

SEMINAR PAPER 98-08

**THE TRANSITION TO A MARKET ECONOMY,
POVERTY AND SUSTAINABLE DEVELOPMENT
IN CENTRAL ASIA**

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October 1998

CIES SEMINAR PAPER 98-08

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October 1998

Paper presented at the CoDoCA Conference “Strategic Considerations on the Development of Central Asia”, held in Urumqi (China) on 13-18 September 1998. Related papers were presented earlier at the British Association for Slavonic and East European Studies annual conference in Cambridge (UK) on 4-6 April 1998 and the AASCPCS/ANZSA International Conference on Communist and Post-Communist Societies in Melbourne (Australia) on 7-10 July 1998. This paper reports on research undertaken jointly with Professor Kathryn Anderson, Director of the Graduate Program in Economic Development, Vanderbilt University, Nashville, Tennessee, USA. We are grateful to the University of Adelaide for financial assistance provided under the University Research Scheme and to Louise Sutherland for research assistance. Robert Ackland of the Australian National University, who prepared World Bank (1995) has been very helpful in trying to reconcile the various outputs based on the 1993 KMPS.

ISBN 0 86396 458 3

ABSTRACT

The Transition to a Market Economy, Poverty and Sustainable Development in Central Asia.

The paper compares development strategies and economic performance in Central Asia during the 1990s, focussing not just on aggregate output measures but also on income distribution and the incidence of poverty. Increasing poverty is often associated with measures which hamper future economic growth and have deleterious long-term environmental impact by running down physical and natural resource assets.

The first part of the paper reviews the evidence of the impact of transition on the poorest members of the population with reference to all parts of Central Asia, and analyses the consequences of changing incidence of poverty for sustainable development. The second and third parts of the paper analyse data from 1993 and 1996 household surveys in the Kyrgyz Republic to establish the correlates of poverty. The paper concludes with discussion of coping mechanisms and policy implications for promoting sustainable development in Central Asia as the region's economies adapt to more market-oriented systems.

Key words: transition, poverty

JEL Codes: P20, I32

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NON-TECHNICAL SUMMARY

The five Central Asian republics (CARs) were among the least prepared of the Soviet republics for the dissolution of the USSR at the end of 1991. Their efforts to establish new nation states and market-oriented economies took place amidst three major shocks:

- the disruption of old economic ties and intra-USSR subsidies,
- the disorganization associated everywhere with abandoning central planning
- the hyperinflation of the ruble zone in the early 1990s

By the late 1990s it is becoming possible to attempt an assessment of the development strategies and economic performance of the CARs since independence.

Early in the process there was a polarization as Uzbekistan and Turkmenistan resisted market forces more than Kazakstan and the Kyrgyz Republic. The Kyrgyz Republic was the first to adopt a national currency and to bring annual inflation below 50%, and has moved fastest in other areas of transition to a market-oriented economy. Turkmenistan is at the opposite extreme with fairly tight control over private economic activity. Of the two largest CARs, Kazakstan is by most rankings considered more liberal than Uzbekistan. Tajikistan has been disrupted by civil war and political uncertainty.

So far, Uzbekistan has been the most economically successful, with the smallest decline in GDP of all former Soviet republics allowing it to maintain government spending, which with innovative decentralization of social services has helped to alleviate poverty. This contrasts to the widely held view that more rapid economic reform is associated with superior performance. Policies do not, of course, exist in a vacuum - initial conditions, external aid, or measurement error may explain relative outcomes as reported in GDP estimates. Finally, perhaps it is too early to judge and the more rapid reforms will pay off in the Kyrgyz Republic and Kazakstan as a firmer base for long-term economic growth.

The paper considers how to measure performance, focussing not just on aggregate output, but also on income distribution and the incidence of poverty. Transition everywhere has been associated with increased poverty. Poverty is not only a bad in itself, but also may induce coping mechanisms which run down physical and

natural resource assets and have other deleterious consequences for long-term growth.

Who are the poor in Central Asia, and how have they been coping with poverty in the 1990s? The best evidence is from the Kyrgyz Republic, which is also the most interesting case due to its relatively rapid transition and its lower starting income levels. In the first two Living Standard Measurement Study (LSMS) surveys, in 1993 and 1996, poverty rose sharply from pre-independence levels. Poverty is more prevalent in rural than in urban households, and especially in southern and mountainous districts. Initial results from a probit analysis indicate that the least likely to be poor are residents of the capital city and families headed by university/college graduates.

How did the poor cope? Anecdotal evidence from rural areas is of destruction of physical assets, eg. selling livestock and cutting down fruit trees, to support immediate consumption. Such measures hamper sustainable development by reducing the (broadly-defined) capital stock and by degrading the environment. Increased inequality and poverty also threaten future economic progress by undermining human capital formation and political stability.

