



United Nations Development Programme
in the Russian Federation
Ostozhenka, 28, Moscow, 119034
Tel: +7(905) 787-21-00
Fax: +7(905) 787-21-01
<http://www.undp.ru>
office@undp.ru

UNDP

HUMAN DEVELOPMENT REPORT RUSSIAN FEDERATION 2002/2003



HUMAN DEVELOPMENT REPORT • RUSSIAN FEDERATION • 2002/2003

The Role of the State in Economic Growth and Socio-economic Reform





**HUMAN DEVELOPMENT REPORT
RUSSIAN FEDERATION
2002/2003**

*The Role of the State in Economic Growth
and Socio-economic Reform*

Moscow
2003

Human Development Report 2002/2003 for the Russian Federation has been prepared by a team of Russian experts and consultants. The Report expresses the views of its authors, and not of the institutions where they are employed.

CHIEF AUTHOR:

Prof. Sergei N. Bobylev, Dr.Sc. (Economics), Department of Economics at Moscow State University

V.M. Zakharov, Dr.Sc. (Biology), Director of the Centre for Russian Environmental Policy (Chapter 9)

CHAPTER AUTHORS:

L.S. Demidova, Ph.D. (Economics), Leading Researcher at the Institute for World Economy and International Relations of the Russian Academy of Sciences (Chapter 1)

L.M. Grigoriev, Ph.D. (Economics), Deputy Director of Expert Institute under Russian Union of Entrepreneurs and Industrialists, Leading Fellow of Institute for World Economy and International Relations at the Russian Academy of Sciences (Chapter 2)

A.E. Sourinov, Dr.Sc. (Economics), First Deputy Chairman of the State Committee of the Russian Federation on Statistics (Chapter 3)

T.Ya. Chetvernina, Dr.Sc. (Economics), Head of the Centre of Labour Market Studies at the Institute of Economics at the Russian Academy of Sciences (Chapter 3)

E.M. Andreyev, Ph.D. (Physics and Mathematics), Head of the Laboratory for Analysis and Prognosis of Population Mortality, Center for Demography and Human Ecology, Institute of Economic Forecasting at the Russian Academy of Sciences (Chapter 4)

Prof. N.S. Grigorieva, Dr.Sc. (Political Sciences), School of Public Administration at Moscow State University (Chapter 5)

N.V. Zubarevich, Dr.Sc. (Geography), Associate Professor, Department of Geography at Moscow State University (Chapter 6)

L.I. Jakobson, Dr.Sc. (Economics), First Deputy Rector at State University — Higher School of Economics (Chapter 7)

Prof. A.A. Auzan, Dr.Sc. (Economics), Department of Economics at Moscow State University, President of the Social Contract National Project Institute (Chapter 8)

BOX CONTRIBUTORS:

Prof. S.N. Bobylev, Dr.Sc. (Economics), Department of Economics at Moscow State University (Box, Chapter 1)

N.V. Zubarevich, Dr.Sc. (Geography), Associate Professor, Department of Geography at Moscow State University (Box, Chapter 1)

I.V. Kolosnitsyn, Ph.D. (Economics), Senior Manager at the Bureau of Economic Analysis (Box, Chapter 2)

L.N. Ovcharova, Ph.D. (Economics), Research Programme Director at the Independent Institute for Social Policy, Laboratory Head at the Institute for Socio-economic Population Studies of the Russian Academy of Sciences (Box, Chapter 3)

V.Ya. Snegovsky, Editor-in-Chief of the journal "Street Children" (Box, Chapter 4)

Prof. I.A. Rozhdestvenskaya, Dr.Sc. (Economics), Leading Researcher and Programme Coordinator "Reform of the Education System" at the National Training Foundation of Employees (Box, Chapter 5)

S. Sharp, M.A. (Economics), UNDP Assistant Resident Representative in the Russian Federation (Box, Chapter 6)

S.N. Miroshnikov, Ph.D. (Physics and Mathematics), Senior Lecturer, Deputy Chief of the Local Governance Department at the Ministry of Economic Development and Trade (Box, Chapter 6)

Prof. A.G. Barabashev, Dr.Sc. (Philosophy), Deputy Dean of the Public Administration Department at Moscow State University (Box, Chapter 7)

MAPS:

V.V. Petrov, Department of Geography at Moscow State University

COVER ILLUSTRATION:

I.D. Zakharov, OOO "ART SOKHO"

Human Development Report 2002/2003 for the Russian Federation/Ed. by Prof. S.N. Bobylev; translation from Russian by D. Dynin, ed. in english by Ben W. Hooson — VES MIR Publishers, Moscow, 2003. 120 pp., incl. tables, figures, boxes and maps.

This is the eighth annual Human Development Report for the Russian Federation. National reports are produced at the initiative of the United Nations Development Programme (UNDP) and national partners in 135 countries across the world. Global and Regional Human Development Reports by leading independent experts addressing international perspectives are also published annually with support from UNDP.

The main focus for 2002/2003 is "The Role of the State in Economic Growth and Socio-economic Reform." Strategic factors of social development (e.g. the accumulation of knowledge and skills, the level and quality of educational attainment, the physical condition and cultural characteristics of the population) are influenced to a large extent by the State.

It is intended for public administrators, political scientists, scholars and students.

ISBN 5-7777-0285-6

© UN Development Programme, 2003



Acknowledgements

The authors express their gratitude to *A.Granovsky*, *V.Nebenzya*, *V.Zagrekov* and *R.Khairullin*, Department of International Organisations of the Ministry of Foreign Affairs of the Russian Federation.

Assistance and support for the implementation of this project was also provided by UNDP representatives in the Russian Federation: *Frederick Lyons*, UNDP Resident Representative (until March 2003); *Stefan Vassilev*, UNDP Resident Representative; *Eric Brunat*, UNDP Deputy Resident Representative; *Shombi Sharp*, UNDP Assistant Resident Representative; *Elena Malanova*, UNDP Programme Officer; *Andrey Stetsenko*, NHDR National Project Coordinator; *Natalia Voronkova*, NHDR Project Assistant and also *Andrey Ivanov*, Adviser, UNDP Regional Support Centre in Bratislava.

The authors appreciate recommendations and comments provided by a range of participants at the Public Hearing of the Human Development Report in the Russian Federation.

A citation for the Russian Federation NHDR

The 2001 Human Development Report for the Russian Federation, which focused on the generational aspects of human development, was one of three reports chosen in the contest for the best Human Development Report in the category “Excellence in Human Development Innovations — Concepts and Measurements”. Reports to the contest were submitted from over 100 countries worldwide. The Judges Panel, which included Nobel Laureate Joseph Stiglitz, noted that the Report’s generational analysis of human development was comprehensive, important, and a truly refreshing approach to the current situation in the country. We congratulate our authors for their contribution to this superb Report!

To the Readers

The theme of the State and its role in human development is attracting increasing attention in the world today. It has always been an important theme in Russia, but has become particularly relevant in recent years, largely due to exhaustion of the possibilities of the existing Russian model of the State and the need for its radical renewal. Efforts of Russian presidential, government and legislative structures in the last few years have focused on the transformation of the State, based on the development of a new and effective model. Russia has only just embarked on this path, and much remains to be done, but the directions of reform have already been determined to a large extent.

The individual is playing an ever-greater role in the socio-economic development of societies the world over, making a focus on human development a pre-condition for the healthy evolution of the State. The human factor is becoming more important than technological capacity and natural resources. Education, scientific knowledge, health, social engagement, and the freedom of choice make it possible for individuals to speed up progress significantly, and the State's primary concern should be to develop these aspects of its human resource base. In Russia, the drafting and implementation of reforms must assign real priority to the country's social problems, which are still not receiving sufficient attention. However, the success of reform also depends on active support from civil society, which is why the development of civil society in Russia receives so much attention in the present Report.

I would like to express my gratitude to the UNDP Representative Office in the Russian Federation for its support in the production of the annual Human Development Reports, which are an important tool for stimulating discussion in governmental, scientific and political circles about problems of concern to everyone in our country.



G.N. Karelova

Deputy Prime Minister of the Government
of the Russian Federation

Dear Readers,

I am pleased to offer you the eighth annual edition of the Human Development Report for the Russian Federation, prepared by a team of leading Russian experts. Conceived and supported as a joint initiative of the Government of the Russian Federation and the United Nations Development Programme, the Report provides rigorous analysis of key social, economic and environmental challenges within the framework of sustainable human development and the Millennium Development Goals. Consistent methodology across Reports facilitates the monitoring each year of the emergence of a new Russia.

The present Report centres around two questions of key importance in Russia today: the role of the State in socio-economic reform and approaches for increasing its effectiveness. The first section examines challenges in the context of economic and demographic trends, income, employment, health, and education, and presents Human Development Indices for each of the Russian regions. In the following section, the authors analyse principal stages in the process of reforming the Russian State and the interaction between the State, business and society.

The practical nature of the overall Report and its policy implications results from the highly professional and independent contributions of its authors. The latter are outstanding scholars in their own right, with significant experience advising government as well as participating in critical presidential and legislative commissions. This enables the Report to provide first-hand insight on key aspects of the reform process.

I hope that this Report will prove to be a valuable tool for the widest possible audience, helping to stimulate a vibrant public dialogue on approaches for enhancing the effectiveness of the State within the context of ongoing socio-economic reforms, including the development of a new model of the State in Russia. The data and conclusions contained within each Human Development Report also serve as practical tools for managers across public administration, civil society and private business organisations.

Best wishes,



Stefan Vassilev
UNDP Resident Representative in the Russian Federation

Content

Introduction	10
General Overview	11
Chapter 1. The State and Human Development	17
The Role of the State in Human Development	17
Reform of the State and Human Development outside Russia	19
The State and Human Development in Russia	22
Box. UN Millennium Development Goals	28
Chapter 2. Russia in 2002: Striving to Modernise the Economy and the State	29
Macroeconomic Context	29
Effect on Human Capital	30
Inertia of the Economic System	32
Ongoing State Reforms	35
Box. Federal Spending on Social Policy	39
Chapter 3. State Regulation of Income and Employment	41
Income Generation	41
Income From Employment	42
Retirement Pensions	44
Income Disparities	45
State Employment Policy	46
Principal Results of Employment Policy Reform	47
Box. State Policies for Reducing Poverty	52
Chapter 4. The State and the Demographic Situation	55
Russian Population Projections	55
Mortality in Russia	56
The Role of the State in Lowering Mortality	57
Need for a Program of Measures to Reduce Mortality	58
Box. The State and the Social Insertion of Children	62
Chapter 5. Public Health Policy and the Gender-Based Approach	63
Growing Role of the Public Health System	63
Mother and Child Health	64
Gender Aspects of Health	67
Box. Education in Russia in 2002: The Results of an Experiment to Introduce a Common State Examination and Registered Government Bonds	70
Chapter 6. The State and Human Development in Russian Regions	73
Redistribution of State Resources	73
Social Spending at Different Levels of Government	75
The Role of the State in Equalising Regional Disparities in Incomes and Employment	76
Healthcare and Regional Health Indicators	77
Human Development Index	78
Box. Application of the Human Development Index — International Experience	83

Box. Human Development in the Samara Region	84
Box. State Support for Municipal Government Reform	86
Chapter 7. Modernisation of the State Apparatus	87
Democratisation of the State Apparatus	87
Civil Servants: Numbers, Structure and Interests	89
Components of Reform	92
Box. The State Apparatus in the Russian Federation: Current Situation, Problems, and Directions of Reform	97
Chapter 8. Government and Business: Towards a New Social Contract	99
Deregulation of the Economy	100
Dialogue Between Society, Business and Government	102
Chapter 9. Environmental Protection and the Development of Civil Society in Russia	107
The Situation Today	107
The Special Role of Civil Society in Resolution of Environmental Problems in Contemporary Russia	108
Development of Civil Society	110
Addenda	
Addendum A	
Table A.1. Difference in the Average Life Expectancy Between the European Union and Russia for Different Age Groups and Causes of Death	113
Table A.2. Probability of Death (Number of Deaths per 1,000 New-Born Children) and the Average Age at Death in the European Union and Russia According to Cause of Death	114
Table A.3. Steps to a Healthy City	115
Table A.4. Regions with the Highest Spread of HIV	115
Addendum B	
Map 1 MDGs Indicators and Social Expenditures of Regional Budgets, 2001 ..	116
Map 2 Human Development Index of Russian Regions, 2000	117
Addendum C	
Calculating the Human Development Index for the Constituent Members of the Russia Federation	118
Lists of Tables, Figures and Boxes Used in the Report	
Table 1.1. Expenditures by the State in Selected OECD Countries and Russia	19
Table 1.2. Social expenditures in different countries	21
Table 2.1. Principal Macroeconomic Indicators 1996—2002	33
Table 2.2. Production Output by Branch 1990—2002	35
Table 3.1. Trends in the Overall and Registered Unemployment in Selected Eastern European Countries and Russia in 1994—1999	48
Table 3.2. Employment of Workers Through Employment Offices and Information About Job Offers Provided by Companies to Employment Offices	48
Table 3.3. Relation Between the Minimum and Average Wage and Social Transfers and the Subsistence Level	53
Table 4.1. Russian Population Projections up to 2050	55
Table 4.2. Health Expectancy in Russia and in Selected Western European Countries in the mid-1990s	57
Table 5.1. Incidence of Selected Diseases Among Women	65
Table 5.2. Termination of Pregnancy (Abortions) in the Russian Federation	66
Table 5.3. Results of the Experiment to Introduce a Common State Examination	70

Table 5.4.	Correspondence Between CSE Results, RGB Categories and Their Cost.	72
Table 5.5.	Distribution of First-Year Students at Higher Educational Establishments Participating in the Experiment, according to RGB Category	72
Table 6.1.	Equalisation of Budget Incomes Per Capita of the Constituent Members of the Russian Federation	74
Table 6.2.	Share of Budgets of Various Levels in Social Spending	75
Table 6.3.	Budgetary Spending Structure in Regions with the Highest and Lowest Human Development Indices	76
Table 6.4.	Indicators of Healthcare Financing and Public Health Levels in Selected Members of the Russian Federation	79
Table 6.5.	Human Development Index for the Constituent Members of the Russian Federation	80
Box.	UN Millennium Development Goals	28
Box.	Federal Spending on Social Policy	39
Box.	State Policies for Reducing Poverty	52
Box.	The State and Social Insertion of Children	62
Box.	Education in Russia in 2002: The Results of an Experiment to Introduce a Common State Examination and Registered Government Bonds	70
Box.	Application of the Human Development Index — International Experience	83
Box.	Human Development in the Samara Region	84
Box.	State Support for Municipal Government Reform	86
Box.	The State Apparatus in the Russian Federation: Current Situation, Problems, and Directions of Reform	97
Box 1.1.	.....	18
Box 1.2.	.....	20
Box 1.3.	.....	23
Box 1.4.	.....	24
Box 1.5.	.....	25
Box 2.1.	.....	32
Box 3.1.	.....	41
Box 3.2.	.....	42
Box 3.3.	.....	44
Box 3.4.	.....	46
Box 3.5.	.....	49
Box 4.1.	.....	59
Box 5.1.	.....	68
Box 7.1.	.....	88
Box 7.2.	.....	89
Box 7.3.	.....	90
Box 7.4.	.....	92
Box 8.1.	.....	99
Box 8.2.	.....	102
Box 9.1.	.....	107
Box 9.2.	.....	109
Figure 2.1.	World Trends in the Real GDP	30
Figure 2.2.	Changing Public Expectations Concerning Unemployment, Industrial Production and General Economic Development for the Coming Year	31
Figure 2.3.	Trends in Industrial Production, Employment and Investments	34
Figure 2.4.	Percentage Share of Expenditures of the Social Policy Section in Overall Federal Spending during the Period 1995—2001	39
Figure 2.5.	Percentage Share of Expenditures of the Social Policy Section in GDP	40

Figure 2.6. Social Payments from State Non-Budgetary Funds	40
Figure 3.1. Gross Domestic Product and Final Consumption of Households from Cash Incomes	42
Figure 3.2. Number of People With Cash Incomes Below the Subsistence Level	43
Figure 3.3. Average Monthly Salary and Average Monthly Retirement Pension in Comparison with the Subsistence Level	45
Figure 3.4. Distribution of Poverty in Russia in 2002	46
Figure 3.5. Structure of Household Incomes	47
Figure 3.6. Trends in Registered Unemployment and Overall Unemployment under ILO Methodology in 1992—2000	47
Figure 3.7. Trends in the Incidence of Poverty	52
Figure 3.8. Distribution of the Total Volume of Benefits in Kind	54
Figure 4.1. Population in 1950—2000 and Projections for 2000—2050 with Different Confidence Intervals	56
Figure 5.1. Maternal Mortality in the Russian Federation	65
Figure 5.2. General Incidence of Disease Among Children (0—14 years old) and Adolescents (15—17)	67
Figure 5.3. Distribution of Disabled Children According to their Principal Disability	67
Figure 6.1. Share of Consolidated Regional Budgets in the State Budgetary System	74
Figure 6.2. Trends in Cash Incomes in Different Types of Regions in 1999—2001	77
Figure 6.3. Constituent Members of the Russian Federation with the Highest and Lowest Per Capita GRP	82
Figure 6.4. Changes in the Key Indicators of the Standard of Living in Samara Region in 2001 and 2002	84

Introduction

This is the eighth annual Human Development Report for the Russian Federation. National reports are produced at the initiative of the United Nations Development Programme (UNDP) and national partners in 135 countries across the world. Global and Regional Human Development Reports by leading independent experts addressing international perspectives are also published annually with support from UNDP.

The *Human Development Report for the Russian Federation 2002/2003* maintains a conceptual linkage with previous national reports prepared by different teams of independent Russian experts with the assistance of the UNDP Representative Office in Moscow. Far from being simply an account of socio-economic development during the respective period, each Report presents an in-depth analytic study of key issues within the framework of human development and, since 2000, the Millennium Development Goals.

The main focus for 2002/2003 is “The Role of the State in Economic Growth and Socio-economic Reform”. Strategic factors of social development (e.g. the accumulation of knowledge and skills, the level and quality of educational attainment, the physical condition and cultural characteristics of the population) are influenced to a large extent by the State. The Report highlights those aspects of the ongoing reform of the Russian State that have the greatest impact on human development. From the human development perspective, such reforms should be aimed at improving public welfare and health; raising the educational level; focusing state resources and activities on priority social, humanitarian and administrative functions while reducing the State's involvement in production; bringing the State closer to the individual through decentralization of the administrative system; developing partner relations with civil society and business; etc.

The authors rely mainly on official statistics published by the State Committee of the Russian Federation on Statistics and various state ministries and departments. References are provided when non-official sources of information are used. If several sources of information are available, the authors cite official published materials. For the purposes of assessing trends in contemporary public opinion, results of public surveys are employed in the Report.

General Overview

The first chapter, “The State and Human Development,” analyses the status of human development internationally and within Russia in the context of global socio-economic trends. Economic growth is increasingly fuelled by intangible capital, most notably human resources, the level and quality of which are key drivers for basic indicators of social and economic development. As a natural and significant participant in this process, the role of the modern State in creating enabling conditions for human development has expanded in the post-industrial, globalised world. In Russia, this linkage is further shaped and determined by the ongoing reform process, giving rise to the central focus of this year's Report.

The state of human development in Russia remains complex, and the situation in key spheres, such as science, education and healthcare, has deteriorated markedly. Such unfavourable tendencies must be reversed for the long-term good of the country, and the State must play a key role in this process. But the State itself cannot make an adequate contribution unless it is fundamentally renovated, its place and role in society changed, and its responsibilities and mechanisms revised. Resolution of the country's human development problems calls for focus on priority areas of public policy, including the further implementation of market reform strategies, the stimulation of a sizeable small and medium business sector and the fostering of civil society as a full partner. Urgent tasks include reorienting fiscal policies towards social and humanitarian goals with renewed resource allocation to science, education, health and culture. The social redistribution function of the State demands profound restructuring, with outdated forms of social protection and assistance appropriately adapted to meet contemporary demands.

Over the last several years, the government has increased its efforts to broadly restructure the social sphere. A number of

directions of social reform initially suggested have been further elaborated, with legislative activity intensifying. Comparative analysis of global processes and the situation in Russia suggests that the resolution of key human development challenges in the country depends on the development of a socio-economic model designed to diminish obstacles to growth in human potential. There is of course no single recipe for building such a model, and despite increasing convergence across the principal forms of socio-economic models implemented in the world today, every country requires a system sufficiently adapted to its specific conditions to ensure sustainability and relevance. Russia is no exception to this rule, and must therefore focus on a socio-economic model adapted to its own specificities. Given the prevailing historical, social, and cultural context in Russia, an economic model with a strong social constituent, i.e. a socially-oriented market economy, is presented as most suitable.

The second chapter, “Russia in 2002: Striving to Modernise the Economy and the State,” analyses prospects for and obstacles to economic development, and the role of the State in managing this process. Russia enjoyed a relatively positive year in 2002 across most basic indicators. Russian economic growth exceeded the world average for the third straight year following the crisis decade, with a significantly favourable effect on public sentiment, the economic decision-making horizon and investors' assessment of the business climate. Nevertheless, institutional changes in Russia have taken place quite slowly (except in the initial stage of transition). The new reform package will be effective only to the degree that it is adopted and implemented at federal, regional and local levels.

The country's overall economic recovery continued to have a favourable effect on human development since the last

Comparative analysis of global processes and the situation in Russia suggests that the resolution of key human development challenges in the country depends on the development of a socio-economic model designed to diminish obstacles to growth in human potential

The economy must urgently foster economic diversification, including the promotion of processing industries, to insulate against future shocks and preserve its long-term growth potential

Wages remained low compared with economically developed countries. Mainly concentrated in the public sector, many jobs continue to offer salaries below the subsistence level

Report. However, enormous challenges in education and public health (especially in the regions) persisted, and the number of poor people remained high as a few years of relatively concentrated growth has yet to compensate for broad losses sustained in the preceding decade. Consumer spending grew by almost a third over three years, reaching its highest level since 1991. The overall growth in consumer prices during 2002 was largely the result of an increase in commodity prices rather than those in the service sector. A broad rise in prices for municipal and housing services represented a growing source of social tension, as many found it difficult (or even impossible) to cope with higher rates.

