percent. On Government estimates poverty has declined from 30 percent of the rural population in 1978 to less than 5 percent in 1998. A reworking of the poverty line by a combined team of UNDP and WB, 2001, allowing for an international poverty standard of US $ 1 dollar a day, found that rural poverty has declined from 31 percent in 1990 to 11.5 per cent in 1998. And there the matter lies – a significant reduction of rural poverty in China irrespective of the indicator used, and policies in place that aim to reduce it further.

Source: HDR, 2001, WDR, 2000/2001, Joint Report UNDP/WB, 2001

Notes

[1] The usual disclaimer applies. Namely, that the authors are solely accountable for the views expressed, and that neither their employing organisations nor families, or friends, can be held responsible!

[2] For those who wish to ponder on the uses and abuses of the "globalisation" concept there is a whole raft of excellent tracts discussing precisely this issue including: Antony Giddens, Reith Lectures, 1999, The Runaway World, 2000; Gerald Helleiner, "Can the Global Economy be Civilised ?" 10th Raul Prebisch Lecture, 2000; Lance Taylor, "Opening Markets, Closing Doors for the Poor", Social Development Review, June 2000; John Langmore, Aspects of the Governance of Globalisation, Keith Roby Memorial Lecture, June, 2001, Murdock Universtiy, Australia; Jose Antonio Ocampo, Rethinking the Development Agenda, American Economic Association, Annual Meeting, 2001; and Goran Therborn, "Globalisation and Inequality – Issues of Conceptualisation and Explanation", Rio Workshop on Inequality, July, 2001.

[3] See The Rural Poverty Report, 2001 – The Challenge of Ending Rural Poverty, IFAD, 2001. As the IFAD Report points out progress in achieving the 1995 Social Summit Commitment made in Copenhagen for the halving of extreme poverty by the year, 2015, is stalling. The rate of poverty reduction in 1990-1998 was less than one third of what is needed, and for sub-Saharan Africa was six times less.

[4] For transitional economies, a more detailed account of the way and of the problems encountered in the measurement of poverty is presented in Annex 1.

[5] This is the experience shared by a number of transitional economies including Lithuania, when between 1990 and 1995 Gross Domestic Product declined by more than fifty percent . On this see Poverty in Lithuania: Capacity Building for Rural Poverty Reduction, Katsiaouni, Gorniak and Lazutka, UNDP, 2000.

[6] Vide, "Multidimensional Analysis of Poverty in Poland", in International Comparisons of Poverty, 2000, Report of Seminar proceedings, Slovaquie, Bratislava, SURS, EUROSTAT, INSEE. However, the Polish Living Standards Survey, 1997, and the Household Budget Survey, 1998, seem to indicate that rural households were more likely to show despondency about their situation, and fear of becoming poor, than urban households.

[7] Vide, Poverty in Lithuania, pp.75-77, 2000, op.cit., and "Multidimensional Analysis of Poverty in Poland", pp. 106-107, 2000, ibid.

[8] Vide, Rural Poverty Report, 2001 – The Challenge of Rural Poverty, pp. 17-20, 2001, op.cit.

[9] For a guide on Economies in Transition that includes China, Mongolia, North Korea and Vietnam, see Economies in Transition, Ian Jeffries, 2001.

[10] An economic profile of each of the countries that we deal with is presented in Annex 2.

[11] On this see China – Overcoming Rural Poverty, Joint Report of the Leading Group for Poverty Reduction, UNDP, and The World Bank, March, 2001.

[12] The state of trade and economic cooperation in the Asia Paficic region, and China's role, is discussed in Economic Development & Cooperation in the Pacific Basin, 1998, edited byHiro Lee and David W. Roland-Holst, Cambridge University Press.

[13] Among the transitional economies, and in terms of descending number of total population, the most rural countries include China, 68 per cent percent of the total, Viet Nam, 80 per cent, Cambodia, 74 per cent, and Laos 77 per cent. Some of the CIS countries are not far behind, including Moldova, Uzbekistan Kyrgysztan and Turkmenistan, where the share of rural population in the total is more than 50 per cent.

[14] See in particular, The State of World Rural Poverty, An Inquiry into its Causes and Consequences, Idriss Jazairy et. al, IFAD, 1992.