Transition to a market economy has been difficult in the CARs. Huge initial adverse shocks exacerbated the decline in living standards and with the lowest income levels in the USSR the Central Asian republics were least prepared to weather substantial increases in poverty. Policies have mattered; Uzbekistan's gradual but positive reform process has been most successful in the short to medium term, although the more substantial changes in the Kyrgyz Republic and Kazakhstan could provide a firmer basis for economic development over the next decade. The increased poverty in the Kyrgyz Republic, and inequality in Kazakhstan, could, however, undermine the sustainability of the development process.

THE TRANSITION TO A MARKET ECONOMY, POVERTY, AND SUSTAINABLE DEVELOPMENT IN CENTRAL ASIA

Richard Pomfret

At the time of the dissolution of the USSR the Central Asian republics were, together with Azerbaijan, the poorest Soviet republics and the ones with the largest percentage of the population living in poverty (Table 1). Since becoming independent, Kazakstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan have followed divergent national development strategies, with the first two moving relatively quickly to reform their economies and the last two adopting explicitly gradual transition strategies. All five countries suffered declines in output and national expenditure, but there is dispute over the magnitudes. Measures of GDP show smaller declines in Uzbekistan and Turkmenistan, and larger declines in the Kyrgyz Republic, Kazakstan and Tajikistan. This challenges the widely held view that more rapid reform is associated with better performance and also conflicts with casual observation that, while in Uzbekistan living standards may have held up relatively well, this has not been the case in Turkmenistan.

The drawbacks of using standard national accounting aggregates during periods of rapid structural change are well-known, and as measures of living standards they are further vitiated by the inability of per capita national income to capture changes in inequality and poverty. The move to a more market-oriented economy has everywhere increased inequality (Cornia, 1996; Milanovic, 1998). If poverty has increased in these already poor countries, this has serious implications for our view of living standards, so we want to know not only what happened to average living standards but also how the changes in living standards have varied both across and within countries. Answering this question requires better data than are currently available, but there are a number of sources which can be synthesized to shed light on the issue.

Finally, the paper will ask whether current economic strategies are sustainable. This is more speculative because the period since independence is still short in terms of sustainable development, especially as the first phase was dominated by institution building and macroeconomic stabilization.

After reviewing the initial conditions and economic prospects of each of the five newly independent Central Asian states, the first section of the paper summarises their national development strategies and standard measures of their economic performance. The second section analyses alternative measures of living standards and available data. The third section reports on the incidence of poverty, using preliminary results from research utilising household surveys. The focus in the second and third sections is on the Kyrgyz Republic, for which the survey data are relatively rich. The final section draws some conclusions about the sustainability of economic development in Central Asia.

1. Development Strategies and Economic Performance

Until the dissolution of the USSR, the Central Asian republics' development strategies were determined in Moscow. The CARs were open economies, integrated into the Soviet Union's division of labour but isolated from the global economy. Their main role was as producers of primary products, especially cotton, but also energy and minerals, and grain in northern Kazakhstan. Whether they benefited from being in the USSR is controversial because of their colonial status, but residents of the CARs enjoyed higher material living standards and better social services than their southern neighbours, and were supported by substantial intra-USSR transfers which ceased in 1991-3.

Given the pre-existing specialization in primary products, the national development strategies have been outward-oriented.¹ Although there have been measures to encourage greater food and energy self-sufficiency, to protect domestic industries and to tax exports, trade policies have generally been liberal with low formal trade barriers. Trade performance has, however, been disappointing, especially the ability to find new export markets. Only by 1996 did the share of trade going outside the former USSR exceed half (ECE, 1997, 179). Turkmenistan and Kazakhstan, which had been expected to benefit substantially from the shift to world prices for their exports (Table 2, final column), found themselves tied to old Soviet pipelines for their oil and gas exports, and Turkmenistan had great difficulty in collecting payment for its gas exports to Ukraine and Georgia. Uzbekistan turned out to have more favourable initial conditions insofar as its cotton and gold exports could be transported and sold for hard currency.

In 1992 and 1993, policy debates were dominated by the currency issue. Continuing use of the ruble simplified trade relations and allowed continuation of indirect subsidies from Russia through access to oil, grain and other primary products at prices which were still below world market prices. The situation was, however, unstable as the ruble zone was inherently inflationary (Pomfret, 1996, 118-29). The Kyrgyz Republic introduced a national currency in May 1993 in order to regain macroeconomic stability, and Turkmenistan, Kazakhstan and Uzbekistan left the ruble zone in November 1993. Tajikistan was the last country left in the old ruble zone - even Russia was using new ruble banknotes, which were not supplied to Tajikistan.

The Kyrgyz Republic has been the most successful among the CARs in taming the hyperinflation of the early 1990s (Table 2). Inflation was brought down below 50% per year in the Kyrgyz Republic in 1995, in Kazakhstan in 1996, and in Uzbekistan only in 1997. Tajikistan has had hyperinflation associated with the civil war, but is now reducing inflation. Turkmenistan, like Uzbekistan, relied on controls to limit the peaks of price increases in the early and mid-1990s, but unlike Uzbekistan has not yet

¹ The degree of openness is difficult to quantify. Havrylyshyn and Al-Atrash (1998) conclude that the Kyrgyz Republic and Uzbekistan are significantly more closed and Kazakhstan more open than other economies at similar level of development, but this is based on trade/GDP ratios using purchasing power parity GDP. Using GDP at market prices Kazakhstan is more closed than the other two.

addressed the underlying monetary causes.