The rate of capital accumulation last year decreased to approximately equal that of GDP growth. Public investment remained insufficient to meet the enormous need for economic expansion and modernisation of the country's physical capital following the long period of acute capital stock depreciation between 1991 and 1999. It is still unclear which economic forces will serve as the primary drivers of modernisation: integrated business groups, small and medium businessmen (the priority target of government programs) or the State, which has so far avoided post-Soviet capital accumulation.

Continued budgetary dependence on external revenues, especially deriving from the concentrated natural resource sector, maintains a potential for macroeconomic instability in the face of external shocks. The economy must urgently foster economic diversification, including the promotion of processing industries, to insulate against future shocks and preserve its long-term growth potential. It is particularly important not to lose the renewed reform momentum gained during the legislative and presidential electoral campaigns of 2003–2004 and subsequently manifested in new policy and legislative initiatives. The modernisation of Russia will ultimately depend on a range of different economic agents and will require, in particular, reforms to harness the power of the private financial sector in facilitating capital accumulation.

The third chapter, “State Regulation of Income and Employment,” demonstrates

that real personal incomes in Russia continued their return to pre-crisis levels in 2001–2002. This resulted primarily from growth in employment income (wages and business revenues), abating inflation, pension increases and poverty reduction measures. Wage arrears were reduced, as was the number of employers found in breach of labour contract obligations due to delayed wage payments. As a result, consumers' purchasing power increased, and public self-assessment of material conditions improved over 2000. The shadow economy remained a significant contributor to GDP and a source of livelihood for a considerable part of the population with an estimated one third of total wages in the Russian economy going unrecorded in 2002.

Nonetheless, poverty continued to be an acute problem in Russia. Wages remained low compared with economically developed countries. In addition to the more traditional factors of income-based inequality among the Russian population (e.g. household ratio of dependants to income earners, employment status, unemployment, varying levels of educational attainment), growing wage differentials among the employed and irregular wage payments yields an increasingly marked impact on the structure of poverty and wealth distribution. Mainly concentrated in the public sector, many jobs continue to offer salaries below the subsistence level. Pension increases raised the average pension in 2002 above the official subsistence level for pensioners, but the financial situation of Russian senior citizens remained characterised by fairly low incomes and a pattern of consumer spending with a high share of spending on food and daily necessities.

The role of the State in employment generation is examined in the context of changes that took place in 2001–2002: liquidation of the extra-budgetary State Employment Fund, which financed the government policy of employment protection during the 1990s, and transition to funding such protection from the federal budget. The shift, however, has not resolved inconsistencies between the mandated provision of material support to the unemployed, which is formally preserved in the Employment Law, and mechanisms for its implementation. Nor has the transition

resolved the lack of continued and long-term funding for employment programs or equal access of Russian regions to public funds. One notable negative result of these changes was an outflow of highly qualified specialists from the National Employment Service Network.

Continuing this discussion, the chapter employs scenario analysis to investigate various possible outcomes in labour policy over the medium-term. This approach includes a range of considerations, from one extreme in which public policies continue to evolve towards centralisation, limiting the impact of regional policies with the curtailment of employment promotion programs and a general transition to social benefits for the unemployed. Counter scenarios are further proposed in which conceptual changes in public employment policies are matched with alternative sources of public financing.

The population level in Russia has been falling for over a decade with a general consensus across demographic projections that this trend is likely to persist for at least another half-century. This critical dynamic constitutes the primary focus of the fourth chapter, “The State and Demographic Problems.” Experts tend to be quite cautious about forecasting the mortality rate trajectory in Russia. While Russia was only slightly behind the West in terms of life expectancy in the mid-1960s, the situation has degenerated considerably since then both in relative and absolute terms. According to the most optimistic United Nations scenarios, life expectancy in Russia in the late 2050s will increase considerably, though remaining below levels currently observed in Western European countries. Life expectancy forecasts by Russian experts are largely less optimistic.

The historical evolution of mortality in Russia shows that it is not an issue that can be easily resolved through improvements in living standards or the quality and accessibility of health care. While the need for comprehensive approaches is clear, Russian research struggles to offer viable strategies or policies for the rapid reduction of mortality. Existing estimates of the incidence of certain diseases differ by an order of magnitude, and mutually exclusive recommendations regularly compete for attention.

Russia would benefit greatly from more in-depth study and assimilation of evidence-based international approaches for the effective reduction of mortality rates in transition countries.

Finally, the chapter outlines a worrying trend in official Russian statistics, which have gradually begun to ignore a considerable amount of standard demographic data. For example, the nation-wide census of 2002 neglected to gather even basic data on respondents' socio-economic status. This resulted from the implementation of a 1998 federal law stating that new birth, marriage, divorce and death certificates are not required to contain socio-economic information about parents, newlyweds, divorced couples, or the deceased. Collection of such data during censuses had been standard in the USSR and, subsequently, Russia since 1970.

The fifth chapter, “Public Health Policies and the Gender-Based Approach” discusses changes in the basic principles of national public health strategy over the past decade from a gender perspective. Public health policies based on a sound legal framework influence the broader social environment in various ways. However, despite the abundance of relevant federal and regional legislation, it has become apparent that the fundamental principle of the individual's right to health, as stipulated in the Russian Constitution, has become vague in practice. Laws are often difficult to interpret and have been amended many times over. Streamlining of the legal framework and adoption of a Public Health Code (in preparation for over six years) have become matters of utmost urgency.

The chapter presents a special study of mother and child health internationally and in the context of Russia's current socio-economic development. Current challenges facing Russia include high rates of maternal and infant mortality, a broad decline in health indicators (e.g. health of pregnant women, post-natal health and health of new-born children), a high incidence of disease among women, and the high frequency of abortions. The state of child health is marked by growing incidence of disease, disability, drug and alcohol addiction, Sexually Transmitted

Improving mother and child health is one of the basic principles of national public health strategy

One of the greatest challenges facing the Russian Federation is the establishment and preservation of equal opportunities for sustainable human development across its constituent regions

Infections (STIs), and HIV/AIDS. This rather gloomy picture is somewhat mitigated by several positive trends, including a reduction in maternal and child mortality rates, and a decline in the total number of abortions.

Gender remains a key structural determinant of health at the level of the individual, the group and society at large. A gender-based approach to healthcare is therefore useful in prioritising and targeting public health policy goals. Though gender analysis is not yet mandatory for public health reviews in Russia, the existence of strong gender roles within society and the demonstrated potential for fomenting positive change through public policy strongly suggest that such analysis is critical.

One of the greatest challenges facing the Russian Federation is the establishment and preservation of equal opportunities for sustainable human development across its constituent regions. The sixth chapter, “The State and Human Development in the Russian Regions,” focuses on this issue and policy directions best positioned to meet with success. The campaign for political centralisation at the end of the 1990s was accompanied by an increased concentration of economic resources centrally at the expense of regional fiscal autonomy. In 2001, 71 of the 88 constituent members of the Russian Federation (Chechnya excepted) received transfers from the Fund for Federal Support to Regions. Federal transfers and other forms of financial assistance constituted 50% to 80% of the budget in 20 regions. A lack of balance between control from the centre and fiscal autonomy among the regions and municipalities reduces incentives for regional and local authorities to establish sound social policies and enabling conditions for economic growth.

The comparative economic advantages of “strong” subjects of the Russian Federation, largely related to natural resource endowments, has fuelled growing disparities in regional development. Federal fiscal equalisation policies have only managed to reduce the potential growth of regional divergences in personal incomes rather than reverse the trend. From 1999 through 2001, the most rapid growth of real per-capita income was recorded in leading oil exporting regions.

Intensive growth was also observed in some less-developed regions that benefited from the centralisation of fiscal policy and a concurrent increase in social transfers and public sector wages. The status of regional labour markets improved broadly in 2001, with unemployment levels falling across 68 regions. However, serious fundamental disparities remained; republics in the southern part of European Russia and ethnic areas in southern Siberia continued to demonstrate relatively high unemployment rates. Regional differences persisted due to a combination of natural and climatic conditions, the standard of living, and varied levels of modernity in lifestyles across regions. Differences in infant and child mortality between rural and urban areas have increased over the transition period, resulting from a lack of significant investment in rural healthcare. Positive changes in child and maternal mortality rates are largely due to a decline in the birth rate.

Human development variations across the Russian regions can be illustrated with the help of the Human Development Index (HDI), calculated using data of the State Committee of the Russian Federation on Statistics. Only three Russian regions (the city of Moscow, the Tyumen Region and Tatarstan) presented index values on par with those of the EU accession countries. The Moscow HDI was close to that of Slovenia, while exceeding those for the Czech Republic and Hungary. Due to a major gap between the top few regions and the rest, the HDI exceeded the national average in only 12 regions (the smallest number since the HDI was first calculated five years ago). Almost half of Russia's regions have similar HDIs levels, which are slightly below average. Regions with the lowest indices include poorly developed republics in southern Russia and autonomous regions in Siberia and the Russian Far East.

Chapter Seven, “Modernisation of the State Apparatus,” begins with the observation that, by the end of the 1990s, Russian society was almost unanimously supportive of strong government. This comes in marked contrast with sentiments prevalent during the preceding three decades. The spontaneous development of market mechanisms had largely outpaced the for-

mation of democratic institutions, giving rise to serious imbalances between two poles: freedom and the rule of law, entrepreneurial initiative and the provision of public goods, increasing inequality and social policies designed to integrate society.

Historically, the government in Russia has relied heavily on the state administration (the Russian word for this, “apparat”, has even come into English use as a synonym for a rigid bureaucracy, and even more so the derivative Russian word “apparatchik”, which refers to an individual administrator) to govern the country. A genuine separation of powers began to appear only during the past decade. The fact that political parties and parliament exert influence in Russia today represents significant progress, even if this influence remains on aggregate smaller than that of the government.

Nonetheless, there exists a dilemma that has characterised reforms to date. Dramatic changes have often led to a general weakening of power, as old structures are drained of capacity and conflicts between new structures arise. Further, the country's cultural and historical legacy has posed and will continue to pose an obstacle to democratic reforms. Nonetheless, Russia faces a significant opportunity to create a mature, efficient and stable democratic state relatively quickly if the state apparatus can be sufficiently modernised. Key conditions for such a transformation include a modernisation timeframe as expedited as the phase in which power was consolidated and a guiding framework for modernisation that seeks to maximize common interests with those prevalent in the apparatus itself.

It is notable that, contrary to the prevalent view, the number of bureaucrats in Russia relative to the size of the population and economy generally compares favourably to other countries. The overwhelming majority of civil servants are employed in executive bodies of government. In 2001, the President approved a “Conception of Public Service Reform in the Russian Federation”. Its primary objectives include (a) a significant increase of the efficiency of public servants in assisting the development of civil society and consolidation of the State, and (b) creation of an integrated public service system with

due regard to Russia's historical, cultural, ethnic and other specific features.

Finally, the reform of the state (and municipal) apparatus is in many ways a part of a broader process: the reform of federative relations. There are two basic challenges that arose during the 1990s in this regard. First, the rights and responsibilities in matters subject to joint jurisdiction of federal, regional and/or local authorities were left virtually undefined. Second, there remains a wide discrepancy between the fiscal capacity of regions and their formal rights and responsibilities with regard to citizens and institutions. These interrelated phenomena serve to encourage populism in government, as officials are free to make extravagant policy decisions without the necessity of specifying the authority charged with implementing them.

The eighth chapter, “Government and Business: Development of a New Social Contract,” argues that the social contract between business and government that arose in Russia in the 1990s has become outdated and no longer satisfies either party. According to this social contract, the government derived direct and indirect revenues from the regulation of business (i.e., regulation became a sort of “public enterprise”). This burden served to push a large share of businesses out of the formal economy and away from regulation of any kind. The policy of economic deregulation announced in 2001 with the aim of reducing barriers and transaction costs for business was the first step towards the elaboration of a new social contract. The first three laws on deregulation of the economy were passed in the same year. Another important law governing technical regulation was passed in 2002, introducing fundamental changes in the overall system of standardisation, safety and quality control, as well as opening up a new field for dialogue between government and business concerning the development of quality standards for products. However, a limited number of statutory acts on deregulation of the economy constitute a necessary but insufficient critical mass for fundamental change, as has been highlighted by ongoing difficulties in applying them.

Carrying the analysis further, the chapter highlights five key aspects of renewal for

The Reform primary objectives include (a) a significant increase of the efficiency of public servants in assisting the development of civil society and consolidation of the State, and (b) creation of an integrated public service system with due regard to Russia's historical, cultural, ethnic and other specific features.

*There is a perhaps
unexpected but
nonetheless strong
positive relationship
demonstrated
internationally
between the
development of civil
society and the
sustainable use
of natural resources*

a revamped social contract. First, deregulation should be continued. Second, government transparency in reform is needed. The administrative and municipal reforms being carried out at present are insufficiently consultative; the reform process requires greater broad-based involvement of civil society. Third, administrative barriers distort the competitive environment and create inequalities in opportunity among actors. Therefore, the participatory development of a new policy framework regulating competition is of crucial importance. Fourth, transition to a contributory pension scheme involves an unprecedented convergence of interests between business and the public sector. Pension reform, however, is complicated by the role of government as both regulator and participant in the new market for pension cash. Fifth, the de-facto gradual legalisation of business should be recognised and facilitated by society and the state.

There is a perhaps unexpected but nonetheless strong positive relationship demonstrated internationally between the development of civil society and the sustainable use of natural resources. This thesis is elaborated in Chapter Nine, “Environmental Protection and the Development of Civil Society in Russia.” It is taken as a given that Russia’s economic and national development depends heavily on its rich reserves of natural resources. Unfettered exploitation of these resources, however, could lead to their depletion and serious environmental pollution, turning a source of wealth into a threat for Russia and the global

community. It is vitally important to build public awareness on the immense economic value of natural resources, even those that cannot traditionally be bought and sold, to ensure their sustainable use. A rigorous assessment of the country’s natural wealth, accompanied by the development of a long-term strategy for protecting and building on that wealth, would represent an important step in the right direction.

Finally, Russia’s environmental and economic future is largely dependent on the degree to which the development of civil society can catch up with the unimpeded expansion of natural resource exploitation, i.e. on whether a newly formed civil society will be able to present an effective counter to the status quo. The non-government sector, which is relatively strong on environment issues in Russia, plays a key role as a catalyst for broader civil society development. A large part of the work of environmental NGOs includes lobbying government to pursue policies that protect and enhance the natural environment. But NGOs would be well served to focus efforts on demonstrating to government that they can support the more efficient provision of many public goods and services through partnership by providing information, analytical capabilities and human resources to state entities. The Russian government has historically had a reputation for a lack of interest in listening to the non-government sector, and that habit will only be broken when state officials are convinced that they can best serve their own interests through mutual collaboration with civil society.

Chapter 1

The State and Human Development

The creation worldwide of a new economy and post-industrial society involves profound technological, structural and institutional changes. Intangible capital has emerged as the driving force for social development, making the international economy innovative and intense, and giving it structural dynamism and high standards of quality. The role of human resources (the knowledge, skills, intellect and creative abilities of individuals) in intangible accumulation is expanding, and the main economic parameters of countries are increasingly determined by the scale and quality of their human assets. Economic success now depends ultimately on a population's standard of living and its competitiveness on the global market. By the early 1990s accumulated human assets in developed countries exceeded fixed material assets by an average factor of 1.5, and the contribution of knowledge and education to the growth of GDP was estimated at 60%.¹

The greater role of people in the knowledge economy entails profound transformation of the nature and structure of social needs, which are increasingly geared towards non-material values and humanitarian or spiritual aspirations. Top places in the hierarchy of needs are now taken by education, health and a healthy lifestyle, free time and its optimal use, environmental and everyday comfort, etc. The working individual of the industrial age, with a limited range of standard needs and limited possibilities for satisfying them, is receding into the past, and his place is being taken by an individual with diverse interests and a rich personal and social content.

Higher demands on the quality of human capital and quality of life have led to an increasing social orientation in contemporary industry. Consumer-oriented assets, such as housing and consumer durable goods, are playing an ever larger role in the structure of national wealth, while intellectual items are increasingly important in the structure of property. Consumer-oriented goods and services represent 60–70% of

GDP in developed countries, and the share of service industries in GDP varies from 62% in Japan to 72% in the USA. Social and cultural services (education, healthcare, culture, social services, etc.) are developing particularly rapidly.

However, this economic and social progress is fraught with new problems and contradictions. The consequences of rapid globalisation are not always positive, and new breakthroughs in science and technology often fail to live up to expectations, bringing major new threats as well as new possibilities for humanity. Life is becoming more complicated in many ways: the increasing speed and intensity of contemporary industrial production leads to greater nervous stress, rapid strides in knowledge make it necessary for workers to constantly update their skills, while structural changes force them to change their professions, and their place of work and residence. The high tempo of change disrupts the general stability of life and work; cultural and moral values are eroded; the natural environment suffers, especially in cities; etc. Society is increasingly called upon to identify and overcome these and other negative aspects of human development, to devise and implement measures and mechanisms for dealing with them.

The State has an integral role in the process of economic, social and humanitarian development, as one of the key links in formation of the individual. Knowledge, education, and the physical state of the population are more or less dependent on the state-funded public sector, and the State has chief responsibility for the social well-being of its population (cf. Box 1.1).

The Role of the State in Human Development

Human potential is the main motor of social progress and its formation and improvement depends on an interplay between many factors, the most important of which are the family, industry, and the relationships and

Economic success now depends ultimately on a population's standard of living and its competitiveness on the global market

Human potential is the main motor of social progress and its formation and improvement depends on an interplay between many factors, the most important of which are the family, industry, and the relationships and bonds within society. The State, with its numerous and varied mechanisms for influencing individuals, has a privileged role in this interplay, and also provides an organisational framework for the entire system

bonds within society. The State, with its numerous and varied mechanisms for influencing individuals, has a privileged role in this interplay, and also provides an organisational framework for the entire system. Its unique role is to develop a general strategy for individual development, as well as encouraging and correcting influence of other development components on the individual. Government lays the legal foundations of the individual's existence in the family, society, and the global environment, and creates a system of constraints to ensure respect for statutory norms and behavioural rules. No less importantly, the State regulates economic relations in a market economy, particularly on the labour market. The State is also responsible for maintaining a favourable social climate, protecting the natural environment, etc. Overall, the job of the State is to guarantee propitious living conditions for the individual.

The degree of the State's impact on human development depends on its control of resources and, in particular, budgetary funds. The entire state budget is ultimately meant to serve human needs, whether of the individual or of society as a whole (national defence, law enforcement, economic regulation, etc.). However, only two budgetary functions are directly related to human development: the accumulation of human capital and the redistribution of income. Therefore, the most important items of state expenditures are education, science, and healthcare, on the one hand, and social insurance and social security, on the other hand.

Growth of the State and of its influence on the development of society was among the most important economic trends of the twentieth century and, by the end of the century, the State played a major role in national economies (cf. Table 1.1). Such

expansion of the State was due to the growing role of human potential as a development factor: increased State spending was channelled to social aims, such as social insurance programs and development of social infrastructure sectors. There was an increase in State regulation of markets for labour and for consumer goods and services, and the State took a greater role in protection of the environment. The process accelerated dramatically in the 1960s and 1970s when implementation of the "welfare state" concept in different countries led to large amounts of resources being devoted to social development. This process is reflected by increases, both absolute and relative to GDP, of social spending in various countries (cf. Table 1.2).

There was a further surge of State influence on human development in the last two decades of the last century. As we have already noted, new technological, economic and social trends, which accompany the development of post-industrial society, put the individual at the centre of transformations and make him their primary condition and ultimate goal. Globalisation has a similar effect: the outcome of more intense and diverse competition on world markets, both for producers of goods and services and for nation-states, is increasingly dependent on the quality of human assets. (Globalisation is treated in detail in the Human Development Report 2000: The Russian Federation.)

This places a much greater burden on the State, since strategic factors influencing development of the knowledge economy and of the individual (scientific knowledge, the level and quality of education, physical and cultural well-being of the population, protection of the environment, etc.) are shaped to a large extent in the public sector. This is mainly because the market cannot produce various non-material services in sufficient quantities, to the required standard, and at a price that users could afford. Scholars call this the problem of "market failure", and its resolution requires regulation and adjustment by the State. At the end of the twentieth century, the share of the State in total spending on education reached high values in a range from 76% in Japan to 98% in Sweden, and the state share of healthcare spending stood at high levels

BOX 1.1

"Numerous studies have shown the importance of investing in human resources, especially in education and health. This task, which was already important in the period of industrialisation, has acquired paramount importance today. The concentration of state resources on development of education and healthcare is one of the main ways of accelerating socio-economic development in the post-industrial age. State participation is very important indeed, since ... private investments in education are necessarily limited."

Source: V. May, "Post-Communist Russia in a Post-Industrial World" in *Voprosy ekonomiki*, 7, 2002, p.19 (in Russian).

between 67% in Italy and 84% in Great Britain. The USA is something of an exception, with respective indices of 75% and 45%. More than 80% of growth of the State in the last four decades of the twentieth century has been due to increased expenditures on development of human resources.²

The share of social expenditures (transfers and expenditures on infrastructure) in a country's budget is a key indicator of the state model in that country, and several models can be identified using this criterion. A socially-oriented model of the State, with a highly developed social function and large social expenditures, prevails in most continental European countries, where it is a result of historical and cultural factors and traditions. Scandinavian countries tend to have even higher levels of social spending and welfare with fairly low income differentiation. A more liberal state model is found in Anglo-Saxon countries (USA, Canada, Australia, New Zealand and Great Britain), where human development depends to a greater extent on the actions and efforts of individuals. The social function of the State is less developed in leading Eastern countries (Japan and Korea), which embarked more recently on the path of social transformation initiated by European countries.

Analysis of the role and contribution of the State to human development shows that there is no direct relation between the size of the State and the Human Development Index (HDI) for any given country: the ten countries with the highest HDI in 2000 included Norway, Sweden, Canada, Australia, USA, Iceland, the Netherlands, and Japan. This serves to show the complexity of human development: the State is an increasingly important factor in this development, but its contribution is mediated by other factors, and the effects of its action are refracted by the prism of national specifics, historical and cultural traditions and social conditions.

The torrent of technological, structural, institutional and other changes has inevitably affected the State itself. The size and capacities of the old State, which came into being in a different era to solve a different set of problems, proved inadequate to meet the demands of the new socio-economic paradigm. Many countries have begun to restructure basic parameters of the

Table 1.1.