[15] Orshansky's method is assessed by multiplying the established average food expenditure per person by an exponent reached through the mean geometrical value of the ratio of gross expenditure and food expenditure for each household. In the modified approach different multipliers are used (see for example: *Republic of Bulgaria: Poverty in Transition, UNDP/ILO 1998*).

[16] Participant of poverty seminar in Lithuania agreed upon using 50 per cent of the mean rather than median equivalent expenditures as a relative poverty line because it is easier to understand by non-professionals. In 1997 50 per cent of the mean consumption expenditures calculated at the PPP dollars per day equalled 3,95 which was close to the 4 PPP dollars proposed as a poverty line for CEE by international community.

[17] A separate problem is posed by the equivalence scale, which is discussed in detail in the Estonian report. It suggests a scale of 1:0.8:0.8 for this country, which is different from the scale suggested by the OECD (1:0.7:0.5). The authors of the report on poverty in Bulgaria also carried out an analysis of this problem and adopted a scale of 0.7-0.75 for children, higher than the figure of 0.5 adopted by the OECD, but lower than the scale of 0.9 adopted in this country up to now. The Latvians used per capita indicators, and the Moldovans made use of the Eurostat equivalence coefficients.

[18] Gediminas Černiauskas, *Monitoring Poverty*, Seminar 'Poverty and Policy', UNDP, Vilnius 1999.

[19] Gediminas Černiauskas, *Monitoring Poverty*, Seminar 'Poverty and Policy', UNDP, Vilnius 1999, p. 4 and 22.

[20] University of Tartu, Ministry of Social Affairs of Estonia, UNDP, *Poverty Reduction in Estonia: Background and Guidelines*, Tartu University Press, Tartu 1999, p.63.

[21] University of Tartu, Ministry of Social Affairs of Estonia,UNDP, *Poverty Reduction in Estonia: Background and Guidelines*, Tartu University Press, Tartu 1999.

[22] Franziska Gassmann, Chris de Neubourg, *Coping With Little Means in Latvia*, Social Policy Research Series, Ministry of Welfare/UNDP, Riga 2000.

[23] In this modified Orshansky's approach the multiplier 2 has been used.

[24] Republic of Bulgaria: *Poverty in Transition*, ILO/UNDP 1998.
The authors of the report also discuss various equivalence scales, each of which give different estimates of the extent of poverty.

[25] University of Tartu, Ministry of Social Affairs of Estonia,UNDP, *Poverty Reduction in Estonia: Background and Guidelines*, Tartu University Press, Tartu 1999, p.15.

[26] Mieczysław Kabaj, *Programme Outline for Actively Counteracting Poverty and Social Exclusion*, Institute of Labour and Social Studies, UNDP, Warsaw 1999.

[27] *National Poverty Alleviation Strategy for the Republic of Moldova*, UNDP, Chisinau 1997.
Short Term Poverty Alleviation Programme, UNDP, Chisinau 1998.

[28] *Living Conditions Survey in Turkmenistan*, National Institute of Statistics and Forecasting of Turkmenistan, UNDP, Turkmenistan 1998.

[29] *The Kyrgyz Republic Comprehensive Poverty Alleviation Programme. Within the Framework of Sustainable Human Development.* (Draft Proposal of the UNDP Mission in Co-operation with the Secretariat of President's Council on SHD), February-March 1998.

[30] State Statistical Agency Under the Government of the Republic of Tajikistan, *Living Standard of the Population of the Republic of Tajikistan(on the basis of the findings of the survey of the randomly selected households),* Dushanbe 2000.
Barot Turayev, *Biednost': Aktualnost' i neobhodimost' ee ocenki w Respublike Tajikistana*. Goskomstat (manuscript in Russian), Dushanbe 1999.

[31] *Labour Market in Armenia*, United Nations Office in Armenia, 1999.

[32] *Poverty Strategies Initiative in Ukraine*, UNDP, Kiev 1997.

[33] Republic of Bulgaria: *Mid-Term Incomes Policy and Strategy*, ILO/UNDP 1998.

[34] See http://www.online.bg/undp/

[35] See: http://www.ciesin.ee/undp/