Speed in addressing hyperinflation is closely correlated with the speed with which the transition to a more market-oriented economy has been pursued. In the Kyrgyz Republic, state orders were eliminated in 1993 and practically all prices liberalized by 1994. Enterprise reform has been less dramatic than in Central or Eastern Europe or the Russian Federation, but more extensive than in any other CAR. The financial sector has also been transformed, so that both the exchange rate and interest rates are market-determined, although thin markets have limited allocative efficiency.

Kazakstan has generally been considered the more committed reformer of the two large CARs. After independence, Kazakstan moved faster than Uzbekistan in price and enterprise reform. In the second half of the 1990s, however, concerns have increased over the government's failure to establish a suitable framework for a well-functioning market economy; agents of the government are frequently seen to be benefiting from their position rather than enforcing law and order or maintaining public services, and privatization largely benefited insiders without obvious efficiency gains.

Uzbekistan has followed an explicitly gradual approach to economic transition. Price and enterprise reform proceeded slowly, although practically all prices had been liberalized by 1996 and housing and small enterprises have been privatized. Trade policy is liberal as export taxes imposed in the early 1990s have been removed, but its impact is negated by stringent foreign exchange controls which were reintroduced in the second half of 1996. The government exerts more overt control than in Kazakstan, which creates a more stable environment but not one which has favoured the emergence of new private enterprises or entrepreneurial behaviour in general.

The various synthetic measure of the speed and extent of liberalization in transition economies typically divide the CARs into two groups (Pomfret and Anderson, 1997, Table 1). The Kyrgyz Republic and Kazakstan are somewhere in the middle, and Uzbekistan, Turkmenistan and Tajikistan at the bottom of the list. Tajikistan is sometimes put in a separate category of those countries affected by regional tensions, and is making a delayed attempt at reform since the mid-1990s.² While Uzbekistan has moved cautiously and has an explicit policy of gradualism, there has been cumulative economic reform, in contrast to Turkmenistan, which at least until 1995-6 was committed to minimizing economic change (Pomfret and Anderson, 1997).

Economic performance is related to initial conditions and other exogenous forces, as well as to policies. The Kyrgyz Republic and Tajikistan are favoured neither by geography nor resource endowment. The gas wealth of Turkmenistan and the minerals and oil of Kazakstan were initially seen as major pluses (Tarr, 1994), but realization of their benefits has been slow and at least in the short-term Uzbekistan's resource

² Attempts to accelerate reforms and establish macroeconomic stability after the introduction of the Tajik ruble in May 1995 were disrupted by renewed civil war in late 1996, and only revived after the June 1997 peace agreement.

endowment may have been more favourable.³

External assistance has varied and is not independent of economic policies. In the early post-independence era, the main source of external funds was the Bretton Woods institutions, which had a strong predilection for rapid reform and especially for macroeconomic stabilization and open trade and exchange policies. The Kyrgyz Republic has benefited most from World Bank and IMF assistance, while Uzbekistan's relations with these institutions have been frosty. Cumulative World Bank loan commitments up until the end of the 1996 fiscal year amounted to \$70 per head for the Kyrgyz Republic, \$49 for Kazakhstan, \$11 for Uzbekistan, \$6 for Turkmenistan and \$1 for Tajikistan.⁴

How did the CARs' economies perform in the first half-decade after independence? Table 2 presents a striking picture in terms of real output. Uzbekistan had the smallest decline in real GDP of any former Soviet republic, and by a substantial amount. This is in striking contrast to the maintained hypothesis, claimed to be an empirical regularity by the World Bank (1996) and independent analysts, that more rapidly reforming transition economies have had superior output performance records. The anomaly might be explained as a time-frame problem, following Blanchard's U-shaped output path, with the slow reformers still on the initial downward part of the U and the fast reformers beginning to climb up on the far side.⁵ There are also well-known

³³ Uzbekistan's main export, cotton, enjoyed buoyant world prices in the first half of the 1990s and markets could be diversified. Cotton prices have, however, declined continuously since January 1996, falling by 17% in 1996 and 7% in 1997 (*Uzbekistan Economic Trends*, January-March 1998, 18). Uzbekistan's second most important primary export is gold, which was even more readily exportable to world markets, although recent gold price trends have not been favourable. By contrast, Kazakhstan's Tengiz oilfield, which attracted the largest foreign investment contract in the former USSR at the start of the 1990s, is operating far below expectations due to difficulties with access to the Russian pipeline network. Turkmenistan quickly found that it could get its natural gas to Georgia and Ukraine, but had no credible response to delayed payment, when the pipeline routes precluded any diversification of destinations.