Expenditures by the State in Selected OECD Countries and Russia (percentage share of GDP)

Countries	1985 r.	1990 r.	1995 r.	2000 r.
Germany	43.4	41.8	46.3	43.3
France	49.8	47.5	51.4	48.7
Italy	49.5	52.9	51.1	44.8
Great Britain	42.9	39.0	42.2	34.7
Sweden	60.4	55.9	61.9	52.6
USA	33.8	33.6	32.9	30.1
Japan	29.4	30.0	34.4	36.8
Russia	...	...	43.0	33.6

Sources: OECD Economic Outlook, 72, Statistical Annex, Table 26; Voprosy ekonomiki, 5, 2002, p.55.

State, including functions that relate directly to human development (cf. Box 1.2).

Reform of the State and Human Development outside Russia

Reforms in various countries over the last two decades have targeted creation of a compact, flexible and efficient State. Several common goals can be identified, the most significant of which are reduction of the State's role in the economy and a greater or lesser withdrawal of the State from material production through implementation of privatisation and deregulation programs. The potential of business and the individual is liberated by development of a free market and competition, increasing the volume and efficiency of production so that people have more access to an improved range of social and individual benefits. The budget is restructured in a similar fashion: the fiscal burden on business decreases, while a smaller share of state expenditures goes to finance the economy (with the exception of some infrastructure sectors).

This scheme allows the State to focus its resources and action on social, humanitarian and purely administrative functions. The key spheres of science, innovation, education and healthcare are given priority in budget planning. The biggest expenditure items remain social security and social insurance (cf. Table 1.2).

A focus on human development is also visible in structural transformation of the

...the outcome of more intense and diverse competition on world markets, both for producers of goods and services and for nation-states, is increasingly dependent on the quality of human assets

*Impact of the State
on human
development
has also been
enhanced by
involvement
of business and
non-government
organisations
in design and
implementation
of social policies,
and by the growing
role of the non-profit
sector in provision
of social and
cultural services*

State through decentralisation of state administration. In the 1980s and 1990s, many aspects of social policy (including measures against unemployment, management of education, healthcare and law enforcement) were transferred partially or in full to lower levels of government. Central government now tends to concentrate on drafting general development strategies, designing large-scale programs and monitoring their implementation, while lower-level structures carry out direct provision of services.

An important aspect and outcome of the reforms is increased participation by ordinary people in government and greater independent initiative, especially at local level for solution of urgent everyday problems of local communities. This helps government to obtain better information on needs and wants and to meet them more efficiently.

Impact of the State on human development has also been enhanced by involvement of business and non-government organisations in design and implementation of social policies, and by the growing role of the non-profit sector in provision of social and cultural services. Socio-economic goals now tend to be attained by pooling the resources and efforts of structures in different branches of the modern mixed economy. A partnership system is crystallising in the social sphere, helping solution of many problems. Projects are better financed and more quickly implemented, resources are better targeted and more efficiently used.

State social policies are being restructured in a particularly radical way to address serious inefficiencies of the existing models. At the same time, increased competition on world markets is forcing

the State to give more freedom to business and let it keep more profits, so that the goals of economic growth and greater competitiveness reduce available financing for social and other needs. Each country is reviewing its principles and concrete mechanisms of social policy. The State is reducing its social responsibilities, toughening criteria for assistance, and finding more flexible and effective ways to finance programs and monitor their results. Equalisation of benefit distribution on a "something for everyone" basis is giving way to equalisation of the starting conditions for people to find a job, get an education, and acquire a profession. Financing of social assistance is increasingly target-based, with subsidies being paid out for concrete goals, such as acquiring a profession or starting a business. Individuals are encouraged to take the initiative and responsibility for ensuring their own and their family's well-being.

Transformation of the State has a particularly radical nature in transition countries. Trajectories of change resemble those in developed countries, which serve to a certain extent as a reform model. Thus transition countries everywhere are deregulating their economies and reducing the size of the State through mass privatisation of state property. Nevertheless, the State retains a more significant economic role in Eastern Europe compared with developed countries. In 2001, the share of state expenditures in GDP was 49.1% in Hungary, 44.1% in Poland and 51.4% in Slovakia, while the average index for OECD countries was 37.4%. This share is even higher in the Baltic States and attains its maximal values in Central Asian countries, particularly those where reforms are proceeding slowly or not at all.³

Transition countries also have a lot in common in how they restructure state functions. Reduction of the role of the State in the economy leads to new goals, scope and mechanisms of economic regulation. The system of social services, which cannot be maintained in its old form under the new conditions, is being radically transformed. The new model is inevitably more stringent in view of massive budget cutbacks, and is often met with disapproval by major sections of society. The role of government as the main force in systemic transformation of society is greatly enhanced.

BOX 1.2

"Most of the expansion of the public sector during the twentieth century can, however, be explained by the government taking on entirely new tasks, which it had not previously pursued. Prominent among these are the various components of social insurance, including income redistribution. And a significant expansion in the government provision of (especially higher) education has also taken place..."

"The rationale for government involvement in various social insurance programs (including health insurance) has usually been based on arguments of market failure (moral hazard and adverse selection) preventing private insurance markets from operating properly or at all...The practical implementation of the various programs has often led to unexpected negative side effects, including inefficiency and abuse. Rising recognition of these problems has, in turn, triggered periodic efforts to reform existing programs."

Source: IIMF Report "World Economic Outlook" 2000. May; P.174, 176.

Reduction of state spending is a key trend (cf. Table 1.1). The initial violent polemics on this topic are gradually abating, and attention is shifting to the quality of government. It is becoming increasingly clear that a country with a weak State is unable to respond quickly and adequately to challenges of the new economy and globalisation, to ensure the competitiveness of business, and to monitor and control dynamic processes. There is increased understanding that the size of the State is not arbitrary but depends on its functions, which should be chosen according to principle “the free market where possible and the State where necessary”, and the efficiency of their execution. Despite overall similarities of approach, each country determines the size of the State in its own way, taking account of its national specifics and traditions.

The relationship between the two components of social development, which are economic efficiency and social equity, has become a key issue of state policy in all countries over the last two or three decades. The fundamental principle that human progress depends on a dynamic and efficient economy, capable of creating jobs and income, remains beyond question, but the importance of social factors has also become clear. A number of countries did not introduce social security mechanisms capable of mitigating negative side-effects of privatisation and deregulation. Unemployment increased, and, in a number of cases, transportation, telecommunications and other services deteriorated. The social climate in these countries worsened and the problem of social equity became more acute. The interdependence of the two moving forces of social progress has now become apparent and is increasingly recognised worldwide.

Finding the optimal balance between economic efficiency and social equity is a difficult task for government at the best of times, and it becomes particularly difficult in a time of major change. Countries are reviewing this balance and seeking to build social security systems, whose scale and form will not suppress incentives to work or inhibit economic growth and efficiency.

Various countries have tried to do this in different ways. Limits, resources and mechanisms of social security in any country are determined by global processes, but also by

Table 1.2.

**Social expenditures in various countries and Russia
(percentage share of GDP (1) and state expenditure (2))**

Countries	1980		1990		1999	
	1	2	1	2	1	2
Germany	20.5	48	22.8	54	22.0	50
France	23.2	54	26.4	57	28.2	56
Italy	18.4	46	22.3	45	22.7	50
Great Britain	13.9	34	15.0	38	16.8	44
Sweden	23.2	41	24.0	41	28.1	47
USA	11.9	37	12.4	36	13.9	44
Japan	12.0	48	12.9	50	17.6	55
Russia	...	...	...	...	16.9	50

Source: European Economy, 68, 1999, p.218, and our own estimates.

the country's historical and cultural traditions and the specifics of its economic and social system. The concepts and practice of the “welfare state” are being dismantled to a certain extent in Western societies, as the model of a “social market economy”, with more stringent social parameters, is recognised as better suited to modern-day needs. The principles of economic freedom implied by a “social market economy” are better able to meet new challenges than the preceding model with its high degree of regulation, restrictions on private business initiatives and heavy burden of social spending.

The social constituent retains its importance in the new model, but it is implemented in a more rational way. It is important to note that social expenditures are growing in most countries in absolute terms, and frequently even in relative terms, despite some “trimming”. Previous (reviewed) responsibilities of the State are being complemented by a whole series of new responsibilities linked to such phenomena as ageing of the population, the rise of continuous education, higher unemployment, migratory flows, instability of the family, etc. (cf. Table 1.2).

Global economic processes are encouraging convergence between the main features of socio-economic models, which previously differed considerably. In countries with liberal models and a relatively low level of social security (in particular, the USA, Canada and Australia, as well as Japan and Korea), the social constituent is clearly increasing. But other countries are

Transition countries also have a lot in common in how they restructure state functions. Reduction of the role of the State in the economy leads to new goals, scope and mechanisms of economic regulation

Finding the optimal balance between economic efficiency and social equity is a difficult task for government at the best of times, and it becomes particularly difficult in a time of major change

Global economic processes are encouraging convergence between the main features of socio-economic models, which previously differed considerably

going in the opposite direction. Sweden, which used to have the most socially oriented model and served as an example for many countries, including those in transition, is carrying out a radical transformation.⁴ Convergence of socio-economic models is particularly marked among continental European countries, where it is a result of cultural and historical factors as well as rapidly advancing integration.

The general and the particular are very closely intertwined in each country, and, paradoxical though it may seem, national specifics do not disappear as a result of the manifest tendency to universality. Indeed, in some cases they increase. For example, one of the growing concerns of US social policy is to ease access to healthcare and to implement programs for supporting the family, and education is turning into a national obsession in the US. In Japan, mechanisms for regulating the labour market (which has been over-regulated both by the State and by national traditions) are becoming weaker. Differences between countries in the pattern of social spending and its share in overall state expenditures thus remain marked.

The greater emphasis placed on economic efficiency today can be seen as part of a long-term pattern: extended periods, during which societal development is directed at economic goals, are always followed by periods with predominantly social goals and vice-versa. In each phase of this pendulum-like evolution conditions are formed and contradictions are accumulated that are implemented and resolved in the succeeding period. Isolation and assessment of the influence of the models and their components on human development is difficult, yet each of them clearly contributes to this process by the methods and means that are inherent to it. A state policy focus on economic efficiency enhances motivation of individuals to work, get a better education, improve their qualifications, raise their professional level, and become more enterprising and creative. Resulting growth of economic potential and living standards provides the necessary preconditions for a better realisation of the principle of social equity in a subsequent period. The combined effect of these groups of stimuli fuels human progress, which can be expressed in terms of labour, and of social

and individual factors. The best effect depends on judicious balance between these stimuli in each given period.

The State and Human Development in Russia

The success of systemic changes in Russian society and its integration into the world economy directly depend on human factors. Particularly high standards are therefore required for human resources. However, the state of human development in Russia, seen in the light of the world economic processes described above and the particularly complicated tasks faced by the country, must be rated as unfavorable. This is shown, in particular, by the Human Development Index (HDI) (the HDI for Russia and its regions is considered in greater detail in Chapter 6). The low level of the Russian HDI is due to a sharp fall in the standard of living and deterioration of the demographic situation in Russia during the reform period. The situation with education is slightly better: the education index for Russia improved in the past 2—3 years, and Russia has risen from 72nd place in 1995 to 60th place in 2000 (out of 175 countries).⁵ It is vital to continue this positive trend.

The HDI gives a certain picture of the human development situation in contemporary Russia, yet it is far from being a complete or exact picture. In reality, the situation is much more complex and contradictory. Despite all the setbacks of recent years, Russia has kept many advantages in key spheres of contemporary development. These include high levels of education, a highly qualified workforce, large intellectual potential and scientific infrastructure, and even world leadership in a number of scientific fields. These points, together with Russia's rich cultural heritage, narrow the gap between Russia and the world's leading countries for human development. If this accumulated scientific and educational potential can be nurtured, activated, and efficiently used, the country stands a good chance of overcoming the crisis, transforming itself, and breaking through to a post-industrial society.

However, Russia's human potential is afflicted by a number of basic defects, partly linked to the country's recent past. The economic system and system of social rela-

tions that are being created in Russia today require precisely those human qualities, which were most suppressed in the command economy. These include independence, initiative, creativity, a sense of duty and responsibility, etc. Passive attitudes and expectations of assistance and support from the state are widespread, and there is much economic passivity and social apathy. This state of affairs is partly due to the tragic events of Russian twentieth-century history: liquidation of the most productive section of the agrarian population, mass repression, forced emigration of the intellectual and cultural elite, and the enormous casualties of World War II. Overcoming this legacy is a very difficult task, requiring much time and deep changes in the system of economic and social relationships. Nevertheless, shifts in thinking and behaviour are apparent: opinion polls show that a growing number of people (particularly young people) are adapting fairly quickly to the new conditions and are willing to rely on themselves and not on the state for achievement of their life goals.

So Russia has considerable human resources at its disposal, but they are not necessarily the right resources for meeting today's challenges and carrying out socio-economic reforms. Low standard of living and public health indicators give cause for alarm, Russian science is in a state of crisis, and the country is not making best use of its evident advantages in education, whose structure and content is ill-adapted to contemporary needs.

Failure to overcome negative human development trends will jeopardise systemic reform in Russia, the country's integration in the post-industrial world, and its very future. Social resources and efforts need to be focused on human development goals, despite the great number of other serious and urgent problems and the acute lack of means for dealing with them. The State must inevitably take chief responsibility in this task because of its extensive capacities for influencing the individual, and because abilities of the family and civil society are severely limited by the social deformations in the Soviet period and the current difficult period of transformation in the economy.

However, the Russian State in its present form is not up to the task. In 2001, it

ranked 58th in the world (out of 75 countries) in current competitiveness and 61st in future competitiveness (projected over the next five years). Russia is particularly weak and inefficient in protecting property rights (73rd place, and 75th place for protection of intellectual property rights), in regulating and controlling the financial system (71st), and organising education and training in information technologies (66th).⁶ Since, under present circumstances, the State is the only force that can (and therefore must) normalise the conditions determining human development in Russia, there is urgent need for radical renewal of the State. Its role and place in society have to be revised, as do its functions and mechanisms. These reforms are on the agenda, and it is extremely important to make human development a key part of the new system of goals and to mobilise as many opportunities and mechanisms as possible in order to further it (cf. Box 1.4).

People's well-being, i.e. the economy's capacity to meet a certain level of material, cultural, spiritual and other needs, is a principal indicator of human development, so Russian state policies need to be focused on economic tasks: overcoming effects of the economic crisis and ensuring stable economic growth via market reforms and via technological and structural modernisation of the economy. The aim is a fully-fledged market environment, based on competition, with creation of the relevant institutions, and liberation of human resources. The economy should ultimately be put at the service of the individual.

One determinant of successful human development is the presence of a large stratum of small and medium-sized businesses,

Failure to overcome negative human development trends will jeopardise systemic reform in Russia, the country's integration in the post-industrial world, and its very future

BOX 1.3.

"Striving for social justice and seeking economic efficiency may be seen as competing goals, with the implication that the promotion of one can only be achieved at the cost of the other. Neither economic efficiency nor social justice can lay unique claims and be the overriding goal in all situations; in practice, the two are not necessarily opposed, and most typically they are interdependent and complementary. Experience has shown us that the promotion of social justice may enhance economic efficiency in some situations, just as promotion of economic efficiency may make the attainment of social justice easier in some others."

Source: "2001 Report on the World Social Situation", U.N.2001,P.2

Budgetary policy is a key mode of state influence on human development and needs to be focused on social, humanitarian and intellectual goals, despite myriad competing claims in contemporary Russia

which give economic and social stability and act as agents of dynamic change. Development of small business is proving to be a very slow process in Russia, particularly in the science and technology fields. Small business needs a lot of assistance and support from the State in view of the lack of resources, traditions and business know-how, and given the extremely high risks involved. The attitude of the State towards small business in developed countries is telling. Small business plays a major role in the economies of developed countries, and states have developed and implemented policies for systematically supporting it and stimulating its expansion. Far from losing its significance in the post-industrial economy, small business has acquired a new importance for a variety of reasons and, in certain sectors (particularly innovation sectors), its development has accelerated. Small business can make a positive contribution to economic and social development in Russia as a source of employment, and as a school for the development of human resources and creative abilities.

This task is closely linked to another, equally urgent task, namely to create a civil society in Russia, which could assist social progress, encourage individual initiative, and promote self-realisation by individuals. The State also has a major role to play in this process, since passivity of large sections of society, inherited from socialism, has shown no signs of diminishing in recent years. However, the non-government human rights, consumer and environmental organisations that have sprung up in Russia to date, have shown themselves to be independent and rational in

their relations with the government and other participants in the social process.

Budgetary policy is a key mode of state influence on human development and needs to be focused on social, humanitarian and intellectual goals, despite myriad competing claims in contemporary Russia. Science, education and health, which are the principal forms of investment in human resources and the economy of knowledge, deserve top priority in budget drafting and implementation. Such an approach is formally endorsed by the government, but has not yet been put into practice: the sectors just named are in fact being financed on a residual basis, and, under conditions of cash shortage and powerful lobbies of other sectors, they receive next to nothing. In recent years, Russia has invested 1.6% of GDP in science (compared with average 2.2% in the developed world), 3% in education (compared with 6%), and 2.4–3.5% in healthcare (compared with 8–14%).⁷ The chasm is much bigger in absolute terms, since Russian output levels are many times below those of developed countries.

It is unsurprising, in view of this, that science, education and medicine are in a parlous state. To avoid collapse of science and education, and loss of the country's still significant capacities in these fields, Russia needs to increase state spending on them, to ensure decent salary levels for science, education and health workers, and to assign funds for upgrading of equipment. Without this, emigration of scientists, cultural figures and highly qualified specialists will continue, Russia will not be able to make the transition to a post-industrial society and will stay on the outskirts of civilisation (cf. Box 1.5).

The need for radical reform of the redistributive function of the Russian State is dictated both by outdated and inefficient social policy inherited from the past and sharp decline in the standard of living of a considerable part of the population over the last decade. A fourteen-fold differential in the incomes of the poorest and wealthiest ten-percent of the population is unacceptable (it is much larger than analogous indicators not only in developed countries but also in Eastern Europe and the CIS). Persistence of widespread belief in principles of general equality and responsibility of the State for providing a broad range of services to the population gratis, and exis-

BOX 1.4

"The main task today is, as Solzhenitsyn said, to preserve the Russian people and to create adequate conditions for its development. As our studies show, many indicators of the standard of living and the 'quality' of the population declined considerably during the post-perestroika period... All of us (the State and society) should try to overcome these trends if we want the Russian State to survive. The only way to do this is through effective demographic and social policies, which we currently lack. We should also try to avoid lowering the potential of our society, since, under the present conditions, human potential is irreplaceable. If we lose it, we will not be able to replace it in the future."

Source: Interview with N. Rimashevskaya, Dr.Sc. (Economics), member of the Russian Academy of Natural Science, Director of the Institute for Socio-economic Population Studies of the Russian Academy of Science. Literaturnaya Gazeta, 18–24th December 2002 (in Russian).

tence of a multitude of social benefit entitlements that cannot be financed make such a level of income differentiation into a potential source of social unrest.

Despite the continuing difficulties, there have been a series of positive developments in the social sphere, due, in part, to overall improvements in the economic situation in recent years (cf. Chapters 2 and 3). It has become clear that the priority given to economic and institutional transformations at the expense of social change during the reform process is increasingly hampering the rate and results of the latter. The government has therefore redoubled its efforts to restructure the social sphere in order to correct the imbalance. In the last 2–3 years general lines of social reform, which were drafted earlier, have been fleshed out and law-making activity has markedly increased. In 2002, the new Labour Code was adopted, and pension reform, including introduction of self-funded pensions, was launched. A general approach and concrete mechanisms for modernising education and public medical insurance are being developed, based on critical analysis of the current situation and the results of wide-ranging experiments. Amendments are being made to existing legislation in these spheres, and gaps in the system of normative documents are being filled. The government is also preparing a complex program for reform of municipal services, which is to be implemented in 2003–2005. Amendments and addenda to the federal law “On state social assistance” and other laws are being drafted. In addition to the legislative effort, social sector reforms are focusing on expansion of the financial resource base, development of effective financing mechanisms, and stimuli for raising the quality of service provision.

The most important of several complex and pressing problems on the path of social reform is that of guaranteed access to social services. The government is planning to create a system of minimal social standards in the domains of education, health, housing, etc., which would serve as reference points.

The discrepancy between the State's responsibilities and its financial capacities, and the necessity to increase budget expenditures in many areas highlights the issue of efficient use of resources. State monopolism and the long tradition of socialist mis-

BOX 1.5

“In the Russian Federation, social expenditures during the last ten years have been roughly on the same low level, which Western countries surpassed in the 1950s and 1960s.

“... Even the 2004–2005 budget draft does not offer a way out of social stagnation. Absolute and relative social expenditures in the federal and consolidated budgets do not correspond to norms defined by Russian legislation or to international standards. For example, current levels of expenditure on healthcare and social security fall short of the required levels by a factor of 3–5. According to the WHO, consolidated (state + non-budgetary) expenditures on healthcare should not fall below 6% of GDP, but in the Russian Federation they have not exceeded 2.4–2.5% in recent years.

“Thus a different model of socio-economic development for the country (including a different fiscal policy) is needed in order to assure a decent life for Russians in the near future (8–10 years). One can assume that slackening rates of economic growth in the Russian Federation are largely due to insufficient levels of social expenditures, whereas a marked increase in the latter would be a powerful stimulus for economic development.”

Source: V. Roik, “The Social Aspects of the 2003 Draft Budget: Are Russians Living Better?” in *Rossiysky Ekonomichesky Zhurnal*, 9, 2002, p.23 (in Russian)

management suggests that there is huge potential for increasing this efficiency. Distribution of scant budget resources must be based on the fullest possible identification of needs and their ranking by objective criteria, taking account of economic factors and the comparative socio-economic effectiveness of programs. Rigid, predetermined financing for various institutions should be replaced by more efficient methods, particularly targeted financing to end-users of services in the form of vouchers, grants and subsidies, certificates, etc. There has to be strict control over the use of budget funds, with emphasis on specific indicators and final results.

The complex problems of human development and systemic transformation require pooling of resources and efforts by the State and non-government institutions and active participation of ordinary people. Russia can learn from the experience of other post-socialist countries, which has shown that success depends not only and not primarily on availability of resources, but also on the maturity and the moral and psychological solidarity of society and its determination to conduct reforms. In Russia, reforms are hindered by a mentality and a pattern of social behaviour arising from the past. In particular, people tend to perceive the State as a supreme and all-powerful force that dominates individuals and determines their lives and destinies.

International experience has shown that different countries can follow the same socio-economic development paths without losing their national specifics, and Russia must also follow such a path in its own specific way

This world view reduces individuals to mere cogs in an enormous machine, binds people's energy, and inhibits their freedom and individuality. Another aspect of this mentality is a passive social position and an acceptance of state paternalism, paralysing independence and initiative.

In order to win support from individuals and society the State must radically change its traditional image. It must position itself and function as an institution created by citizens to serve them and meet their common needs. Overcoming of such chronic problems of the State as corruption, excessive bureaucracy, etc., will help it to win popular confidence, making it easier to reform society and the individual.

Human development ultimately depends on the socio-economic model, which a country implements. International experience has shown that different countries can follow the same socio-economic development paths without losing their national specifics, and Russia must also follow such a path in its own specific way. It is already clear that Russia's historical and socio-cultural traditions, moral standards and ideas, and its current conditions are best suited, at least in the near and medium-term, to a model with a strong social constituent, i.e. a socially-oriented market economy. International experience offers several versions of such a model, but, in our opinion, the continental European versions are better suited to Russian conditions than the Anglo-Saxon models. Our society must strike its own balance between economic efficiency and social equity to ensure a comfortable living environment for the individual, and to

create stimuli and open new paths for human progress.

The State must occupy a special place in this system and carry out functions, which other sectors are not designed for. That means abandonment of a notion that is widespread in Russian society — that the size of the State is a measure of its strength. Foreign experience in restructuring the state apparatus shows that large-scale denationalisation and other reforms do not in any way lead to the weakening of the State. On the contrary, the State becomes more compact and therefore stronger, because resources and powers become concentrated in spheres for which the State is directly responsible, and control over economic and social processes becomes more effective.

Strengthening of the State is an urgent necessity in Russia's current highly disorganised economic and social environment. However, this must not be achieved by maintaining a large State, but by strengthening such domains as legislation, law enforcement, and the legal system. The State also derives strength from close ties with other institutions (civil society, non-commercial organisations, businesses and municipalities) for achievement of common goals, and from increasing reliance on developed human capital. Improvement of the quality of the State and its efficiency in carrying out its functions is of paramount importance, entailing the necessity of reform of the civil service. It is to be hoped that the recently launched reform of the state administration will be successful and will help to resolve the complex problems that have accumulated in human development in Russia.

Russia's current and long-term interests require reversal of negative trends in human development and the State must play a key role in resolution of this problem. The State needs to be refocused on raising the standard of living and social welfare, and ensuring comprehensive development of the individual. The State's most pressing tasks are to restore and increase scientific and educational potential, to encourage elements of the new economy, to give genuine priority to fund-

ing of science, education and healthcare, and to expand non-budgetary resources for development of these sectors. In the final analysis, resolution of human development problems in Russia depends on development and implementation of an original socio-economic model, based on Russian specifics and main world economic trends, and capable of creating effective stimuli and broad opportunities for development of the individual and realisation of his potential as worker and creator.

¹ V.M. Kudrov, *Mirovaya ekonomika*. BEK Publishers, Moscow, 2002, p.29; *Mirovaya ekonomika i mezhdunarodnye otnosheniya*, 12, 2002, p.44.

² OECD in Figures. Statistics on the Member Countries 2001, pp.8,9,66,67; *Mirovaya ekonomika i mezhdunarodnye otnosheniya*, 1, 2003, p.6.

³ OECD Economic Outlook, 72, 2001: Statistical Annex, Table 26.

⁴ Sweden used to be characterised by a high level of nationalisation in the economy, the highest level of state expenditures in relation to GDP, the highest fiscal burden on business and affluent sections of the population, and the greatest amount of state property. Social policy was determined by the ideals of social equality, full employment, and universal social security; the production of social services was the exclusive prerogative of the public sector; and the labour market was subject to numerous

and severe limitations. This model has turned out to be non-viable in the new world economic order: the Swedish economy and its competitiveness have deteriorated in recent decades, and social benefits have diminished as a result. The country is now abandoning its counterproductive system of high taxes and high standards of social welfare; state monopolism is being replaced by a multi-faceted economy; the private sector, including small business, is becoming active, and competition is increasing; social security benefits are being reduced; etc.

⁵ Human Development Report 2002: Indicators by Countries. (<http://hdr.undp.org/global/2002/en/indicator>)

⁶ The Global Competitiveness Report 2001—2002. N.Y.-Oxford, 2002, p.295.

⁷ OECD in Figures: Statistics on the Member Countries, 2001. pp.8,9,66,70; *Rossiia v tsifrakh*. Ofitsial'noe izdanie 2002 g., Moscow, 2002, p.277.

The State's most pressing tasks are to restore and increase scientific and educational potential, to encourage elements of the new economy, to give genuine priority to funding of science, education and healthcare, and to expand non-budgetary resources for development of these sectors

UN Millennium Development Goals

The Millennium Development Goals (MDG) is a system of indicators proposed by the UN for assessing the effectiveness of human development policies in different countries. All 189 UN member states have committed themselves to reaching these goals by the year 2015. The MDG have a three-tier configuration. They single out 8 key development goals and, for each of them, indicate one or several more specific targets, including quantitative ones. A set of statistical indicators for each of the 18 specific targets (a total of 48 indicators) has been developed. The MDG is distinguished from many other international and national systems of indicators by setting of a time schedule (1990–2015) and measurement of changes in indicators over this period.

The priorities of the MDG are based on a general conception of human development, but their choice and the formulation of concrete goals reflect a specific understanding of the importance and urgency of various social problems. The goals and targets are structured in the following way:

Goal 1: Eradicate Extreme Poverty and Starvation

Target 1: Halve in 1990–2015 the proportion of people living on less than a dollar a day at PPP.

Target 2: Halve in 1990–2015 the proportion of people who suffer from hunger.

Goal 2: Achieve universal primary education

Target 3: Ensure by 2015 that all boys and girls complete primary school.

Goal 3: Promote gender equality and empower women

Target 4: Eliminate gender disparities in primary and secondary education preferably by 2005 and at all levels, including higher education, by 2015.

Goal 4: Reduce child mortality

Target 5: Reduce by two thirds the mortality rate among children under five over the period 1990–2015.

Goal 5: Improve maternal health

Target 6: Reduce the ratio of women dying in childbirth by three-quarters over the period 1990–2015.

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 7: Reverse the spread of HIV/AIDS and reduce its incidence by 2015.

Target 8: Reverse the spread of malaria and other major diseases and reduce their incidence by 2015.

Goal 7: Ensure environmental sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.

Target 10: By 2015, reduce by half the proportion of people without access to safe drinking water.

Target 11: By 2020, achieve significant improvement in the lives of at least 100 million slum dwellers.

Goal 8: Develop a global partnership for development

Target 12: Develop an open, adjustable, predictable and non-discriminatory trading and financial system that includes a commitment to good governance, development and poverty reduction both nationally and internationally.

Target 13: Address special needs of the least developed countries.

Target 14: Address special needs of landlocked and small island developing states.

Target 15: Deal comprehensively with debt problems of developing countries through national and international efforts aimed at achieving long-term debt stability.

Target 16: In co-operation with developing countries, develop and introduce strategies for ensuring decent and productive work for young people.

Target 17: In co-operation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.

Target 18: In co-operation with the private sector, make available the benefits of new technologies — especially information and communications technologies.

The above list of goals and targets clearly shows that adjustments are needed for the application of the MDG in Russia. First of all, it is necessary to assess the importance of each of the Millennium Development Goals for Russia and its regions. Secondly, the applicability of specific targets, especially those, which are expressed quantitatively (Targets 1–6 and 10), should be analysed. Thirdly, the system of MDG indicators must be adjusted in order to monitor social development in Russia and its regions, particularly through assessment of its compatibility with Russian statistical indicators and of the possibility of using alternate indicators, etc.

A preliminary study has shown that direct application of MDG indicators on the federal and regional levels in Russia is problematic and that they should be adjusted: only 17 of the 48 standard MDG indicators can be used (more or less) as is. The other indicators should be altered or eliminated without violating the overall approach of the MDG.

Prof. S.N. Bobylev, Dr.Sc. (Economics),
Department of Economics at Moscow State University
N.V. Zubarevich, Dr.Sc. (Geography),
Associate Professor, Department of Geography
at Moscow State University

Chapter 2

Russia in 2002: Striving to Modernise the Economy and the State

Russia had a good year in 2002, measured by all basic indicators. Three years of growth following the crisis decade had a favourable effect on public sentiment, the economic decision-making horizon and investors' assessment of the business climate. Apprehension of another crisis around the corner gradually disappeared, which is an important factor in its own right for economic and social development. Main opinion polls show that people are more optimistic, despite the persistence of profound social differences. The consumer sentiment index was very good throughout 2002, fluctuating between 90% and 95%. An increase of more than 90% in GDP was due to growth of personal consumption, while unemployment dropped from 9% to 7.6% (using ILO methodology).¹

Russian analysts and the political elite entered 2002 with very high expectations for growth rates and for the scope and progress of reforms that would be carried out during the year. Major state reforms (administrative reform, military reform, etc.), for which socio-economic stability is a pre-requisite, were scheduled for 2002. It was assumed that general political stability in the country and unfaltering support for the government by the State Duma (Russia's lower house of parliament) would enable passage of a series of laws that would have a rapid positive effect on the economy. A number of expectations, such as that of rapid positive effect of tax reform on accumulation, were undoubtedly unrealistic. Institutional changes proceed very slowly by their very nature, except at the very beginning of the transition period. The legislative initiatives, which were proposed and partly carried out in 2002, will probably only have an effect if a wider complex of reforms is implemented and if enough time is allowed for their application, including some imposition of respect for the new laws. The importance of 2002 was that the government continued to work for a third straight year, its agenda

was more or less defined, and legislative initiatives began to be based on real priorities (instead of occasionally declared priorities). Reform of the state system made difficult progress, and progress in the economy was less rapid than had been hoped.

Macroeconomic Context

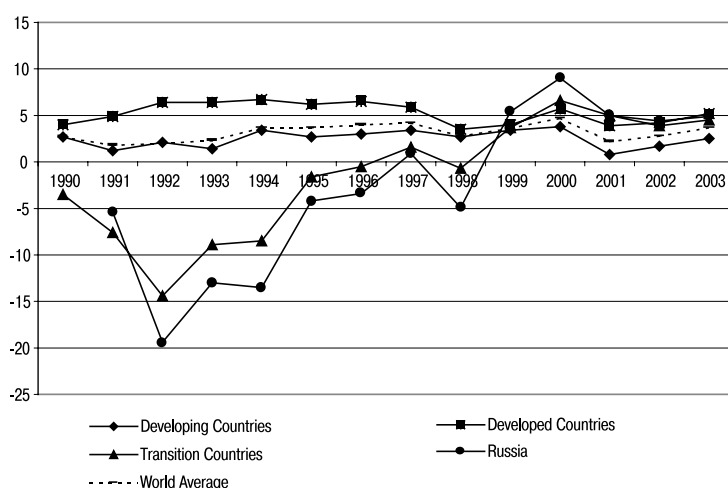
The macroeconomic context in 2002 was favourable and, most importantly, there was still time remaining before the next legislative and presidential elections (due in December 2003 and March 2004 respectively). Objective indicators showed a 4.3% growth in real GDP and a 3.7% growth in the real volume of industrial production. For the third straight year, economic growth rates in Russia exceeded world levels (cf. Figure 2.1), although the gradual resumption of economic growth in the USA closed the gap.

As growth rates fell in the course of 2002, people began to accept more realistic forecasts indicating that the positive systemic effects of recent structural reforms will only be felt in 2005. There was some disappointment, since the political elite had braced itself for rapid modernisation of the country with continuation of the high growth rates seen in 2000–2001. This gave rise to discussion of ways and means of accelerating Russia's growth and modernisation. However, the press changed its tone after positive full-year results came in.²

The macroeconomic foundations of Russian growth were generally the same in 2002 as they had been since the autumn of 1999: a double devaluation of the rouble in real terms; a margin of slack in the economy after a long crisis; and the rise of oil prices (after their collapse in 1998). The last factor made it easier to service foreign debt, which ceased to be a nagging problem in the balance of payments and the country's budget. However, the problem of long-term outflow of capital that could have

Russian analysts and the political elite entered 2002 with very high expectations for growth rates and for the scope and progress of reforms that would be carried out during the year

Figure 2.1. World Trends in Real GDP (in percentage terms)



been used for domestic investment in Russia remained unresolved. High oil prices have created a paradoxical situation, where the government collects export duties from oil companies and uses them to pay back debts to the same countries that import Russian oil.

The margin of slack in the Russian economy has been emphasised by analysts since the mid-1990s. In post-crisis conditions, this factor made it possible to increase production and supply to compete successfully with foreign goods, which had previously dominated the market due to the favourable rouble exchange rate. Growth capacity due to this margin of slack seems to have fed illusions of potential for growth without major capital investments, but the slack is gradually being exhausted: “Unused industrial capacities (not counting those of extraction industries) diminished by more than a quarter: from 65% in 1997 to 51% in 2001 and 45% in 2002. Moreover, surveys of company managers show that only 30% of idle capacities could be used for increasing the volume of goods already in production, and that only 20% could be used to manufacture new versions of these goods. Thus the real margin of slack for competitive industrial capacities does not exceed 15%.”³ If these estimates are correct, the margin of slack in Russian processing industries is more or less the same as in market economies. In any case, the experience of other developing markets (includ-

ing those in Central and Eastern European countries), shows that economic growth is mainly fuelled by new investment, especially investment by new companies.

The role of devaluation is also gradually decreasing. The main positive contribution of devaluation in 1999–2001 was the advantage it gave to Russian manufacturers versus consumer imports (especially of non-durables). Production of such goods inside Russia increased as a result, but the level of “protection by devaluation” fell for three consecutive years beginning in early 1999 due to slow nominal decline in the dollar exchange rate and fairly high (15–20%) inflation in Russia. By the end of 2002, the exchange rate of the rouble had, according to various estimates, travelled at least half of the way back to its (inflated) value in July 1998. Interestingly enough, increase in imports, which was expected to accompany rouble appreciation, has not been as high as expected. This shows the non-linear relation between the exchange rate and competitiveness: Russian companies have become more robust and can no longer be easily pushed aside (no matter who their real owner is). But containment of import growth is doubtless also due to the fact that the biggest share of Russian imports comes from the euro area, while Russian exports are mainly denominated in dollars, and the euro gained a lot of ground against the dollar and rouble in the course of the year. According to preliminary data, exports increased by 5.3% in 2002 to 107 billion dollars, whereas imports rose by 13% to 60–62 billion dollars.

The continuing enormous trade surplus and nervousness on world oil markets (mainly for political reasons) looks positive for Russia, but there seems to be little room for further growth of the trade balance. Without a major increase in the competitiveness of Russian industrial goods and higher levels of processing of raw materials, price fluctuation for commodities, mainly oil, could cause fluctuations in the Russian economy, particularly in the budget, as happens in a more exaggerated form in monoculture countries.

Effect on Human Capital

A third year of economic recovery in Russia had a favourable effect on human

development in 2002. Massive problems persisted in education and health, particularly in the regions, and poverty remained widespread, since a few years of growth were insufficient to compensate the losses of the preceding decade. Nevertheless, growth of personal consumption was impressive. Consumer spending dropped by 6.7% in real terms in 1998–1999, but grew by 30% over the next three years, including an estimated 7% in 2002, apparently reaching its highest level since 1991.

The average monthly salary, which is the main financial indicator for most of the Russian population, tripled over three years, though it remained small by world standards. The highest rates of salary growth were in export-oriented sectors of the natural resources industry. Strike activity remained very low (a mere 0.5% of the time lost to strikes in 1997) and did not affect economic activity. But for the first time there were strikes motivated by the desire of relatively well-paid workers to receive a higher (and more equitable) share of company profits: a strike by air traffic controllers in Siberia was one example.

Income growth led to doubling of imports of light industrial goods (textiles, clothing and shoes) in terms of physical volume. Production in the food industry grew by almost a third, but food imports also grew significantly. The import of foreign cars in 2002 was almost twice as high as in 2000 at 140,000. This late consumer boom (ten years after the beginning of the transition period) was especially noticeable in Moscow and a number of other cities, and contrasted with weak consumer demand in the USA and Europe. The savings ratio of the population remained relatively low. As in previous years, it did not exceed 8% of disposable personal income.

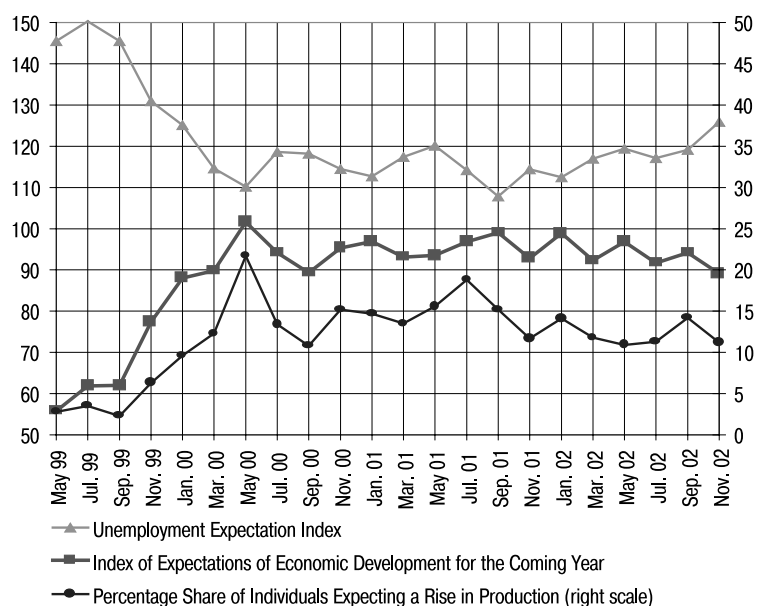
As Figure 2.2 shows, people's expectations fell by the year-end, when there was increasing anticipation of rising unemployment and falling growth rates. So people were fairly sensitive to the slackening of economic growth rates, despite absence of clear signs of economic deterioration. The consumer boom went on, powered by rise in real incomes over several years: "Buyers of durable

goods in 2002 were not only and not primarily affluent sections of the population (whose demand for consumer durables is mostly already saturated), but were mainly people with lower incomes, who were able to raise their standard of living somewhat due to modest rises in income."⁴ Deterioration of domestic demand in the second half of the year has not yet affected consumer market trends, although it has already resulted in a shift of demand towards imports.

High rate of growth of nominal incomes was limited by inflation, which gradually fell in comparison to previous years (cf. Table 2.1) though, as usual, the decline was 1–2 percentage points slower than government forecasts in the budget. Higher prices for services, particularly municipal services, played a major role. Overall growth of 15% in consumer prices during 2002 consisted of two different components: goods prices increased by approximately 11% and services by 36%. Rise of tariffs in the municipal and housing sector was a serious cause of social tension, as most people found it difficult (or even impossible) to cope with the higher tariffs. As a result, the government

The average monthly salary, which is the main financial indicator for most of the Russian population, tripled over three years, though it remained small by world standards

Figure 2.2. Changing Public Expectations Concerning Unemployment, Industrial Production and General Economic Development for the Coming Year



Source: Development Centre, Consumer Expectation Index Foundation, November 2002

The good macroeconomic indicators of the last three years have not led to any substantial changes in the structure of the economy

was forced to abandon the idea of more rapid gas, electricity and transport tariff increases, limiting itself to an annual rise of 18–20%, which is much below the targets set out in government programs from 2000. The rise in municipal and housing rates was particularly resented as the quality of services remained fairly low and infrastructure remained in need of repair. In particular, the cold winter of 2002 led to major problems in heating services, although the situation improved in the Russian Far East, which had suffered painful heating breakdowns in previous years.

The nature of the consumer boom reflected the high level of social inequality, which has been a stable feature of recent years. Although the share of the population below the poverty line has shrunk in recent years, it was still 25% in 2002. As in other countries, reduction in the number of poor people as a share of the population had little influence on indicators of inequality, which remained comparable to those of Latin American countries. The social contrast between the upper and lower 20% segments of the population was great, as was the gap between the standard of living in Moscow and some other regions, on the one hand, and the standard of living in much of the rest of the country, on the other hand. Conditions remain particularly bad in northern and far eastern regions, where an economic upturn remains elusive. A serious and apparently lasting segmentation of personal incomes has taken place, and is reflected in the segmentation of markets according to quality and price of goods.

The Gini coefficient, which shows differences in incomes between the richest and poorest sections of the population, has stayed at a level of approximately 40% (equal to Latin American countries) despite the general growth of income in recent years. The relative affluence of Moscow is the best example of glaring interregional inequalities. (cf. Box 2.1).

Thus a sizeable region in the centre of European Russia and, to a certain extent, the southern and north-western parts of the European section of the country have a standard of living comparable to that of Russia's western neighbours. Russia, like the rest of the ex-USSR, is a large region with enormous contrasts: oil-extracting regions with high per capita incomes, a flourishing capital and ports, an underdeveloped hinterland, etc.

Inertia of the Economic System

The good macroeconomic indicators of the last three years have not led to any substantial changes in the structure of the economy. Indeed, the favourable situation on world raw materials markets, particularly for hydrocarbons, has encouraged the spread of “Dutch Disease”. Export of hydrocarbon raw materials (oil, oil products, coal and natural gas) alone accounted for 56% of total exports in 2001 and 2002. Russia also exports an enormous amount of timber and raw materials for the paper industry (4–5% of total exports), chemical products including approximately 80% of domestic fertiliser production (approximately 7% of exports), as well as more than 90% of domestically produced aluminium and substantial amounts of other non-ferrous and ferrous metals (13–14% of total exports). Goods with a high level of processing still account for a relatively small share (less than 10%) of exports, compared with over a third of imports.