⁴ Calculated from data reported in *Transition*, 8, February 1997. The Kyrgyz Republic also received concessional financing from the IMF, and by 1996 had the second-highest debt/GDP ratio (43%) of any former Soviet republic; the debt/GDP ratio for Tajikistan was 84% (mainly war-related concessional loans from Russia), Turkmenistan 32%, Kazakhstan 19% and Uzbekistan 17%, with the last three having acquired most of their debt on commercial terms (Kapur and van der Mensbrugge, 1997).

⁵ Blanchard (1997) emphasizes the role of disorganization, brought on by disruption of supplier links and credit constraints, in the initial period of transition. De Broeck and Kostial (1998) explain much of the 1990-6 output loss in Kazakhstan in these terms. It is generally believed that growth had resumed in Kazakhstan and the Kyrgyz Republic by 1996, but not elsewhere in Central Asia; *Kazakhstan Economic Trends* (January-March 1998, 92) reports that Kazakhstan's real GDP fell by 8.2% in 1995 and then grew by 0.5% in 1996 and 2.0% in 1997, and according to the IMF (*IMF Staff Country Report 98/8*, January 1998, 4) real GDP in the Kyrgyz Republic fell by 5% in 1995 and increased by 6% in 1996.

measurement problems due to reporting biases, the growth of the informal economy and index number problems (Pomfret, 1995, 171-6; Falkingham et al., 1997, 21-41), although it is not clear why they should bias the ranking among the CARs.

In sum, there are four sets of explanations for differences in measured economic performance among the CARs: differing policies, initial conditions, external assistance, and measurement errors. Most critical for “lessons” to be drawn is the relation between policies and performance; is the Central Asian comparative experience a counter-example to the widely accepted hypothesis of a positive relationship between the pace and extent of economic reform and liberalization and output performance, or is there a time horizon dimension which will be revealed over, say, the next half-decade? Such questions must address the policy indicators and is complicated for the CARs by variations in initial conditions and in external assistance. Finally, but the point must be addressed first is the question of measuring performance.

2. Living Standards in Central Asia

The Kyrgyz, Tajik, Turkmen and Uzbek republics had, together with Azerbaijan, the lowest per capita incomes in the USSR. The last four of these also had the most unequal income distribution, although the Gini coefficients, while high by Soviet standards, were still low relative to most lower and middle income countries.⁶ During the 1980s hidden unemployment and the proportion of families receiving less than the minimum consumption basket increased; the 1989 poverty rates for the Central Asian and Caucasus republics were substantially higher than in other Soviet republics (Table 1). These trends were exacerbated by the disintegration of the USSR in 1991 and major price reforms of January 1992.⁷

The major source on living standards in the Soviet Union was the annual

⁶ The elite benefitted from important non-pecuniary privileges. On the other hand, public services reinforced the egalitarian outcome; Buckley and Gurenko (1997) show that imputed income from subsidized housing (including maintenance and utilities) played a major role in reducing economic inequality in the USSR. Atkinson and Micklewright (1992) compare income distributions in the USSR and eastern Europe. Milanovic (1998) reviews the distributional evidence from the 1990s.

⁵ Hidden unemployment certainly increased and the phenomenon of unpaid work became commonplace as wage payments were delayed and erratic, but unemployment figures are inconsistent and difficult to interpret. In the Kyrgyz Republic reported unemployment was low in the 1993 KMPS, although by the spring 1996 survey it had risen to 17% in rural areas and 21% in urban areas. The depth of the decline in employment is better reflected in the number of registered employed, which fell in Kazakstan from 6.5 million in 1990 to 4.3 million at the end of 1995, when registered unemployment was reported at 4% (Bauer et al., 1997, 3), and 2.6 million in February 1998 (*Kazakstan Economic Trends*, January-March 1998, 102).

household budget surveys (HBS). These samples were biased, since they concentrated on households with earners in state factories or on collective farms and, to a lesser extent, on pensioners. Both tails of the income distribution were underrepresented, as households whose main employee worked in the private sector or was not working were absent and certain occupations were excluded (eg. party officials, high level bureaucrats, KGB and military officers). Rural households were undersampled, which is especially important for the Central Asian republics, which were the most rural of the Soviet economies. Furthermore, the samples were not rotated; once the sample was established in the early 1950s, households were only removed by attrition. Falkingham et al. (1997, 48) characterize the HBS as "a survey with a long history and a terrible reputation". After independence the new national statistical authorities continued to follow the methodology of the HBS. The practices and standards diverged more than previously, but the HBS remains the sole source for intertemporal comparisons.⁸

Roberts (1997) has analysed the Kyrgyz HBS data, and estimates that private household consumption fell by 33% during 1990-3 and rose by 7% in 1995.⁹ This is substantially smaller than the fall in consumption implied by GDP estimates (Table 2), or official estimates of a 44% decline in 1990-3 followed by a further 5% drop in 1995. The main reason for the discrepancy is the rapid growth of the private sector, especially in 1991, to the extent that by 1995 the shadow economy was supplying between a quarter and a half of household consumption. Although Roberts presents a less gloomy picture than official figures, his estimates still represent a large drop in consumption during the first half of the 1990s. Moreover, we would expect that the move to a more market-oriented economy would widen disparities in living standards, but the HBS is not a good guide to income distribution (and even less to poverty).