The investment boom of recent years was mostly confined to export-oriented sectors and transport (more than half of all investments). In 2000–2001, Russian oil companies brought in Western engineering firms to help raise productivity through application of modern extraction technologies. The resulting increase of oil production was impressive: 16% over two

BOX 2.1

The uneven distribution of income and consumption in the country is particularly apparent from the supermarkets and hypermarkets that are currently being built by foreign companies on the outskirts of Moscow. Moscow's share of the country's population is approximately 6%, according to official statistics, but its real share of the population is much bigger in view of migrants. At the beginning of the twenty-first century, Moscow's share of visible gross regional product was one-fifth of the national total, whereas its relative (per capita) share exceeded the national average by three times and that of the poorest regions by 12–15 times. Despite the absence of large infrastructure projects and mining industries, Moscow accounted for 13% of gross capital investments in the country. Moscow along with the Moscow Region (taken together, they account for a little over 10% of the country's population) build almost a fifth of all the country's new housing (the figures do not take account of cost or quality of the housing).

Table 2.1
Principal Macroeconomic Indicators 1996–2002

Indicator	1996	1997	1998	1999	2000	2001	2002
Growth in GDP (%)	-3.4	0.9	-4.9	5.4	9.0	5.0	4.3
Personal Consumption (GDP) (%)	-4.7	5.5	-2.4	-4.4	9.3	9.9	8.5
Gross Accumulation of Capital Assets (GDP) (%)	-19.3	-5.7	-9.7	4.6	13.2	10.4	2.9
Industrial Production (%)	-4.5	2.0	-5.2	11.0	11.9	4.9	3.7
Trade Balance (milliard \$)	22.5	17.0	16.9	36.2	60.6	47.9	46.4
Consumer Price Index (%)	22	11	84.4	36.5	20.2	18.6	15.1
Deposit Rate (%)	44.4	16.8	17.1	13.7	6.5	4.2	4.5
Balance of Accounts (milliard \$)	11.7	2.0	0.7	24.7	46.4	34.8	31.7
Foreign Currency Reserves (not including gold) (milliard \$)	11.3	12.9	7.8	8.5	24.2	30.4	44.1
Budget Deficit (-) or Surplus (+) (% of GDP)	-7.9	-7.3	-4.1	-1.2	2.4	2.9	1.4
Foreign Debt (milliard \$)	143.3	153.5	166.4	155.0	143.4	130.1	119.0
Average Annual Exchange Rate of the Dollar (in roubles)	5.2	5.8	9.8	24.6	28.1	29.2	31.4
Oil Prices (Urals) (\$ per barrel)	20.4	18.5	12.0	17.3	26.9	23.1	23.5
Unemployment (ILO) (%)	9.7	11.8	13.2	12.6	9.8	8.9	8.6
Gini Coefficient (%)	38.5	39.0	39.4	40	39.5	39.8	39.8

Source: Russian State Statistical Committee, *Obzor ekonomicheskoy politiki v Rossii za 2001 god* ("Review of Russian Economic Policy in 2001"); *Obzor ekonomiki Rossii* ("Review of the Russian Economy"); and Newsletter #36, Bureau of Economic Analysis, March 2003 (in Russian).

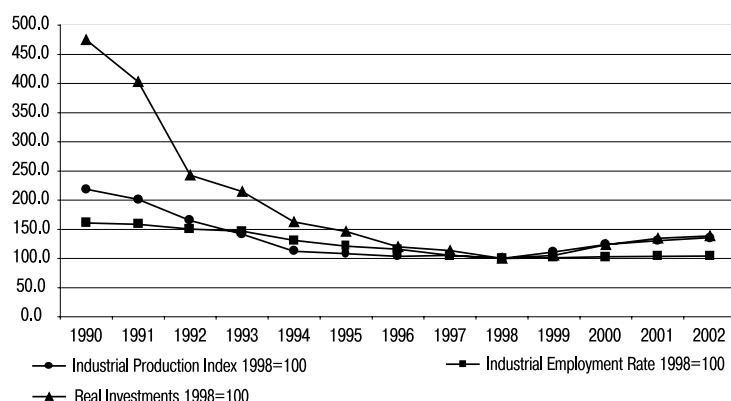
years to a level of 378 million tons. New investments went mainly to the food industry, transport and the refinement of exported intermediate goods in the extraction industries. Russia thus consolidated its role as an international supplier of intermediate goods. Increase of demand in the machine engineering industry by a third in recent years did not lead to major capital investments, and significant rise in this industry's exports was offset by growth of imports of industrial equipment.

Despite the growth of industrial production during the post-crisis period, stock prices and capitalisation regained their levels of October 1997 only in 2003. This is due in large part to the fact that the main Russian stocks are still infrastructure companies (UES, Gazprom, Rostelecom, etc.), whose profitability largely depends on regulated tariffs. Nevertheless, overall rise in stock prices was considerable, and growth of Russian blue chip indicators was better than indices for international markets in the context of global economic stagnation. Russian companies with cash to spare took advantage of relatively low prices of assets in Russia (real estate in Moscow and its environs is the only major excep-

tion) and beyond Russia to pursue an active take-over policy at home and abroad. The high level of Russian bankruptcies (including those initiated as a way of taking-over assets) and mergers continued in 2000–2002. There were over 50,000 bankruptcies and mergers in 2002. The policy of expanding integrated business groups by buying out companies in various sectors of the economy remained common. Indeed, the exhaustion of horizontal and vertical take-over possibilities led business groups to take an interest in the most diverse sectors of the economy, including agriculture. By international standards, these groups resemble conglomerates, since they include companies from very diverse sectors of the economy. Some economists see them as the main force for Russia's economic modernisation (in a broad sense of the word).

Reconstruction of the economy depends largely on relative trends of employment and industrial output, which was admittedly hypertrophied under the centralised economy. As Figure 2.3 shows, the volume of production fell very rapidly in 1991–1998, outpacing the fall in employment, but growth of industrial output after the crisis did not lead to an increase in employment (there was even a lack of qual-

Figure 2.3. Trends in Industrial Production, Employment and Investments



ified workers). So the recovery of recent years has been marked by a considerable rise in labour productivity. This is one proof that the market has had a positive influence on the economy, despite what many Russians may have believed during the long transition crisis.

Growth of investments in 2000–2001 raised hopes among government officials and analysts of a long-term trend, but the rate of investment accumulation slowed down in 2002 and was equal to growth of GDP. The country continues to invest only 19% of GDP compared with the world average of 24%. This is clearly insufficient in view of the huge need for economic expansion and modernisation of the country's physical capital following a long period of low investments from 1991 to 1999. During this period, the average age of production equipment rose from 10.8 to 18.7 years. It is important to note that the financially risky policy of economic acceleration in the USSR at the end of the 1980s involved the purchase of large amounts of foreign equipment. This equipment was later privatised at low domestic prices and was drawn into the process of reallocation of resources. Investments in the 1990s were hugely inadequate in view of radical changes in the country's economic structure.

Russia entered the market reform period with a huge need for renovation and construction of housing. Housing provision had fallen behind needs due to difficulties in financing installation of infrastructure, particularly with a view to

energy conservation in Russia's cold climate. However, a modest level of investment in housing maintenance and construction carried through into the market period, and the market apparently encouraged more rational use of available housing. Widespread construction of expensive country residences and luxury housing projects have attracted much publicity, but these phenomena were more a reflection of social segmentation than market efficiency.

Increase of equipment productivity in competitive sectors of industry speeded up in 2000–2002 thanks to devaluation and gave some support to the machine-building industry. The level of imports of production equipment rose from 10.8 billion roubles 2000 to around 16.7 billion roubles in 2002. However, renewal of dilapidated assets in the infrastructure industries (heating networks in cities, railway and pipeline transport, and export gas pipelines) remains an urgent task.

Equalising development levels of regions remains a major challenge for Russia, and its solution depends largely on improving transport and communications infrastructure to better serve the needs of business. Figure 2.3 shows that the rise in investments over the last three years was quite small in comparison with their plunge during the preceding period. Russia continues to attract 2.5 billion dollars of direct foreign investments annually (largely due to the repatriation of capital), which is several times lower than figures for Poland, the Czech Republic and other transition countries. Meanwhile, according to UNCTAD estimates (Investment Report, 2002), Russia ranked first among transition countries (the former Comecon) for direct capital exports, although there was some improvement in 2002. Total capital outflow (including servicing of foreign debt and accumulation of reserves by the Central Bank) was 32 billion dollars. Actual capital export was under 15 billion dollars and showed declining levels through the year.

As Table 2.2 shows, processing industries, which depend mainly on domestic demand, suffered the most from the transition crisis of 1990–1998. The situation in export-oriented industries during the same period was substantially better, and their

Equalising development levels of regions remains a major challenge for Russia, and its solution depends largely on improving transport and communications infrastructure to better serve the needs of business

Table 2.2.
Production Output by Sectors 1990–2002

Branch	Primary Sales Market (by revenue)	Changes in Volume	Changes in Physical Output (%)	Growth in Domestic Prices in 2001 and the First Nine Months of 2002
		from 1990 to 1998	from 1998 to 2002	from 2000 to 2002
All Industries		45.7	135.8	125.9
Oil Extraction	Foreign	58.1	123.6	117.4
Ferrous Metallurgy	Foreign	52.7	138.8	113.3
Chemical and Petrochemical	Foreign	41.6	154.9	104.4
Gas (not counting transport)	Foreign	89.0*	105.2*	193
Non-Ferrous Metallurgy	Foreign	50.1	143.4	114.6
Woodwork and Timber	Foreign	36.6	140.7	112.3
Coal	Domestic	58.6	113.5	127.8
Light Industry	Domestic	12.5	142.2	114.7
Engineering	Domestic	36.6	155.1	126.9
Building Materials	Domestic	32.5	139.4	137.2
Food	Domestic	50.0	137.0	118.5
Electrical Power	Domestic	75.7	101.5	162.9

* 1997 with respect to 1990 and 2002 with respect to 1997, respectively.

Source: Calculated using data from *Obzor ekonomicheskoy politiki v Rossii za 2001 god* ("Review of Russian Economic Policy in 2001"). Moscow, 2002, Addendum 2, Table 20; *1000 luchshikh predpriyatiy* ("1000 Best Companies"). Moscow, 2002, Table 2.1.

output continued to expand rapidly during the last four years. Companies in the energy sector showed the best output trends in the first period, although they have been outpaced by other industries in the post-crisis period.

Trends in industrial output have been at the root of profound structural changes in the Russian economy during the post-reform period and they will determine Russia's future as an industrial nation. For the moment, the domination of primary industries in the Russian economy is increasing as extraction industries, especially in the energy sector, play an ever greater role. It is vitally important to encourage development of processing industries and significantly increase contribution to the economy of technological industries, which have high added value and are largely definitive of a country's scientific and technological potential.

The problems of modernisation have crystallised in debates on which sectors will determine future economic development and how Russia's production, infrastructure, housing and innovation assets will be modernised. It remains unclear which eco-

nomical forces will determine the course of modernisation: integrated business groups, independent entrepreneurs (the priority target of government programs) or the State, which has so far consciously positioned itself outside the sphere of accumulation.

Ongoing State Reforms

The economic reforms of the last two years tried hard to change the "new Russian capitalism", which arose spontaneously during the first stage of reforms (1991–1995) and was consolidated during the ensuing period (1996–1999). The State thus assumed two different roles at once: as executor of its day-to-day regulatory functions and as reformer. Both of these functions are naturally inherent to the State in any country, but they are strongly differentiated in the conditions of a transition economy. In many ways, the principal task in Russia is correction of the institutional basis of the market economy. As a consequence, the reforms that were undertaken in the new millennium (the list of bills, which have made the statute book, is enormous) were mostly of an institu-

The main issues concerning impact of the State on business are the fiscal burden, reform of natural monopolies and the size of the State itself

tional nature. Critics from both the right and the left, as well as specialists in the particular fields, which the reforms concern, have pointed out serious flaws in each of the reforms and have labelled them as compromise solutions that would be inefficient and difficult to implement. Nevertheless, the scope of the reforms is broad and impressive and includes the following:

- legal reform (currently at the stage of determining the status of judges);
- land reform (approved, although access to land and opportunities for selling it remain limited);
- Labour Code (adopted, although it is criticised both by labour unions and by right-wing parties. The real situation in the workplace is largely determined by the extensive scope, which employers have, to use various unofficial employment arrangements);
- retirement pension reform (basic provisions have been adopted, although a lot of subordinate legislation has yet to be approved. It represents a compromise between concentrating fund management in the State Pension Fund and private schemes for managing the funds of the cumulative (investable) part of the retirement pension system.);
- package of anti-bureaucracy measures (mostly aimed at limiting the ability of local government to prey on small business — for example, through endless inspections. Its main goal is to counteract corruption. Its effects should be felt in the near future, and will be dependent on business taking an active role in defence of its rights).

The main issues concerning impact of the State on business are the fiscal burden, reform of natural monopolies and the size of the State itself.

As regards tax, an important component of reforms in recent years has been introduction of the new Tax Code of the Russian Federation. Under the new Tax Code, a flat tax of 13% on personal income of citizens has been in effect since

2001. Revenues from this tax accrue entirely to regional governments, representing a change from the previous situation, when a part of income tax revenues went to the federal government (income tax revenues are taken by central government in most countries of the world). In Russia, income tax represents a fairly small share of total budget revenue (less than 3% of GDP). Collection of income tax increased somewhat after introduction of the flat rate, but it is not entirely clear to what extent the reform has encouraged declaration of personal incomes. Increase in income tax revenues over the last two years is mainly due to rapid growth of nominal wages in Russia, and the inclusion of several million servicemen among tax payers. Nevertheless, the Russian income tax rate is the lowest for legal income anywhere in the world, with the exception of tax havens.

Introduction of a new simplified system of accounting was intended to encourage legalisation of small and medium-sized business. However, businessmen complain that the structure of the new system is actually quite complicated and leads to additional expenditures. Another high tax that inhibits business activities is Unified Social Tax (over 36%). The Social Tax puts small and medium-sized business at a disadvantage compared with major industrial and extraction firms, since the average share of wages in the price of industrial goods in Russia is approximately 15%, or 20–21% including this tax. Small high-tech companies, where wages account for 60–80% of all costs, are often simply unable to pay the Social Tax.

A new system of taxes on extraction of hydrocarbons was mainly greeted by large business, although it is now being criticised for not promoting rational use of low-output wells. The flat 24% profit tax, which replaced the previous 35% tax with a 50% reduction on the value of capital investments, also came in for initial praise and later criticism. The new system gave a clearer and more rational system of calculating costs and related expenditures, but it became clear that even companies, which avoided losses from annulment of the 50% deduction on investments by writing off other expenditures, found it difficult to calculate the efficiency of

major long-term projects (for the purposes of taking out loans) under the new system. Another aspect of the problem is that the law was passed when the capital investment growth rate was high, but came into effect when the rate had already slowed down.

Debates on reform of UES (Unified Energy System) and the necessity of reforming the Ministry of Railways and the natural gas market (mainly Gazprom) also came to a head in 2002. A large package of draft laws on electricity sector reform, prepared by the government in association with UES, was reviewed by government and the Duma. However, debates became more heated in the autumn of 2002, as it was realised that increase in electricity prices would lead to rising inflation and difficulties in reducing subsidies for municipal and housing services. Passage of the drafts almost ground to a halt in the winter of 2002, but a final effort secured their approval at the start of 2003.

Difficulties in passage of the electricity bills may have been due to the approach of Duma and presidential elections, and these factors also seem to have had major impact on attempts to reform the natural gas market. The increasing role of natural gas as a feedstock for electric power generation makes it hard to reform UES without reforming the natural gas market (and Gazprom), but gas

reform is fraught with tremendous difficulties, and a reform concept only began to be discussed in the autumn of 2002 (two years after discussions of electricity market reform began).

In conclusion it is fair to say that government has tried quite consistently to limit the size of the State, although many analysts have drawn attention to considerable increase of non-interest budget spending (from 12.2% of GDP in 2001 to 13.6% in 2002), particularly on defence and law-enforcement. Spending on debt service decreased from 2.6% to 2% of GDP in 2002, even though the government spent resources to buy back several billion dollars of foreign debt, which would fall due in 2003 (and, possibly, some debt falling due in 2005) in order to level off debt peaks. Reduction of tax revenues from 16.4% to 15.7% of GDP was a direct result of tax reform and did not lead to difficulties for the government in view of the increase of almost 20% in nominal GDP. However, the potential danger of falling tax revenues shows that questions of the relation between state expenditures, state revenues and economic growth in Russia has not yet been resolved and that interesting debates lie ahead. The government has chosen to target economic growth and resulting increase of personal incomes, rather than redistribution of income through the budget.

The favourable macroeconomic climate of recent years has led to a growth in income and consumption, but investments have slowed down, and the diversity of reforms has been accompanied by hesitations and compromises.

Questions of how to modernise the country's economy came to the fore in the pre-election year, and it will be important not to lose reform momentum during the election campaigns of 2003 and 2004, and during subsequent formulation of new policy. It is clear that many important reforms were not completed in the pre-election period and are likely to be postponed until after election results come in.

Dependence of the budget on external revenues means that the macroeconomic situation will remain exposed to potential risks. The economy's dependence on primary industries needs to be overcome and the role of processing industries needs to increase.

It will not be possible to ensure annual 10% growth in consumption in the long term, and therefore it is important to take stronger measures to encourage savings and transition to target subsidies.

Russia's modernisation will ultimately depend on many different categories of economic agents and will also require the modernisation of the private financial sector and a stronger stimuli for capital investment.

¹ Data for 2002 were taken from official sources and are in part provisional.

² See, for example, “Kontsa ekonomicheskomu zastoyu ne vidno” in *Vedomosti*.

³ A.R. Belousov *et al.*, “Osobennosti mekhanizma promyshlennogo rosta v 2001—2000 gg.” in *1000 luchshikh predpriyaty Rossii*, p.26.

⁴ Development Centre, Consumer Expectation Index Foundation, November 2002.

⁵ The rise in the export of raw materials inhibits the development of the processing industries.

⁶ Cf. Leonid Grigoriev and Lilia Valitova, “Two Russian Stock Exchanges: Analysis of Relationships” in *Russian Economic Trends*, Blackwell, vol. 11, #3, July 2002, pp. 44—53.

Federal Spending on Social Policy

The Federal Budget and State Non-Budgetary Funds

Social payments and benefits are financed by all levels of the Russian government budget as well as by state non-budgetary funds. Social payments and benefits from the federal budget may be divided into two general categories:

- direct payments to individual recipients
- non-monetary social benefits.

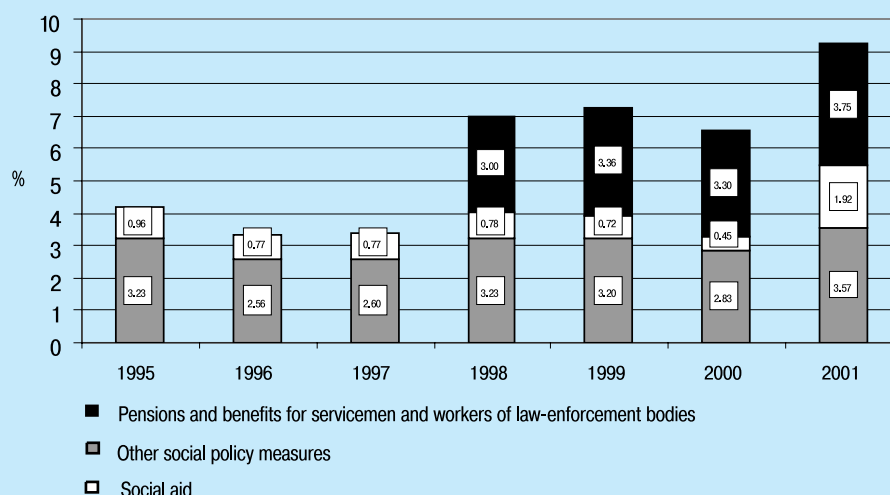
Most social payments belong to the first category. They include unemployment benefits and additional payments to dependants of unemployed persons; stipends for unemployed persons during a period of professional training; several types of state pensions (including social pensions); benefits during pregnancy and for childbirth for women who have lost their jobs as a result of the liquidation of companies; scholarships for graduate students and young scholars preparing advanced degrees; and compensation to individuals who suffered as a result of nuclear accidents; etc.

The largest social payments and benefits in the second category are rebates on residential costs and public utilities. In 1999, 29.3% of the total permanent population of the country were awarded rebates, which cost the state about 12 billion roubles. Far from diminishing, the volume of benefits has grown appreciably in more recent years. Thus, despite a marked increase in the total amount of housing in 2002, spending of the population on accommodation and on municipal and housing services fell slightly in real terms in 2002 compared with 2001.

The Social Policy Section of the Federal Budget

A large part of federal budgetary expenditures on social payments and benefits is financed under separate budget item entitled "Social Policy" and its addenda. This section first appeared in the federal budget in 1995. Figure 2.4 shows the share of expenditures of the Social Policy Section in overall federal spending between 1995 and 2001. As we can see, the share of the Social Policy Section in total expenditures remained fairly stable from 1998 until 2001, when it sharply increased.

Figure 2.4. Percentage Share of Expenditures of the Social Policy Section in Overall Federal Spending during the Period 1995–2001



The nominal rise in Social Policy expenditures in 2001 is in large part due to changes in the structure of this section and redistribution of financing within and between different items and sections of the federal budget, on one hand, and other sources, including non-budgetary funds, on the other hand. Disregarding pensions for servicemen and those employed in law-enforcement agencies, the share of Social Policy expenditures in overall federal spending fluctuated between 3% and 4%, with the exception of 2001, when expenditures on unemployment benefits and the regional network of employment offices were included in this section as a result of the liquidation of the State Employment Fund. Figure 2.5 shows a similar trend in the share of Social Policy expenditures in the country's GDP.

State Non-Budgetary Funds

State non-budgetary funds are the main source of other social payments that are guaranteed by federal law. State non-budgetary funds are defined in Article 13 of the Budgetary Code of the Russian Federation as "monetary" funds that are constituted "outside the scope of the federal budget and the budgets of the constituent members of the Russian Federation" and whose purpose is to "ensure the constitutional rights of citizens to pensions, social

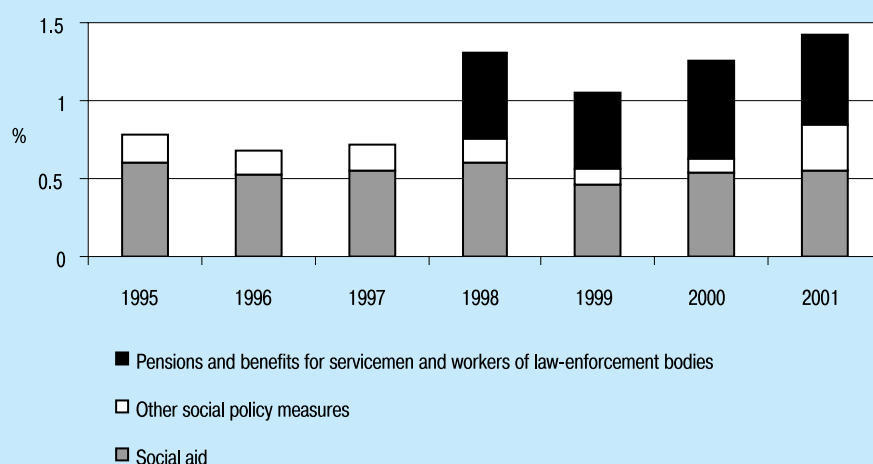
security, unemployment benefits, healthcare and medical assistance." In accordance with Article 144 of this Code, the Pension Fund of the Russian Federation, the Social Security Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund, and the State Employment Fund of the Russian Federation (which has since become defunct) are included among state non-budgetary funds.

Figure 2.6 shows the changes in social payments from non-budgetary funds between 1998 and 2000.

The Pension Fund was created in Russia in 1991 to meet the conditions of Conventions #35 and #36 ratified by the International Labour Organisation (ILO) in 1933 and stipulating the necessity of separate management of state social security funds and state resources. The resources of the Pension Fund are primarily used for paying state retirement pensions. In addition, the resources of the Pension Fund are used to cover certain other expenditures on a refundable basis. In particular, the Pension Fund finances pensions for servicemen, and its expenditures in this domain are compensated by the federal budget.

The regulations governing the Social Security Fund were promulgated by a Russian government decree of February 1994. The resources of the Social Security Fund are used for providing

Figure 2.5. Percentage Share of Expenditures of the Social Policy Section in GDP



social benefits for temporary disability, pregnancy and childbirth, child care up to the age of 18 months, funeral expenses, treatment for workers at sanatoria and health resorts, and partial financing of extracurricular activities for children (summer holidays, New Year celebrations, etc.).

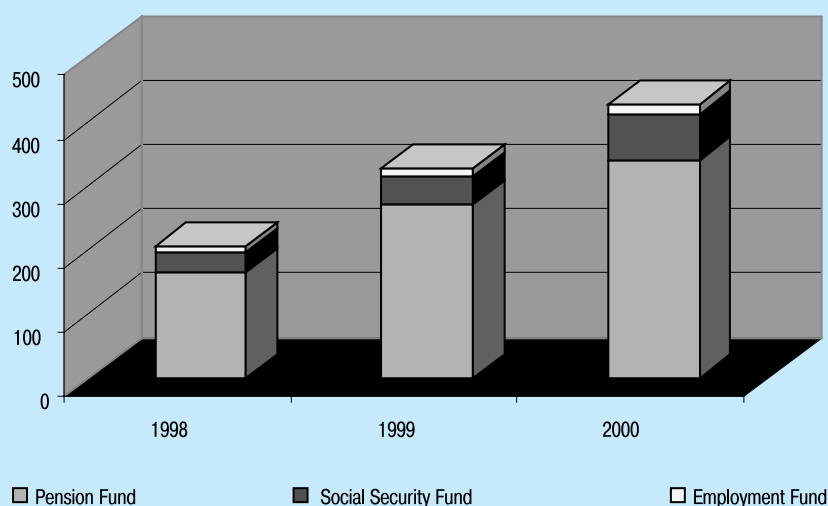
The Federal Compulsory Medical Insurance Fund was created in 1993. The system of compulsory medical insurance also includes 88 territorial compulsory medical insurance funds created in the different constituent members of the Russian Federation. The resources of the Federal Compulsory Medical Insurance Fund are intended for financing development of public medicine in the Russian Federation; they are not used for paying social benefits.

The State Employment Fund was created in accordance with the 1991 law of the Russian Soviet Federative Socialist Republic

"On employment in the Russian Soviet Federative Socialist Republic". One of its goals was to assure the fulfilment of state social obligations to a new category of socially vulnerable citizens in Russia: unemployed persons registered in state employment offices. The resources of the State Employment Fund were used to pay unemployment benefits as well as stipends to unemployed persons taking part in professional training and retraining courses at the referral of state employment offices. The State Employment Fund was liquidated on 1st January 2001, and the financing of such benefits was transferred to the federal budget.

*I.V. Kolosnitsyn, Ph.D. (Economics),
Senior Manager at the Bureau of Economic Analysis*

Figure 2.6. Social Payments from State Non-Budgetary Funds (in billions of roubles)



Chapter 3

State Regulation of Income and Employment

Income Generation

Real personal incomes continued their recovery in 2001–2002 as work incomes (wages and incomes from business activities) grew relatively quickly against a background of decelerating inflation, and as policies were implemented to increase pensions and reduce poverty. The purchasing power of the population markedly increased as a result. There were no major changes in the structure of personal cash incomes in 2002: the percentage share of wages was 66%, business revenues 12% and social transfers 14%. Factual final consumption by households grew much faster than gross domestic product in 2001–2002: factual final consumption of households per 1% increase in GDP rose by 1.7% in 2001 and by 1.8% during the first three months of 2002 (Figure 3.1). The shadow economy remained a source of livelihood for a considerable part of the population, and the share of shadow wages in GDP continued high at 11%. This means that approximately one quarter of total labour remuneration (wages and salaries) of all employees in the Russian economy is paid under the table (Box 3.1).

Household assets grew in 2001 after a decline in 1999–2000 due to effects of the economic crisis of 1998. The amount of ready cash held at home and on bank accounts began to grow, and wage arrears were reduced.

The cultivation of private allotments (garden plots) is a common means of providing for personal consumption needs among both rural and urban dwellers. This is partly due to excess of labour supply over demand for labour in rural communities, settlements and small towns or mismatch of professions and qualifications between labour supply and demand. People therefore use their allotments as a source of income (if they are able to sell

the produce) or for their personal consumption needs. The structure of time management is therefore marked by hypertrophied time spent on cultivation due to low incomes in many sections of society and the necessity of limiting purchase of those goods and services that can be produced by household members themselves.

There were no major changes in the geographical distribution of income, wealth and poverty in 2001–2002. The regions with the highest nominal per capita cash income traditionally include the city of Moscow; the Yamalo-Nenets, Khanty-Mansian and Chukotka Autonomous Districts; the Komi and Sakha (Yakut) Republics; and the Kamachatka, Magadan, Murmansk and Sakhalin Regions. In recent years, the situation in the Moscow, Belgorod and Yaroslavl Regions and in the city of St. Petersburg has improved. The poorest regions traditionally include most of the republics in the North Caucasus and the Volga area as well as the Ivanovo Region. The highest per capita purchasing power of personal cash incomes adjusted for regional differences in price levels are found in Moscow, the Khanty-Mansian and Yamalo-Nenets Autonomous Districts, the Komi Republic, St. Petersburg, and the Samara and Kemerovo Regions, whereas the lowest is found in the Republic of Ingushetia, the Ust-Ordynsk Buryat, the Komi-Perm and the Aginsk Buryat Autonomous Districts, the Ivanovo Region, and the Mari-El, Kalmyk, Daghestan and Chuvash Republics.

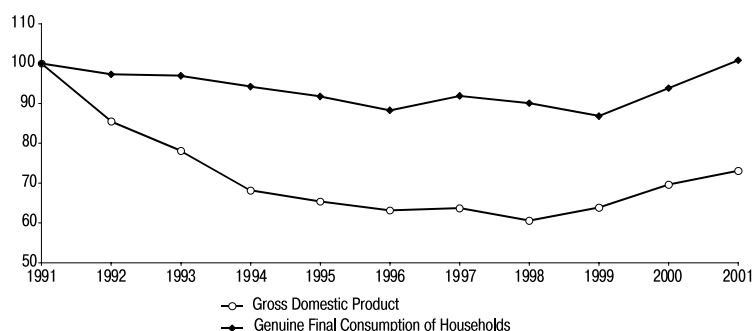
The structure of time management is therefore marked by hypertrophied time spent on cultivation due to low incomes in many sections of society and the necessity of limiting purchase of those goods and services that can be produced by household members themselves

BOX 3.1

"... the shadow economy makes possible economic activity that is not subject to the control of the state; it creates new economic niches which make it easier for people to survive under the conditions of a downturn in the official economy and a falling standard of living."

Source: Leonid Kosals, "Between Chaos and Social Order" in Pro et Contra, vol. 4, #1, 1999, p.45

Figure 3.1. Gross Domestic Product and Factual Final Consumption of Households from Cash Incomes (as percentage of 1991 levels in comparative prices)



Despite continued high incidence of poverty (25% in 2002), people gave a higher assessment of their material situation in 2002 than in 2000. This is confirmed by the results of a random sampling study of consumer expectations that is conducted every three months by the State Committee of the Russian Federation on Statistics: every sixth individual surveyed said that his or her material situation improved in the course of the year. Nevertheless, the absolute majority of those who expected their material situation to improve in the future said that this would happen due to personal circumstances (73.2% in the third quarter of 2002) and only 16.1% hoped that their material circumstances would improve as a result of changes in the overall economic situation in the country. The percentage of those who believed that their savings would increase rose to 13.6% in the third quarter of 2002 as opposed to 4.3% in the fourth quarter of 1998. However, the percentage of those who financed their consumption

through debt or the use of savings almost halved during this period (from 49.7% to 24.8%).

One of the most positive phenomena of the last two years is undoubtedly the deceleration of inflation (whereas prices more than tripled over the period 1998–2000, they rose by only 36.5% over 2001–2002). This has contributed to overall improvement in people's assessment of the economic situation. The 1998 jump in prices (by 1.8 times) was particularly shocking after a period, which had seen their lowest rate of growth since 1992 (cf. Box 3.2).

The government's attempts to make people cover the full cost of municipal and housing service provision was thwarted by sheer lack of resources in some sections of society, but the price of these services still outpaced the general price index for goods and services in 2001–2002. Average spending per capita on municipal and housing services as a share of total consumer spending is about 5%. The federal standard for payment by end users for all types of municipal and housing services utilities was fixed at 90% in 2002 by the Russian government, up from 80% in 2001 and 70% in 2000. However, people actually paid only 53% of the costs incurred by companies providing these services in 2000 and 59% in 2001. So reform of this sector, which affects all Russian citizens without exception, is being implemented gradually.

Income From Employment

Salaries grew rapidly in 2001–2002, and substantially faster than rises in prices. This is an important indicator of the overall economic situation, since employees continue to represent the overwhelming majority of people engaged in economic activity. However, development over the last 10 years of small business in the form of individuals working for themselves without creation of a legal entity has brought the number of “sole-traders” to 4.7 million. These people work mainly in retail, domestic services, construction and automobile transport, i.e., in sectors where payment

BOX 3.2.

“For a society, the first few years of a transformation period are the most difficult, for nothing is stable: the system of government, the value of money and even the boundaries of the State itself. This period is now over. Ten years after the beginning of market reforms, the likelihood that next year will resemble this one is substantially higher than at the beginning of the nineties. The constitutional transfer of power from B. Eltsin to V. Putin on the last day of the second millennium is a good sign that things are gradually getting better.”

Source: Richard Rose, “A Decade of Change Without a Lot of Success” in *Public Opinion Monitor: Economic and Social Change*, 4 (60), 2002, p.34.

Figure 3.2. Number of People With Cash Incomes Below the Subsistence Level (in millions)



is in cash and where it is easier not to keep accounts of economic operations (unlike larger businesses), and not to draw up employment contracts and leasing contracts for equipment and premises.

Despite growth of salaries, their levels remain low in comparison with economically developed countries in Europe and North America. Nevertheless, the average monthly salary converted into dollars at the official exchange rate was \$141 (4,400 roubles) in 2002, which is almost twice as much as it was in 1998—1999. Using purchasing power parity of the rouble relative to the dollar, the average monthly salary was almost \$380. The average official monthly salary of workers in Russia in 2002 could buy 2.4 minimum consumer baskets of goods and services.

However, many jobs still offer salaries below the subsistence level. They are mostly concentrated in the public sector of the economy (cf. Figure 3.2). Low salaries of workers in healthcare, education and culture encourage development of “shadow” economic relations in these sectors, with additional informal cash payments, gifts, etc.

Even disregarding “shadow” income, and only taking account of official

statistical studies of the distribution of salaries in organisations, the inequalities in the distribution of overall payroll are very great. The average salaries of the highest-paid 10% of employees of organisations (not including small business) in April 2002 were almost 30 times greater than those of the lowest-paid 10%. The salaries of the highest-paid 10% of employees accounted for 36.7% of total payroll.

One positive phenomenon on the labour market was reduction of wage arrears, which were 3.5% lower on 1st January 2003 than on 1st January 2001. The number of companies owing back wages and the number of employees who were owed back wages also fell substantially, by 33% and 34% respectively. Whereas, at the end of 2000, the volume of arrears was 2.1 times greater than total monthly payroll in organisations with arrears, this indicator fell to 1.9 by the end of 2002. The concept of wages implies a relationship between the employer and employee, who advances a credit to the former for a time period stipulated in an agreement, and reduction in the incidence of employers violating such agreements by arbitrarily delaying payment of wages shows that the overall economic situa-

... many jobs still offer salaries below the subsistence level. They are mostly concentrated in the public sector of the economy

BOX 3.3

"A breakthrough in discussions of Russian retirement pension reform finally happened in 2001, unexpectedly at first sight. Legislation on the state retirement pension system was drafted and adopted, creating a framework for the new pension system and changing the rules of the game for present and future recipients of contributory retirement pensions. The adoption of bills on self-funded and professional retirement schemes proved harder, but here too the discussion progressed from concepts (whether such reform is needed at all) to practice (consideration of concrete ways of implementing the proposed reforms)."

Source: Review of Russian Economic Policy in 2001. Bureau of Economic Analysis, TEIS Publishers, Moscow, 2002, p.149 (in Russian).

The concept of wages implies a relationship between the employer and employee, who advances a credit to the former for a time period stipulated in an agreement

... purchasing power of salaries was undermined due to their not being paid on time

tion in the country is improving. However, the situation of some workers at some companies remains unsatisfactory, and wage arrears are sometimes due to unfulfilled obligations of various levels of government. In many cases, purchasing power of salaries was undermined due to their not being paid on time.

Wage differentials between various sectors changed little in 2001–2002: the fuel and energy complex continues to offer the best wages, while the public sector, agriculture and light industry offer the lowest wages.

In 2002, the average monthly salary of workers in the public sector increased more rapidly than the overall rate of growth of salaries in the economy. In 2003, the average monthly salary in education, culture and the fine arts was 67% of the national average, while in healthcare the figure was 72%, representing increases of 8–11% in comparison with 2001. Nevertheless, in April 2002, 40–50% of workers in healthcare, education, culture and the fine arts received salaries that were at or below the subsistence level of the working population.

Despite the fall in wage arrears in 2001–2002, more than 600,000 workers in education, healthcare, social assistance, culture, and the fine arts (6% of all people working in these professions) were still owed back pay on 1st March 2003. This is mainly due to lack of public funds at the disposal of regional governments. This was the reason for 69% of arrears in healthcare and 95% in education.

The total number of people employed in the economy rose from 62 mil-

lion in May 1999 to 66 million in May 2002, but 9 million of them were looking for additional work. The average number of factual working hours per worker at his or her main place of work remained stable. The majority of people with jobs, who take on additional work, keep full employee status at their principal place of work and are self-employed in their additional work.

Retirement Pensions

The average size of retirement pensions increased by 29% between 1st October 2001 and 1st October 2002 to 1,461 roubles per month (or \$46 at the official exchange rate). The average level of retirement pensions compared with wages is very low in Russia (31–32%) and has remained almost unchanged over the last two years (Figure 3.3).

One in four of all Russians are affected by changes in the current system of pension payment. Retirement pensions increased faster than the rate of inflation from the second half of 2001, bringing the average pension closer to the subsistence level for pensioners, and in the third quarter of 2002, the retirement pension overtook the subsistence level. This is an undoubted achievement by the State, particularly since the method of calculating the subsistence level (including that of pensioners) was changed in 2000, so that the subsistence level for pensioners increased by a quarter (cf. Box 3.3). However, it should also be remembered that income at the subsistence level enables satisfaction of only the most basic needs, and it should also be noted that the minimum retirement pension in 2001 was equal to only 41% of the subsistence level, as opposed to 77% in 2000.

Russian senior citizens are forced into a pattern of consumption with an abnormally high proportion of expenditures on food and everyday goods. Most of them cannot afford to spend money on recreation and medical care. Many elderly people are further straitened by lack of support from partners, as the life expectancy of men in Russia is 13 years lower than that of women. Inadequate retirement pensions force many pen-

sioners to continue working after they reach retirement age and become entitled to a pension, and most of them have to settle for low-paid and demeaning work.

Income Disparities

Income or salary is the main criterion in modern Russia determining the social group, to which a family or an individual belongs, and income or salary also shapes consumer behaviour. Russia is seeing rapid emergence of different types of consumption, defined by the resources that families have at their disposal. A poor stratum and a wealthy stratum have already formed, and the middle stratum is differentiating: its upper (most affluent) part is patterning its consumption on that of the wealthy stratum, whereas the lower part is on the verge of poverty, as can be seen from comparison of incomes with the subsistence level (cf. Box 3.4).

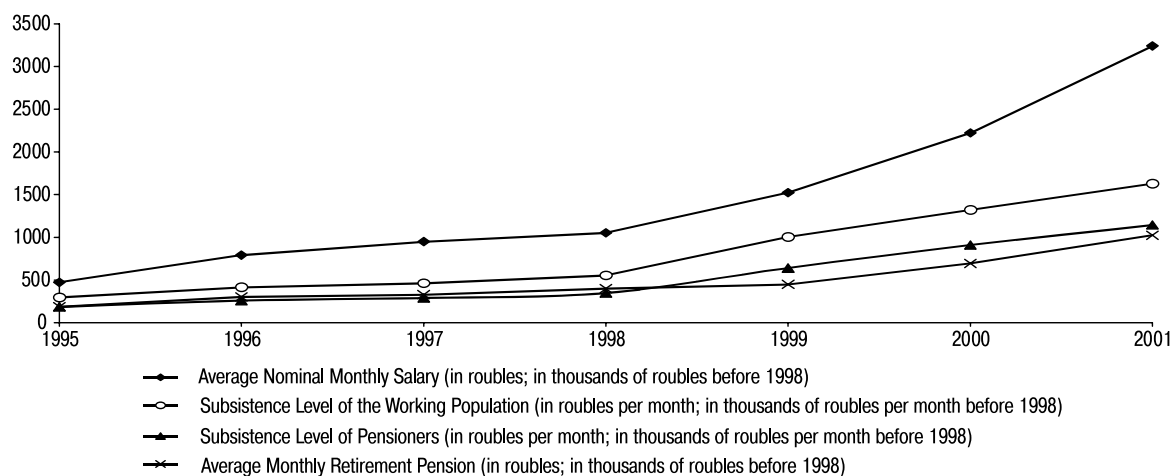
There were no significant changes in social stratification tendencies in 2001–2002. Most people had difficulty in meeting their personal consumption needs, even though their incomes were above the poverty level. The instability of people's material situation became apparent in the financial crisis of 1998, which pushed many households with medium-level incomes into poor consumer strata, and changed their spend-

ing patterns. The stratum of poor people, which has emerged in Russia, includes families with many children, broken families, and families whose breadwinners have salaries below the poverty level (Figure 3.4). Poor families often have to do without goods and services, they cultivate private allotments to help meet their consumption needs, etc.

Large wage differentials among the employed and erratic payment of wages play an important role in income-based inequality in Russia in addition to traditional factors such as burden of dependants on breadwinners, employment status, unemployment, and the level of education. Distribution of the total volume of cash incomes has not changed over the last two years: about 50% of all incomes accrue to the most affluent 20% of the population, while the poorest 20% of the population receives about 6% of incomes.

Income-based differentiation in society depends to a large degree on the employment status of heads of households. The number of entrepreneurs has increased in Russia in recent years. These are people, whose income and personal consumption directly depends on their own labour and business activities (Figure 3.5). The influence of this stratum on income-based inequalities is growing. Another factor that has considerable impact on inequality is high

Figure 3.3. Average Monthly Salary and Average Monthly Retirement Pension in Comparison with the Subsistence Level



BOX 3.4.

"When the sea of problems covers society, the best thing is to keep your head above water. If you still get covered, you should try to swim to the surface. Russian citizens also have a third alternative: to become poor. Adaptation takes place when people find the means of providing their families with all the necessities in the new conditions by making use of their former connections or the opportunities of the emerging market. If they are unable to solve their problems in this way, Russians are forced to become inventive and to fix old things instead of buying new ones. If a family does not have the money to buy clothes, it has to keep mending tears until it finds enough resources. If you cannot afford to buy delicacies for a holiday dinner, vegetables grown on a private garden plot will have to do. Inventiveness signifies the ability to overcome difficulties that arise during a transition period. Poverty is the result of having to renounce many necessary things. The uncertain supply and constant deficit that marked the Soviet planned economy taught Russians to adapt and be inventive."

Source: Richard Rose, "A Decade of Change Without a Lot of Success" in Public Opinion Monitor: Economic and Social Change, 4 (60), 2002, p.31 (in Russian)

*Employment
is an integral part
of state policy
in a market
economy*

salaries of highly qualified employees, whose skills are always in demand.

Individuals with higher education are in the majority among the affluent strata of people of working-age. Studies of consumer expectations show that a considerable percentage of those surveyed (33.7—36.3% in 2002) consider payment for education to be the best and most efficient reason for saving.