A potentially better data set for analyzing living standards are the surveys supported by the World Bank as part of the Living Standards Measurement Study (LSMS).¹⁰ The first such survey in Central Asia was the Kyrgyzstan Multipurpose Poverty Survey (KMPS) conducted in October and November 1993 with a sample of about 2000 households, ie. twice the size of the HBS sample and with much greater care taken to ensure a representative sample. The KMPS is distinguished from the LSMS by its extensive additional questions, especially on nutrition. A survey conducted in

⁸ Before independence completed questionnaires were sent to Moscow for processing, so that local analytical capacity was not developed (Falkingham et al., 1997, 43), and deliberate attempts were made to falsify published results (Dmitrieva, 1996, 100). Atkinson and Micklewright (1992, 265-9) review the methodology of the HBS. Marnie and Micklewright (1994) assess the 1989 HBS results for the Uzbek republic.

⁹ According to Roberts, a substantial change in methodology in 1994 invalidates comparisons between before and after 1994.

¹⁰ Deaton (1997) and Grosh and Glewwe (1998) describe the LSMS surveys. The core questions of the Central Asian surveys are based on Russian surveys initiated in 1992, which facilitates eventual comparability with other Soviet successor states. Klugman and Braithwaite (1998) review the Russian surveys.

February and March 1996 in the Kyrgyz Republic used the same questionnaire to that used in 1993, as did a 1997 LSMS in Kazakhstan and a LSMS begun but not completed in Uzbekistan in 1997. A series of annual LSMS surveys in the Kyrgyz Republic began in October/November 1996 with a new sampling frame, which yielded 1951 completed household interviews, and a shorter questionnaire focussing on the changing environment brought about by transition to a market economy and omitting the nutrition questions of the KMPS. The LSMS surveys are clearly superior to the HBS in sampling methodology and coverage, but so far have been little analysed.

There have also been a number of household surveys focussing on specific issues which cast some light on living standards, as well as studies of limited geographic areas or rapid appraisal methods. As the most open of the Central Asian countries the Kyrgyz Republic has benefited most from external assistance, some of which has included finance for surveys, as well as being the most willing to permit independent studies. The next section will review this literature and present some preliminary findings from our own research using the KPMS.

3. Poverty in the Kyrgyz Republic

The Kyrgyz Republic clearly suffered a substantial drop in consumption levels during the first half of the 1990s. This was accompanied by widening inequality and increasing poverty. The Gini coefficient for income rose to 0.66 in 1993, and a still high 0.51 in 1996.¹¹ The expenditure-based headcount measure of poverty increased from 45% in 1993 to 69% of individuals in 1996.¹² The numbers must be treated with caution, but the direction of change is undeniable.

The aggregate picture is supported by anecdotal evidence. In June 1995 the World Bank surveyed 150 households in Bishkek to appraise capacity and willingness to pay for heating and hot water. The responses to the income and expenditure questions revealed that households spent on average 70% of their income on food and 10% on

¹¹ For expenditure, the Gini also rose to 0.54 in 1993, before falling to 0.46 in spring 1996 (Research Triangle Institute, 1996, 2) and 0.41 in the winter 1996 LSMS survey.

¹² These figures calculated from the 1993 and spring 1996 surveys are comparable to the figure in the final column of Table 1. Using households rather than individuals as the unit, the headcount, poverty gap and FGT P2 measures of poverty (Foster, Greer and Thorbecke, 1984) increased from 40% to 49%, 20% to 24% and 13% to 15% respectively, indicating that the depth of poverty increased as well as the number of poor. The poverty line used in these World-Bank-sponsored exercises has been criticized by Peter Lanjouw (in Falkingham et al., 1997, 61-77) for being non-transparent and based on nutrition in a country where the poor are often obese. The World Bank *World Development Indicators 1997* estimate that 19% of the Kyrgyz Republic's population was below the international poverty line of US\$1 per day at 1985 prices, with a poverty gap of 5.0%, ie. lower figures than most but not all African, Latin American or South Asian countries (Tanzania and Mexico, for example, have fewer poor and a smaller poverty gap than the Kyrgyz Republic).

energy, but the lowest quartile spent 78% of income on food and 22% on energy (Finkel and Garcia, 1997, 194). Such figures paint a grim picture of a substantial part of the population of the capital city having inadequate incomes to cover basic needs and being vulnerable to even minor policy shifts with respect to provision of subsidized services such as district heating.¹³

Even more vivid pictures of people living on the brink emerge from the report on interviews of adults in 154 poor households in the southern oblasts of Osh and Djalalabad in September and October 1994 (Howell, 1996). Howell highlights the variety of coping strategies, but the overwhelming impression is of choices having to be made among satisfaction of basic needs, and often at the expense of future income. Should an animal be sold to buy supplies for schoolchildren or should the children be kept at home on the farm? Should a fruit tree be chopped down to save expenditure on coal? Non-essential items such as furniture or sheets or towels were being sold by urban dwellers who had no plot of land to fall back on for food.

The 1993 KMPS and more frequent LSMS surveys since 1996 should allow us to make more firmly based generalizations about the evolution of poverty during transition in the Kyrgyz Republic. Initial poverty assessments have been made by the World Bank (1995, extended by Ackland and Falkingham in Falkingham et al., 1997, 81-99), and by the Research Triangle Institute (1996). The following analysis draws on these sources, although the figures which we have obtained directly from the 1993 data set vary slightly from published figures.

In 1993 poverty was greater in rural areas. By the expenditure measure 56% of the rural population lived in households with an average expenditure below the poverty line, and 31% were very poor (ie. per capita household expenditure was less than half of the poverty line); the comparable figures for urban areas were 34% and 13% (Pomfret, 1998). The rural-urban comparison is sensitive to assumptions about consumption of non-marketed produce, which was large but likely to have been misreported even in the KMPS.¹⁴

Green and Vokes (1997, 265-6), referring to Asian Development Bank field studies, argue that rural-urban wage differentials in the Kyrgyz Republic widened markedly during the first half of the 1990s. Farmers suffered from the near collapse of input supplies (no fertiliser, pesticide or herbicide, inferior seeds, disrupted supply of fuel and spare parts), large adverse relative price changes and mushrooming rural debt. Ackland and Falkingham also claim that non-payment of farm wages and lack of rural credit widened the rural-urban gap after 1993, although net increases in livestock during 1993 suggest that people were not yet running down productive assets to maintain

¹³ District heating is a central system of providing heating to a community. About a quarter of households in the Kyrgyz Republic have access to the district heating network; 80% of these are in Bishkek.

¹⁴ In the KMPS 43% of urban and 71% of rural households reported having had access to a private plot of land during the preceding twelve months.

current consumption.¹⁵

Table 3 reports the results of a probit analysis to identify partial correlations with rural and urban poverty.¹⁶ The regional dimension supports Howell's decision to focus on Djalalabad when studying coping strategies. Ackland and Falkingham argue that the regional differential may be exacerbated by the slowness of transfers from Bishkek, the capital in the north, to southern jurisdictions such as Djalalabad. More surprising are the negative coefficients for Chu oblast, which may reflect the successful response of farmers switching to previously illegal crops.¹⁷ Households in Bishkek are least likely to be poor, and urban poverty appears to be most likely in the omitted category, Osh, the second largest city, located in the south.

Simple cross-tabulations from the KMPS show Turkic-headed households to be more likely than Slav-headed households to be below the poverty line, but this ethnic relationship is not supported in Table 3. In rural areas, all ethnic groups are less likely to be poor than Kyrgyz-headed households, but the negative coefficient is only significant for the heterogeneous "other Turkic" and "non-Russian Slav" categories, not for Uzbek or Russian-headed households.¹⁸ In urban areas, none of the ethnicity coefficients differ significantly from zero. Although the crosstabs reflect widespread perceptions of the ethnic dimension of poverty in Central Asia, the probit results are consistent with the conclusions of Lubin (1984), who found that Slavs in Uzbekistan had higher-wage jobs because they were better educated; Central Asians often chose not to pursue educational opportunities and gravitated to occupations offering opportunities for unofficial income.

A surprising result in Table 3 is that, although urban female-headed households are more likely to be poor than urban male-headed households, the same is not true for rural households. The lack of evidence of gender effects in rural areas may be due to inability to identify intra-household allocations of effort and consumption.

The evidence on family size is also inconclusive. The relationship between large

¹⁵ The two poor pastoral areas included in Howell's 1994 survey, however, recorded high rates of selling livestock (55% of households in one and 79% in the other) in order to buy food, coal, medicine, bus tickets and clothes, especially to enable children to continue attending school.

¹⁶ For more details see Pomfret (1998). A similar exercise is reported by Ackland and Falkingham (in Falkingham et al., 1997, 81-99) with essentially similar results for signs and significance tests, but disturbingly different coefficients.

¹⁷ In the mid-1990s the UN Drug Control Programme estimated that four fifths of the heroin consumed in Europe came from Central Asia (Kaser and Mehrotra, 1996, 248). The best growing areas are in the Kyrgyz Republic, especially in the Chu oblast. Before 1917 what is now the Kyrgyz Republic accounted for a fifth of world opium output.

¹⁸ The other non-Kyrgyz category contains Korean and Farsi-speaking groups, but primarily consists of other Turkic groups. Pomfret (1998), with other specifications of the probit analysis, identifies some ethnic patterns. In Kyrgyz and Uzbek households large numbers of children are associated with poverty, but having a female head is not. In Russian households family size is not a problem, but not having a working age male is.

families and poverty is complex. Having more children over six is positively associated with being poor, but having more children under six is not. For urban households, having more adults in the household is associated with a lower probability of being very poor.