State Employment Policy

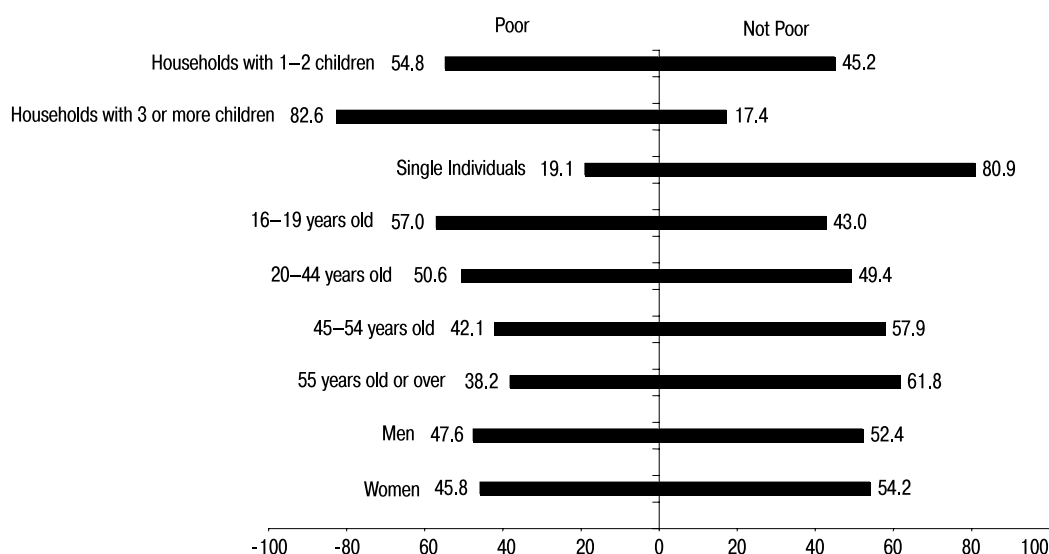
Employment is an integral part of state policy in a market economy. In

addition to providing basic legislative guarantees for the working population by determining the minimum wage, labour conditions, and regulations governing the hiring and dismissal of workers, an employment policy involves juxtaposing the needs of the economy with the needs of participants of the labour market and calls for the simultaneous resolution of two sets of problems. The first of them is linked to the impact of demand on labour. Bolstering and providing incentives for employment in an artificial way often only serves to maintain an outdated labour system and thus lowers economic efficiency. The mutually dependent goals of restructuring production and promoting employment must both be kept in view in determining priorities of industrial policy on the federal and regional levels.

The second set of problems involves the development of special measures for creating labour supply and adapting it to current and long-term demand, i.e., a mechanism for matching and bringing together unemployed people and jobs. These measures should be directed at lessening social tensions arising from the presence of groups who have lost their incomes and social status.

Government employment policy in Russia in the 1990s consisted of a set of

Figure 3.4. **Distribution of Poverty in Russia in 2002** (random sampling study of household budgets, in percent)



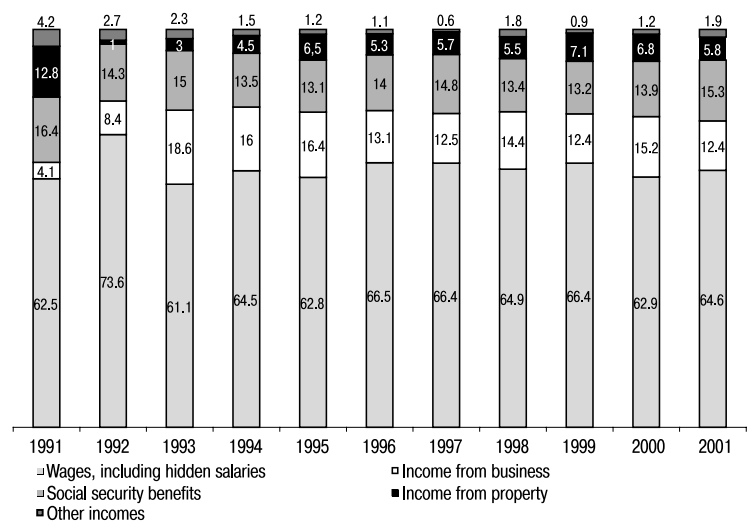
compensatory measures aimed at mitigating particularly acute situations that arose from time to time and that mostly involved the provision of social benefits to the unemployed. Under conditions of a severe deficit of resources, social assistance can only be provided to a small number of particularly vulnerable citizens who are unable to resolve their problems independently. So state employment policy focused on the registered unemployed. But it should be noted that the discrepancy between registered unemployment and overall unemployment is very great in Russia and other CIS countries, contrasting with the situation in Central and Eastern European countries. The difference between these indicators in the latter countries is not very large and registered unemployment sometimes even exceeds overall unemployment (as in Hungary, Croatia, Slovakia and Slovenia). However, overall unemployment in Russia has exceeded the unemployment statistics of the State Employment Service by a factor of five or more over the entire period of market reforms (cf. Figure 3.6 and Table 3.1).

Such a wide divergence between unemployment indicators could be viewed simply as a statistical problem if state programs were based on overall employment indicators. However, state measures in Russia continue to be aimed at the registered unemployed, which are a very narrow segment of the labour market, even though it is now generally accepted that registered unemployment indicators are far from indicating the real scope of this problem, and also fail to give an adequate representation of the structure and development of unemployment in various regions, thus leaving critical zones of unemployment invisible.

Exclusive reliance on the registered unemployment indicator in Russia in the first half of the 1990s was primarily due to political reasons, but the motivation has now become predominantly financial.

In 2001–2002, a number of fundamental measures were implemented, which could be seen as a radical attempt

Figure 3.5. Structure of Household Incomes

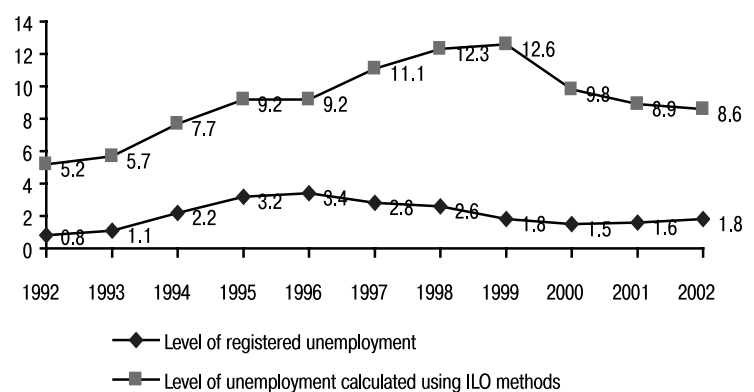


to change state employment policy. They include, above all, the liquidation of the State Employment Fund and transition to funding of state employment policy from the federal budget, as well as the adoption of a number of amendments to the law “On employment of the population of the Russian Federation” (cf. Box 3.5).

Principal Results of Employment Policy Reform

Transition to financing of employment policy from the federal budget led

Figure 3.6. Trends in Registered Unemployment and Overall Unemployment under ILO Methodology in 1992–2000 (millions of people)



Sources: Labour and Employment in Russia. 2001. Russian State Statistical Committee, Moscow, 2001, p.162 (in Russian); Economic Activity of the Russian Population. Russian State Statistical Committee, Moscow, 2002, p.110 (in Russian).

Table 3.1.

Trends in Overall and Registered Unemployment in Selected Eastern European Countries and Russia in 1994–1999 (in percent)

	Unemployment Level Based on Administrative Data of the State Employment Service				Unemployment Level Based on National Studies of the Labour Force			
	1994	1996	1998	1999	1994	1996	1998	1999
Croatia	17.3	15.9	18.6	20.8	—	10.0	11.4	13.6
Hungary	10.9	10.5	9.1	9.6	10.7	9.8	7.8	7.0
Poland	16.0	13.2	10.4	13.0	13.9	11.5	10.6	15.3
Slovakia	14.8	12.8	15.6	19.2	13.7	11.1	11.9	17.1
Slovenia	14.2	14.4	14.6	13.0	9.0	7.3	7.7	7.4
Russia	1.6	2.6	1.9	2.2	7.4	9.7	13.2	12.6

Source: N. O'Leary, A. Nesporova and A. Samorodov, Manual on Evaluation of Labour Market Policies in Transition Countries. ILO, Geneva, 2001, p.18.

Transition to financing of employment policy from the federal budget led to a number of positive results, but did not change their basic conception

to a number of positive results: transfer of state resources for employment policy to Russian regions and targeted use of these resources were put on a surer footing; employment benefits began to be paid on time (benefit arrears were liquidated for the first time in the last five years); and inequalities in access of the unemployed to benefits due to their place of residence and marital status were overcome. Nevertheless, the positive developments were wholly due to centralisation of employment policies and did not change their basic conception.

Firstly, contradiction between insurance-based payment of premiums as

specified by law and rejection of these principles in practice was not resolved and amendments to the law “On employment of the population”, adopted in January 2003,¹ have also failed to resolve this contradiction. And, despite the fact that it dismantled the insurance-based scheme, the new financing plan did not lead to creation of a full-fledged system of material assistance to the unemployed.

Secondly, long-term stable financing for state programs remains a problem, as the latter have become dependent on a single source — the federal budget. The experience of transition countries (Ukraine, Czech Republic, Kazakhstan) that liquidated employment funds and went over to budget financing in the late 1990s shows that deficits in state resources for social policy as a whole were compensated through cut-backs in allocations for employment programs, so that freed resources could be used for more “urgent” social programs. Such redistribution led to increasing arrears of benefits and the discontinuation of employment programs. For this reason, these countries have returned to the practice of non-budgetary funds.

Thirdly, the status of the State Employment Service (SES) has become less well defined, causing many qualified specialists to quit the Service. Announcement in 2001 of a plan to cut

Table 3.2.

Employment of Workers Through Employment Offices and Information About Job Offers Provided by Companies to Employment Offices

		1995	2000	2002
Percentage of Companies who Hired Employees through employment offices (in %)		51.8	55.3	35.0
Percentage of company staff so hired:	— less than 10% of staff	65.9	55.3	39.5
	— from 10 to 25%	15.9	17.0	8.3
	— more than 25%	18.2	27.7	17.1

Source: Annual Study of the Flexibility of the Industrial Labour Market in Russia conducted by the Centre for Labour Market Studies of the Institute of Economics of the Russian Academy of Science in the framework of the ILO Program for Socioeconomic Security. The number of companies of the processing industry covered by the study was 500 in 1995 and 2000 and 600 in 2002.

Employment policy as defined in the law "On employment of the population of the Russian Federation" (adopted in July 1991) was more or less suited to real conditions up until the mid-1990s. This was mainly due to a number of peculiarities of the Russian labour market: a high level of overemployment accumulated in hidden forms; relatively low growth of general unemployment; psychological barriers that kept people away from employment offices and checked the growth of registered unemployment; and the availability of considerable financial resources for the implementation of state programs.

But the social aspect of state employment policy began to malfunction in the mid-1990s when cutbacks were made both in overall spending and in the centralised source, which was supposed to even out interregional inequalities in employment spending. This was in part due to objective difficulties of the transition period and the "novelty" of unemployment and its concomitant problems. In this early period the State tended to underestimate the scope of unemployment, overestimate its ability to help the unemployed, and fail to recognise that any determined policy for tackling unemployment would require major expenditures. In developed countries such policies have always been given a considerable share of overall state expenditures and GDP, and other transition countries also saw the need for major financing: state spending on employment policies has been 2.79% of GDP in Hungary, 2.25% in Poland, and more than 1% in Bulgaria.* In Russia, such spending never exceeded 0.32% of GDP throughout the 1990s and fell to 0.16% at the beginning of the new millennium.

The lack of time and of conscious and determined efforts to provide an institutional framework for employment reform led to a virtual institutional vacuum. The institutions that were passed down from the Soviet system could not function effectively in the new market conditions without serious reforms, and new institutions were not sufficiently developed. This led to collapse of the system of labour and social guarantees, reduced protection for workers in paid employment, encouraged spread of informal labour relations, and fuelled poverty.

As the unemployment rate and the duration of unemployment increased, the system could no longer carry out its principal function of assuring a decent standard of living for the unemployed

that would allow them to focus their efforts on the search for a job. This is borne out by the following trends:

- fall in the percentage of total (ILO-methodology) unemployed receiving benefits from 48.9% in the peak year of 1995 to 20.7% in 2000 and 12.3% in 2001; a fall in the share of benefit recipients among the registered unemployed from 89% in 1994 to 60.6% in 2001;
- increase in the number of unemployed receiving benefits, which are substantially below the subsistence level and do not even assure a constant number of low-qualified workers;
- violations of the employment law in payment of unemployment benefits.

The cut-backs in financial support had a twofold effect on development of the sole institution charged with implementation of state employment policy — the State Employment Service (SES). On the one hand, the severe financial limitations forced streamlining of the SES and development of effective services (information and consulting services, preventive work with unemployed individuals and employers) including a shift from passive mediation to active training in job-seeking. On the other hand, the growing deficit of financial and administrative resources limited access of the unemployed to SES services, whose quality also declined. From the second half of the 1990s, the SES began to focus increasingly on population groups that had been traditionally outside its scope: students, teenagers, and workers looking for a second job.

The fact that different fields (assistance to the unemployed and employment programs) were financed from a single source that dwindled over the years destabilised unemployment policy and led to cut-backs in its financing. Under these conditions, the SES was compelled to introduce additional "filters" that limited the access of the unemployed to its programs, particularly retraining programs. From the mid-1990s until today, the main goal of new federal employment programs has been to resolve a narrow administrative problem: how to save money by artificially reducing registered unemployment.

* See A. Nesporova, *Employment and Labour Market Policies in Transition Economies*. Part 5. International labour organization, 2000, pp.22,23,59 (in Russian), and C. O'Leary, A. Nesporova and A. Samorodov, *Manual on Evaluation of Labour Market Policies in Transition Economies*. ILO, Geneva, 2001, pp.18,43.

staffing of the SES was followed by voluntary departure of about 1500 highly qualified staff members. This was the result of salary reductions by a factor of two or more for the personnel of district and urban employment offices, which deal directly with the unemployed, and the increasing workload on permanent staff. On average, each employment office staff member deals with 50—80 clients a day, depending on the district.

Fourthly, the problem of equal access of regions to state funds for implementing programs is still unresolved, since transparent criteria for distributing state

funds among regions have not yet been developed. As a result, allocation of resources for programs and administrative expenditures of Employment Service offices remains highly subjective.

Fifthly, fees for unemployment insurance are no longer collected from employers, and this has had a negative effect on relations between SES offices and employers. As the financial basis of these relations has been dismantled, hiring of individuals looking for work through employment offices has fallen (cf. Table 3.2).

So changes in the source of financing failed to increase state influence on the

labour market. At the same time, financing of programs either decreased (for example, the percentage share of expenditures on the Employment Program fell from 9.2% of total federal funds allocated for these purposes in 2002 to 7.1% in 2003), grew faster than the needs of the labour market (programs for professional training, professional orientation and social insertion) or ceased to exist entirely (programs for creating a database of job offers and for supporting self-employment). In 2002, expenditures on

the program of after-school part-time work for teenagers exceeded expenditures on the social insertion program for the long-term unemployed by a factor of fifteen (at 532,100,400 roubles and 24,712,200 roubles, respectively) and exceeded expenditures on a program for professional orientation, information services and organisation of a job fair by a factor of ten. This shows that less funds are now being allocated for the unemployed than for problems that lie outside the direct scope of the SES.

Russia's real gross domestic product (in comparative prices) fell by 27% between 1991 and 2001, but factual final consumption of households hardly changed, i.e., people were able offset the effects of the sharp economic decline. This explains why social protest during the period was less pronounced than the economic decline, as corroborated, in part, by the low incidence of strikes.

The overwhelming majority of people in Russia have low levels of cash incomes and earnings. High income-based inequalities mean that most affluent part of society and the upper part of the middle strata have a consumption pattern that resembles the consumption pattern of corresponding social strata in developed countries, while the poor strata experience under-consumption. The middle strata are able to acquire goods and services that meet their immediate needs.

The informal sector of the economy has developed very rapidly over the last ten years. It includes unregistered enterprises that produce goods and services to be sold on the market as well as private allotments for production of agricultural produce to meet personal consumption needs. There were 10.2 million people employed in this sector of the Russian economy in 2002, including 4.7 million people engaging in gardening activities. Overall consumption levels depend to a great degree on agricultural foodstuffs grown on private allotments.

The only resource for improvement (or maintenance) of the well-being of senior citizens in Russia today is their current incomes, since most of their sav-

ings were wiped out by devaluation in the early 1990s. Pension reform will therefore be a key aspect of state socio-economic policy in years to come. The goals in reform of the retirement pension system should be higher standards of living for senior citizens, increasing participation of employees in the official sector of the economy and legalisation of incomes, and creation of incentives for complementary retirement pension programs.

At present, there are two possible scenarios for how state employment policies might develop. According to the first scenario, public policies will continue to evolve towards centralisation, limited impact of regional policies, curtailment of employment programs, and transition to social benefits for the unemployed. The second and, in the author's opinion, preferable scenario would require conceptual changes in state employment policies and new sources of financing. The transition to such a system would be linked to radical transformation of the financing scheme, assistance mechanisms for the unemployed and institutional and legal protection against unemployment:

- Reform of the financing scheme requires a diversity of sources and mechanisms for financing unemployment benefit programs and other employment programs. Stricter control of targeting and efficient use of funds needs to be accompanied by separation of the functions of fund allocation to Russian regions and control of

Pension reform will therefore be a key aspect of state socio-economic policy in years to come

their use (at present both of these functions are performed by the Ministry of Labour).

- Reform of the unemployment benefit system should be founded on separation of the right to unemployed status from the right to unemployment benefits and a balance between an insurance-based and a social approach to unemployment benefits. These two approaches have different functions and should therefore be independent from one another. Unemployment benefits should be allocated only under the terms of insurance contracts. It would be logical both from the point of view of employment policies (economic aspect) and poverty reduction policies (social aspect) to link benefits and salaries through a system of insurance premiums.
- Efforts need to be focused on improving overall effectiveness of the package of employment programs instead of simply expanding these programs. That means selecting programs, which have been most efficient in finding jobs for the unemployed with the minimum financial and administra-

tive inputs. Criteria in selecting programs should take account of both long-term priorities of state employment policies and the particularities of regional labour markets. This requires close interaction between the federal centre and executive bodies in the regions. Deciding the long-term priorities of employment policies should be the prerogative of the federal centre, while regions should have the right to choose programs that take account of the particularities of their labour markets and the right to decide how to implement them.

- Implementation of employment policies requires adoption of sets of interdependent measures, most of which can be effective only when taken together. They include the creation of new and efficient jobs, raising the efficiency of employment offices, targeting regional labour market policies, and selection of policy priorities. Correct policy priorities are particularly important for adapting various sections of the unemployed to the demands of the labour market.

Implementation of employment policies requires adoption of sets of interdependent measures, most of which can be effective only when taken together

¹ The amendments to the law “On employment of the population» were published in the

newspaper Rossiyskaya gazeta on 14th January 2003.

State Policies for Reducing Poverty

Poverty in Russia today has the following aspects (based on official statistics):

- disposable income of approximately a third of the population is below the subsistence level, i.e., approximately a third of the population is considered to be poor according to the Russian standards for determining and measuring poverty;
- about 10% of the population cannot afford to buy sufficient quantities of even the most inexpensive food products, indicating extreme poverty;
- studies show that half of all poor individuals are members of families of people who are working, but nevertheless poor.

So, even though market reforms have created various new opportunities, the growing risk of poverty, both for traditionally vulnerable categories and for the working population, shows that social problems caused by market reforms outweigh the new opportunities for many Russians.

During the Soviet period, the existence of poor families was not acknowledged. The ideological denial of poverty was accompanied by a clear-cut policy for assuring a minimum level of income for the population, which was based on the minimum wage (equal to 150% of the subsistence level) and full employment of all able-bodied people. A system of social benefits and payments was primarily intended for people who had performed services to the State. The first step in the poverty reduction policy launched ten years ago was to admit the existence of poor families and their need for social protection. This admission had proved to be almost the only advantage of the new Russian poverty reduction policy compared with Soviet measures.

During the economic crisis of transition, social policy has been nothing but a collection of stopgap measures with contradictory decisions being taken at the political, economic and institutional levels. We will describe these contradictions, beginning with an analysis of the system for identifying and measuring poverty.

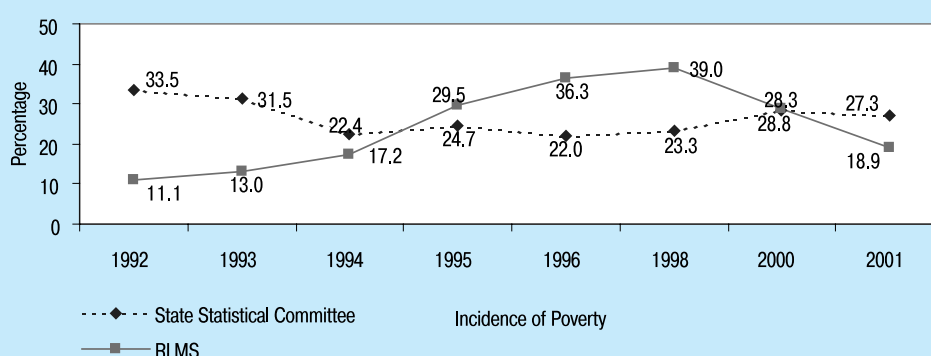
Russia was the first CIS country to adopt official methods for measuring poverty after the beginning of market reforms in 1992. During this period the real cash incomes of the population halved, and Russian standards for measuring poverty were much less generous than their Soviet predecessors: the minimal consumer basket became twice as small. This state policy was criticised by many politicians and scholars, but it was essentially a correct decision: if Soviet standards for measuring poverty had been retained, 70% of the population would have been classified as poor, which would have made poverty reduction policy impossible. The minimal consumer basket of 1992 was designed to ensure a standard of consumption that allowed a balanced diet.

However, the new consumer basket could not solve all the problems relating to assessment of the incidence of poverty. Quantitative estimate of poverty in Russia encounters a number of difficulties:

- the large informal economic sector and widespread non-monetary relations, which make it much more difficult to measure income of Russian families;
- high income mobility of Russian households due to irregularity of wage payments;
- refusal of most households to participate in budgetary studies;
- use of different methodological approaches to fix the poverty line and assess income levels.

As a result of these and other difficulties, estimates of the number of poor people use different data and methodologies and yield very different results (they range from half of the population to 10%). Figure 3.7 shows changes in the incidence of poverty based on two different sources: official statistics of the State Committee of the Russian Federation on Statistics and statistics of the Russian Longitudinal Monitoring Survey (RLMS). Both of these sources define poverty in the same way,¹ but use different approaches to estimate incomes and set the poverty line, and monitor households over different periods of time.