The negative relationship between the household head's education level and the probability of being poor is as expected. Other labour market status variables exhibit no clear pattern. Pensioners were generously treated in the old system, although that began to change during the mid-1990s. Unemployment was still very low in 1993, when many workers were not being paid but few were officially unemployed. A late 1994 labour force survey for Kazakhstan (reported by Klugman and Scott in Falkingham et al., 1997, 118-40) found the newly poor included unemployed, unpaid workers and those suffering from steep falls in real wages. Similar forces were at work in the Kyrgyz Republic, where unemployment was only 6% of the labour force in late 1993, but it had increased to 20% by the time of the 1996 LSMS (37.5% for 16-25 year-old males).

The evidence from household surveys in the Kyrgyz Republic confirms that GDP measures exaggerate the extent of the fall in average welfare during the first half of the 1990s but hide the increase in inequality. Given that incomes were low by Soviet standards in 1991 and fell substantially during the next half decade, the widening inequalities amidst a falling aggregate consumption have inevitably increased the incidence of poverty in the Kyrgyz Republic. Analysis of household survey data can help to identify the correlates of poverty and thus provide some guidance to poverty alleviation strategies. Poverty is highest in rural areas, especially those far from the capital. Female-headed households are more likely to be poor than male-headed households, but this relationship is only significant in urban locations and appears to apply particularly to Russian households. Households with a large number of children are more likely to be poor, although this applies particularly to Kyrgyz and Uzbek households. Variations in the education level of the household head are generally not significant below the tertiary level, but having a household head with higher education is negatively related to the probability of being poor. The marginal effects of the explanatory variables in Table 3 are small, apart from location in Bishkek and higher education; at mean values the marginal effect of residence in Bishkek is -0.25 (ie. reduces by 25% the probability of a household being poor) and of higher education is -0.14, while no other marginal effect has an absolute value above 0.1.

4. Concluding Remarks

This paper started from the relationship between transition strategy and economic performance in Central Asia. The Kyrgyz Republic has been the most ambitious of the CARs in the speed and extent of its transition to a market-oriented economy. This strategy has been associated with a serious decline in living standards and widening of income inequalities. Those most at risk are the rural poor in the south of the country and the least-educated. Uzbekistan has adopted a more gradual transition strategy than the Kyrgyz Republic, or Kazakhstan, and appears to have experienced a smaller decline in

living standards. The experience of Turkmenistan and Tajikistan is more difficult to interpret in a comparative setting because for most of the post-independence era the former has attempted to maintain the economic status quo while the latter has been disrupted by armed conflict; neither had embarked on a sustainable development path before 1996 and subsequent changes are too recent to assess..

Supporters of rapid transition point to the benefits of creating the right environment for a market-based economy as quickly and as fully as possible, in order to set the scene for future growth. On the other hand, the decline in living standards in the Kyrgyz Republic may be undermining future growth prospects by inducing responses which reduce the capital stock; the necessity to sell or slaughter livestock or to cut down fruit trees to cover the current consumption needs of poor families has already been mentioned. There is also evidence that the distribution of human capital is becoming less egalitarian with changes in the delivery of education and healthcare. Particularly worrying for long-term growth is the drop in kindergarten enrolments; in the Kyrgyz Republic about a third of the age group attended kindergartens in 1991, but by 1994 enrolment rates had fallen below 10% of children in the target age group as state enterprises and collective farms came under pressure to impose charges or reduce quality or divest themselves of kindergartens (Klugman, Marnie, Micklewright and O'Keefe in Falkingham et al., 1997, 183-201). Such asset inequality reinforces the likelihood that under-privileged children will grow up to be poor and reduces the prospects for long-term growth.

Kazakstan is less vulnerable to vicious circles of poverty in view of its higher initial living standards. It may, however, be a less satisfactory test of the benefits of rapid reform, because the government is widely believed to have failed to provide the framework of good governance necessary for a successful market economy (Kalyuzhnova, 1998; Olcott, 1998). Moreover, widening inequality and severe reductions in public spending on education and health (Cheasty and Davies, 1996) undermine future growth prospects even if they do not lead to the immediate asset liquidation observed in the Kyrgyz Republic..

Uzbekistan has pursued a more gradual transition strategy, which can be directly linked to the smaller fall in GDP and perhaps with less severe inequality than in the Kyrgyz Republic (Falkingham et al., 1997, 114). In part, the relative success in protecting those most threatened by transition may be due to policy innovations such as decentralization of social assistance through the mahallah system (Pomfret and Anderson, 1997) or to private transfers (Coudouel et al., in Falkingham et al., 1997, 202-20), but we do not know of any firmly based quantitative assessments of these relationships. What is more readily documentable is that Uzbekistan has been the most successful CAR in protecting the level of government spending and minimizing cuts in health and education spending, which could augur well for the future. In Uzbekistan, however, the government still keeps a heavy hand on the allocative mechanism which discourages entrepreneurship and, especially, the creation of new private enterprises. Whether the net implication of Uzbekistan's initial strategy for sustainable long-term development is positive or negative is as yet unclear.

Any overall assessment of the relationship between policies and performance in Central Asia is thus highly conditional. The Kyrgyz Republic has pushed farthest with the reforms advocated by many outside advisers, but its performance in the first half decade after independence was disappointing. More seriously, increased poverty associated with rapid transition may undermine the sustainability of Kyrgyz development. Turkmenistan with its strategy of minimizing economic change under a highly personalized government has performed poorly with inflation still not controlled and no immediate prospect of economic growth. By 1995/6 the economic stagnation was placing severe pressure on the sustainability of the no-change strategy. Less predictable is the sustainability of the current strategies in the two largest CARs, which have an intermediate position between the Kyrgyz Republic and Turkmenistan in terms of speed of reform; whether future growth prospects are rosier in the unrestrained crony-capitalism of Kazakhstan or the more regulated paternalism of Uzbekistan is the key issue for the next decade.

Table 1: Income per head, income distribution and poverty Republics of the USSR 1989/90

	Population (million) mid-1990	Per cap GNP^a (1990)	Gini coeff (1989)	Poverty (% of pop)^b (1989)
USSR	289.3	2870	0.289	11.1
Kazak	16.8	2600	0.289	15.5
Kyrgyz	4.4	1570	0.287	32.9
Tajik	5.3	1130	0.308	51.2
Turkmen	3.7	1690	0.307	35.0
Uzbek	20.5	1340	0.304	43.6
Armenia	3.3	2380	0.259	14.3
Azerbaijan	7.2	1640	0.328	33.6
Georgia	5.5	2120	0.292	14.3
Belarus	10.3	3110	0.238	3.3
Moldova	4.4	2390	0.258	11.8
Russia	148.3	3430	0.278	5.0
Ukraine	51.9	2500	0.235	6.0
Estonia	1.6	4170	0.299	1.9
Latvia	2.7	3590	0.274	2.4
Lithuania	3.7	3110	0.278	2.3

Note: (a) GNP per capita in US dollars computed by the World Bank's synthetic *Atlas* method.

(b) poverty = individuals in households with gross per capita income less than 75 rubles.

Sources: columns 1-2, World Bank (1992, 3-4); columns 3-4, Atkinson and Micklewright (1992, Table U13) - based on Goskomstat data (HBS).

**Table 2: Performance and Initial Conditions Indicators
Successor States to the USSR 1989/96**

	Real GDP (1996 as % of 1989)	Inflation^a (1996)	Terms of trade^b
Kazakstan	45	29	+19
Kyrgyz Rep.	52	23	+1
Tajikistan	37	100	-7
Turkmenistan	57	130	+50
Uzbekistan	84	100	-3
Armenia	39	9	-24
Azerbaijan	38	12	-7
Georgia	31	9	-21
Belarus	63	102	-20
Moldova	35	11	-38
Russia	51	17	+79
Ukraine	42	30	-18
Estonia	69	12	-32
Latvia	52	10	-24
Lithuania	42	13	-31

Note: (a) annual increase in consumer price index (end of year)
(b) impact on terms of trade of moving to world prices, calculated at 105-sector level of aggregation using 1990 weights.

Sources: columns 1-2, EBRD (1997, 7&9); column 3, Tarr (1994).

Table 3: Probit Analysis of Household Poverty, Kyrgyz Republic 1993

	RURAL		URBAN	
	Poor	Very Poor	Poor	Very Poor
Constant	-0.028	-0.713**	-0.367+	-0.836**
<u>Region (oblast)</u>				
Narun	0.182	0.268	0.249	0.339
Talas	-0.121	0.030	-0.090	-0.678+
Djalalabad	0.479**	0.574**	-0.269	-0.479*
Issuk-Kul	0.082	0.207	-0.296	0.448
Chu	-0.377**	-0.255*	0.011	-0.664**
Bishkek			-0.523**	-0.740**
<u>Ethnicity of household head</u>				
Russian	-0.171	-0.223	0.112	0.021
Other Slav	-0.619**	-0.577**	0.187	-0.148
Uzbek	-0.182	-0.409	-0.108	0.108
Other non-Kyrgyz	-0.388**	-0.657**	-0.024	-0.307
<u>Demographic characteristics</u>				
Female head	-0.024	0.081	0.329**	0.378*
Number of adults	0.035	0.023	-0.026	-0.118*
Number of children under 6	0.071+	0.060	0.102	0.203*
Number of children over 6	0.079**	0.074*	0.164**	0.206**
<u>Education of household head</u>				
Not beyond primary school	0.095	0.117	-0.118	-0.024
Incomplete secondary school	0.038	-0.010	-0.108	0.065
Higher education	-0.247*	-0.270*	-0.353**	-0.385*
<u>Labour market status of head</u>				
Entrepreneur	-0.283	-0.463+	-0.451*	-0.238
Unemployed	0.025	0.067	0.151	0.394*
Retired	0.377*	0.215	-0.035	0.362+
Student	0.441	0.777+	0.308	0.037
Disabled	0.063	0.122	0.411	0.696*

Notes: Survey included 1101 rural and 828 urban households; poor households' expenditure was below a nutrition-based poverty line and very poor households spent less than half of this amount; **, * and + indicate coefficients significantly different from zero at the 1%, 5% and 10% levels respectively.

Source: Pomfret (1998).

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