Figure 3.7. Trends in the Incidence of Poverty



The difficulties of measuring the incidence of poverty cannot be used as an excuse for failure to formulate a consistent poverty reduction policy, since the system of minimum wage guarantees and social transfers (pensions, stipends, allowances) does not use the subsistence level as a guideline, as can be seen from Table 3.3.

State policy capacities for tackling poverty via adjustment in the domain of salaries are limited. Increasing the minimum wage is an effective form of regulation, but such a strategy is difficult to implement, since, on the one hand, there is a high percentage of low-paid

workers in the public sector, and, on the other hand, state workers account for 37.9% of all workers (data for 2000).

Table 3.3 shows that there has been real growth in the minimum and average wage since 2000. However, the proportion of workers with salaries at or below the subsistence level remained fairly high (32.8% in April 2002).

The Ministry of Labour in association with the Ministry of Economic Development and the Ministry of Finance has drafted a set of proposals for increasing the minimum wage incrementally.

Under the proposals, the base rate of salaries of public sector workers will be increased by as much as 60% and the minimum wage will be increased to 1,300 roubles in 2003, i.e., by 2.9 times in comparison with 2002. By 2005, the minimum wage should reach the subsistence level, which is forecast at 1,742 roubles. However, the differently calculated subsistence level for working people was already 1,980 roubles in the third quarter of 2002, so that, if consumer prices continue to grow at the same rate as in the last two years (about 19% annually), raising the minimum wage to

the proposed level by 2005 will only bring it to 52% of the subsistence level for working individuals at that time. If inflation does not exceed macroeconomic forecasts by the Ministry of Economic Development, the proposed minimum wage for 2005 will be 66% of the subsistence level. Thus it is clear that, even if proposals for increasing the minimum wage are implemented, it will still be below the subsistence level.

Social transfers are an important source of income for Russian citizens. Monetary social transfers make up 13–15% of

Table 3.3.

Relation Between the Minimum and Average Wage and Social Transfers and the Subsistence Level

	Year	Minimal Level		Average Level	
		roubles	in proportion to the subsistence level of the respective social group (%)	roubles	in proportion to the subsistence level of the respective social group (%)
Wages	1997	90.0*	19.5	950.2	205
	1998	90.0	16.2	1051.5	190
	1999	105.0	10.5	1522	152
	2000	126.5	9.6	2223.4	168
	2001	262	16.1	3240.4	199
	2002**	450	22.7	4547	230
Adjusted Retirement Pension	1997	222***	76.6	366	113
	1998	234.2	67.3	404	115
	1999	290.3	45.4	522	70
	2000	427.8	47.4	694.3	76
	2001	474.1	41.4	1023.4	90
	2002****	660.0	47.9	1420	100
Monthly Children's Allowance	1997	58.4	14.0	—	—
	1998	58.4	8.1	71.5	9.9
	1999	58.4	6.1	69.1	7.3
	2000	58.4	4.6	70.6	5.6
	2001	70.0	4.5	84.7	5.4
	2002**	70.0	3.7	86.5	4.6

* Minimum payment level corresponding to Rate 1 of the Single Rate System for Workers' Salaries in the Public Sphere.

** The figures are given for the third quarter of 2002.

*** The figures for 1997 are given in thousands of roubles.

**** As of 1st January 2002, the notion of a minimum retirement pension no longer exists. The retirement pension, which consists of a base component and an insurance component, cannot be lower than 660 roubles per month.

incomes and retirement pensions account for 70–80% of monetary social transfers. Most social allowances are provided to individuals in specific social groups (veterans, children, handicapped persons, retired persons, etc.) regardless of their level of income. Only two social allowances — the monthly children's allowance and the allowance for the needy — are awarded exclusively to families with incomes below the subsistence level. This was the only possible redistribution of allowances in favour of the needy, since other allowances are either insurance benefits or their equivalent. It is interesting to note that 68.8% of children were recipients of the monthly children's allowance even though, according to estimates, only 36.4% of children under the age of 16 lived under the poverty level in 2000. This shows that procedures of income verification do not operate properly.

The only significant social transfers in favour of the poor are benefits in kind, which traditionally include food products, non-

food items, and rebates on municipal services. Benefits and subsidies in kind are awarded to a fairly large circle of recipients. The results of a control study² show that about 55% of households receive social benefits in kind. However, they represent relatively insignificant share of household incomes: this type of social transfer accounted for 1.9%³ of final consumer expenditures in the fourth quarter of 2000 and only 0.5% in the fourth quarter of 2001. Our studies show that benefits in kind, like other social allowances, are more accessible to more affluent strata of society: the poorest 10% of households receive 2.6% of the total volume of benefits in kind and the most affluent 10% receive 31.8% (cf. Figure 3.9).

The suggestion is that about 30% of the Russian population lives below the poverty line, but receives only 10% of the total benefits in kind. This shows that maintenance of old principles governing distribution of social benefits are contradicting the priori-

ties of social policy in a market economy, which should support the poorest strata of the population. Russia still has an extensive and intricate system of benefits, but it is extremely inefficient at singling out the most deserving members of society and combating poverty.

Continued high incidence of poverty is the result of barriers that limit access of the population to employment incomes and social transfers. The conclusion must be that, over the period of reforms, the spread of poverty was not only due to a fall in production, but also to changes in the distributive system, which discriminated against the poor, and to incoherent state social policy.

Assuming that a poverty reduction strategy is a key constituent of socio-economic development, we can single out three priority targets for contemporary Russia:

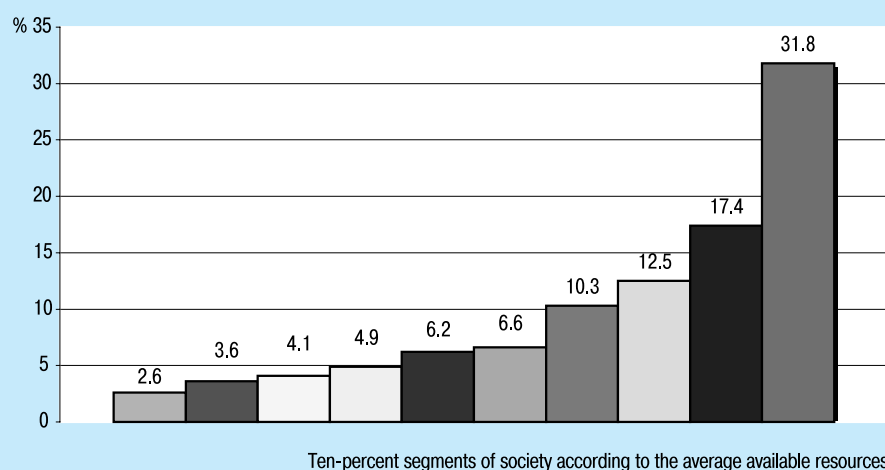
- to check and prevent further increase in poverty;
- to create conditions that would enable working individuals to earn enough to provide for themselves and their families;
- to create an effective system of assistance for socially vulnerable groups (the elderly, the handicapped, large

families with a single breadwinner, and families in desperate conditions — refugees, etc.), and to assure their access to free or subsidised social services.

These are three necessary constituents of any poverty reduction strategy, although their relative proportions and importance depends on specific political, economic and institutional conditions. The constituent measures of a poverty reduction strategy should make up a system that has a general effect, since the factors at the root of poverty are complex and multifaceted. For example, a growth in salaries is apt to result in an increase of unemployment, and, from the point of view of the reduction of poverty, the overall effect may turn out to be negative. Effects and interaction of different factors should therefore be assessed in advance in order to design a strategy that would most efficiently reduce poverty under a given set of economic conditions.

L.N. Ovcharova, Ph.D. (Economics), Research Programme Director at the Independent Institute for Social Policy, Laboratory Head at the Institute for Socio-economic Population Studies of the Russian Academy of Sciences

Figure 3.8. Distribution of the Total Volume of Benefits in Kind



¹ A poor person is one whose total income is below the subsistence level.

² Our calculations based on a national study of the well-being of the population and its participation in social programs (data from a control study of 160,000 households).

³ Data of the Russian State Statistical Committee from a study of the budgets of households.

Chapter 4

The State and the Demographic Situation

The Russian population continued to decline in 2001, despite a slight increase in the birth rate: the total fertility rate was 1.25 compared with 1.21 in 2000 and the number of births increased from 1,266,800 in 2000 to 1,311,600 in 2001.

The mortality level stabilised in 2001. The life expectancy at birth for both men and women, which is used to calculate the Human Development Index, was 0.02 years longer in 2001 than in 2000. According to official statistics, life expectancy for men has fallen by 2.3 years and that for women by 0.6 years since 1998.

Migration also has an effect on the population. A law requiring residence permits for citizens from the Commonwealth of Independent States and the Baltic States, adopted in October 2000, reduced the number of persons from these countries who officially reside in the Russian Federation or come there to live. This led to a sharp fall in population growth due to immigration. Net migration fell to 72,300 people in 2001, i.e. three times less than in 2000, representing the lowest reading since 1991.

It is possible that the results of a nation-wide census held in October 2002 will lead to correction of estimates of both the volume of migration and population, but it will not change the general trend.

Russian Population Projections

All the available demographic projections predict a further decline in the country's population (cf. Table 4.1).

Figure 4.1 presents the results of the latest Russian population projection, which was made by the Centre for Human Demography and Ecology of the Institute for National Economic Forecasting of the Russian Academy of Science.⁵ The main difference between the new forecast and the previous ones is not in the scenarios themselves but in the way they are combined. Different scenar-

ios of demographic processes (birth, mortality and migration) can be combined in various ways that, as a rule, have no objective justification. For instance, a high mortality scenario may be combined with low or average scenarios of birth and migration, etc.

The projection of the Centre for Human Demography and Ecology overcomes this problem by adopting a fundamentally new approach using the "probabilistic" or "stochastic" projection found in the works of W. Lutz, W. Sanderson, and S. Scherbov.⁶ This type of projection is the combined result of a series of stochastic imitations of possible combinations of scenarios. Such an approach makes it possible to avoid the subjective combination of different birth, mortality and migration scenarios (which are not rigidly dependent on each other), and the results of the forecast are not a single trajectory of development but a "sheaf" of trajectories, each of which may be realised with a greater or lesser probability.

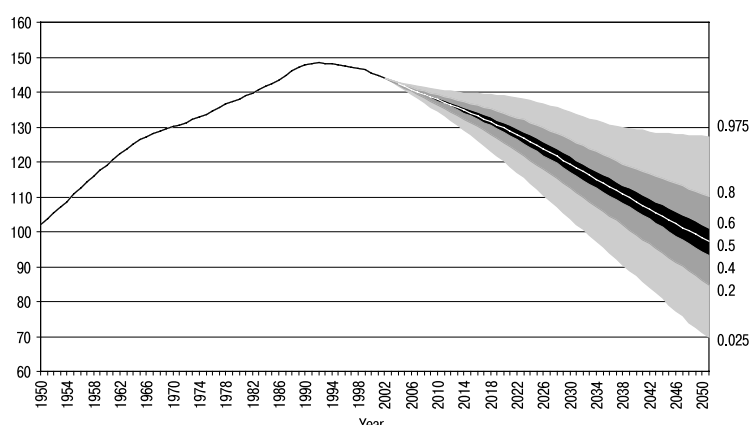
The numbers next to the lines separating different colours in Figure 4.1 indicate the probability that the population in a given year will be not higher than the corresponding value. According to this projection, the total population in Russia in 2050 will be between 71 and 127 mil-

All the available demographic projections predict a further decline in the country's population

Table 4.1
Russian Population Projections up to 2050

Year	Scenario		
	Low	Medium	High
Population Projections of the Russian State Statistical Committee (at year's end) ²			
2015	128,883	134,298	138,364
Article in the Journal Voprosy Statistiki ("Topics in Statistics") (at year's end) ³			
2020	121,983	130,990	137,323
2050	77,162	101,921	122,634
UN Projections of 2001 (average annual population) ⁴			
2020	127,790	129,687	131,532
2050	96,084	104,258	113,137

Figure 4.1. Population in 1950–2000 and Projections for 2000–2050 with Different Confidence Intervals (in millions)



According to the middle scenario in the UN forecast, population decline is expected in 41 of the 228 countries and territories included in the study

lion with a probability of 0.95 and between 86 and 111 million with a probability of 0.8. The probability that the population will stay at its present level is practically zero, while the probability that the population will fall below 102.1 million is 0.58. This would be equal to the population of 1950.

Of course, Russia is not the only country whose population is expected to decline in the first half of the twenty-first century. According to the middle scenario in the UN forecast,⁷ population decline is expected in 41 out of 228 countries and territories included in the study. Most European countries are among them. Population is expected to grow in only eight European countries (Albania, Iceland, Ireland, Cyprus, Luxembourg, Norway, Turkey and France). Russia ranks sixth among countries by relative expected population decline with a forecast of 28.3% decline by the year 2050. Countries in which the population is projected to decline faster than in Russia include Ukraine (expected population decline of 39.6%), Bulgaria (43.0%) and Estonia (46.1%). Estonia is the country with the highest expected population decline.

Birth rates alone are not expected to be high enough to cause population growth in European countries, with the exception of Albania, Turkey and possibly Ireland. This natural population decline will be compensated by immigration, which is expected to be high enough on its own in Iceland, Cyprus, Luxembourg,

Norway and France to give an increase in the total number of inhabitants. The fertility level is also expected to be insufficient to ensure population growth in the US, where expected population increase by 40.2% over the next fifty years will be due to a high level of immigration. The UN forecasts fairly low immigration to Russia: its net migration forecast of 50,000 people annually is less than most Russian estimates.

Most experts are very cautious about forecasting mortality trends in Russia. According to the most optimistic UN projections, life expectancy in Russia by the middle of the 21st century will lag behind Western European levels by 7.5 years for men and 6 years for women and will remain below the level observed in Western Europe at the beginning of the 21st century. Predictions of life expectancy by Russian experts are even lower.

Mortality in Russia

In the mid-1960s, Russia was only slightly behind the West in terms of life expectancy, but the gap widened during the ensuing period. From 1965 to the present, life expectancy for men increased by average 0.2 annually in the European Union and the USA and by 0.3 annually in Japan, whereas in Russia the average annual change was –0.1.

In the relatively favourable year of 1998, life expectancy for men in Russia was 13.6 years less than in the European Union, although the gap was smaller for women, who were expected to live 8 years less in Russia than in Europe. As Table A.1 in Addendum A shows, the lower life expectancy for men in Russia is 80% due to the higher mortality rate for men under the age of 65. Accidents account for 37% of the difference and premature deaths from circulatory diseases for another 22% (circulatory diseases are the cause of about 48% of deaths among men in Russia, as shown in Table A.2 in Addendum A). Accidents account for 18% of mortality in men, but they tend to occur at a younger age than death from other causes. These points make it impossible to identify the main cause or a set of causes for the disparity in life expectancy. It is also the case that when

the mortality rate from a certain group of diseases turns out to be low in Russia, doubts are usually raised about the quality of diagnosis, as happens with death of elderly people from malignant neoplasms.

Major contribution of certain causes of death to overall shortening of life expectancy in Russia is generally due to an earlier average age at death from these causes. For example, the average age at death from circulatory diseases and neoplasms among men in Russia is 8.2 years less than in the European Union. The average age at death from circulatory diseases among women is 5.5 years less than in the European Union and from neoplasms 7.7 years less. In other cases, the high probability of death greatly contributes to mortality. Thus, the probability of dying from accidents is 3.6 higher for men and 1.8 for women in Russia than in the European Union.

The problem of mortality in Russia seems at first sight to be a predominantly male problem. However, health expectancy (expectations for duration of life in relatively good health) show little difference between men and women (cf. Table 4.2), suggesting that the conditions, which result in deteriorating health or increase the risk of death, affect men and women equally. The difference between the sexes seems to be that the outcome of negative external influences is more often death in the case

of men and deterioration of health in the case of women.

Child mortality rates have fallen consistently in Russia since 1980, but the infant mortality rate is still several times higher than in other developed countries.

The Role of the State in Lowering Mortality

Mortality began to decrease more slowly or even slightly increase in many developed countries in the 1950s and 1960s. However, broad discussion of the issue in Western media created awareness of the importance of a healthy lifestyle and protection of the environment, helping to overcome the mortality crisis. By contrast, former socialist countries and republics of the European part of the USSR were affected by steady and consistent growth of mortality.

In the USSR, open discussions of negative trends in mortality were regarded as a discredit to the Soviet regime. The publication of all data, except some crude mortality rates, was forbidden. General figures were used as a basis by Soviet mass media and medical journals to declare that mortality rates in the USSR were lower than in developed countries. The more detailed and disturbing figures were dwelt upon in depth and fairly objectively in confidential documents. But no real measures were taken to reverse the trend.

In the USSR, open discussions of negative trends in mortality were regarded as a discredit to the Soviet regime

Table 4.2.
Health Expectancy in Russia and in Selected Western European Countries in the mid-1990s
(in years)

Age	Life Expectancy by Age Group			Expectancy of Satisfactory and Good Health		
	Russia	Western Europe	Difference	Russia	Western Europe	Difference
Men						
20	41.9	54.5	12.6	36.7	50.4	13.7
45	22.4	31.2	8.8	17.3	27.6	10.3
65	11.4	15.0	3.6	6.7	12.5	5.8
Women						
20	54.2	60.2	6.0	40.6	53.7	13.1
45	31.1	36.0	4.9	18.5	30.3	11.8
65	15.2	18.1	2.9	5.8	14.0	8.2

* Including Belgium, Great Britain, the western part of Germany, Ireland, Spain, and Italy.

*Russian scholars
cannot propose
any cogent strategy
or tactics for rapidly
reducing
the mortality rate*

In the post-war period the Soviet public health service had succeeded in overcoming infectious and other acute diseases, but was not sufficiently well equipped to deal with new chronic diseases. Russia did not have the necessary technology to counteract these diseases and sufficient money to create a strong health industry (although it had enough of both for the space program and the arms race with the USA).

At the beginning of the 1980s, many confidential documents stressed that hard drinking had a negative influence on Russia's economic situation (work absenteeism, low quality of production) and the demographic situation (high level of trauma and sudden death, growing rate of divorce). The anti-alcohol campaign of the mid-1980s was an attempt to resolve this complex of problems at one stroke. No prominent Russian sociologist or demographer has since admitted his or her participation in the planning of that repressive campaign, so that all credit has to go to the Soviet government and the Central Committee of the Communist Party.

The demographic consequences of the anti-alcohol campaign were in fact very positive. In 1986–1987 life expectancy in Russia attained its highest-ever levels of 64.9 years for men and 74.6 for women, and the birth rate reached a level of 2.19 per woman for the first time since 1964. Unfortunately, this effect was not sustainable, as the campaign had a repressive nature and did not change fundamental attitudes to alcohol. By 1989 as the campaign died away, the mortality level began to grow again and the birth rate to decline.

There is no doubt that growth of the mortality rate in 1992–1994 was primarily due to a major upswing in alcohol use. The transition to a market economy began with the liberalisation of prices, including prices for alcoholic drinks, and repeal of the state monopoly on sale of alcohol. After seven years of restricted consumption, it was suddenly possible to buy vodka (and pure alcohol spirit) twenty-four hours a day practically anywhere in the country at a comparatively low price. This could not fail to result in an increase in mortality, as direct dam-

age to health from alcohol abuse was accompanied by an upsurge in accidents. Nearly the same trends in mortality⁹ were observed in all the former Soviet republics in the European part of the former-USSR up to the mid-1990s, which confirms the direct link between the end of the anti-alcohol campaign and the rise in mortality.

Numerous estimates show that, from various points of view, the growth of the mortality rate in the first half of the 1990s was a compensation for its fall during the anti-alcohol campaign, and that the net result of the fluctuations is next to zero.¹⁰ Nevertheless, there is no reason to think that a reduction in mortality is inevitably followed by new growth. On the contrary, countries which have succeeded in lowering their mortality rate have mostly been able to sustain this effect. That is not to say that the Russian government, which freed prices and regulations for sale of alcohol in January–February 1992, could have done otherwise, given the set of political and economic circumstances, which it faced at the time.

By 1998 life expectancy for men had increased by 3.7 years and for women by 2.1 years¹¹ compared with 1994, but the situation then began to deteriorate once again. There was a stabilisation in 2001, but future growth or fluctuations in the mortality rate cannot be excluded. It is worrying to note that, whereas in the late 1960s the Russian public health system proved unable to deal with new diseases, the Russian system today is failing to resist resurgence of “old” diseases, as confirmed by rise in the rate of mortality from tuberculosis¹² and acute respiratory diseases.

Need for a Program of Measures to Reduce Mortality

The past and present evolution of the death rate in Russia shows that excessively high mortality will not be spontaneously resolved solely through improvements in living standards and the quality and accessibility of health care. The task requires systematic measures. The experience of Western countries confirms that new pathologies can only be overcome by involvement of society in making every-

day life and the environment more healthy, in looking after its own health, etc. The twentieth century saw radical and immense changes in Western countries with respect to the problem of life and death. Unfortunately, things evolved quite differently in Russia.

The broad public discussion of demographic problems that accompanied the drafting of a concept document for Russian demographic policy up to 2015 showed that Russian scholars cannot propose any cogent strategy or tactics for rapidly reducing the mortality rate. Medical publications usually discuss how to combat specific diseases, but the question of how to reduce general mortality remains in the background. Most socio-demographic studies limit themselves to mere statement of the problem or simply mention some causes of the problem for certain age groups. For example, the Report on the State and Trends of Demographic Development in Russia¹³ gives a list of demographic policy targets for increasing life expectancy (cf. Box 4.1). But the set of specific measures, which it proposes for lowering mortality, is much shorter. It includes the following:

- measures to reduce alcohol consumption (fiscal policy, administrative restrictions, anti-alcohol campaigns and limits on advertising);
- creation of socio-medical departments for the prevention of alcoholism, drug abuse and sexually transmitted diseases among children and adolescents;
- funding suicide hotlines;
- screening programs for prevention and early detection of cancerous tumours;
- improving the quality of healthcare in rural areas.

These measures could hardly be described as concrete. And the more serious problem is that the document fails to explain why these particular measures are urgent and what effects they will have.

Without specialised studies, it will be impossible to work out a state policy for

BOX 4.1

The tasks of demographic policy of the Russian Federation for improving health and increasing life expectancy in the country are as follows:

- to increase life expectancy by improving the quality of life and reducing premature and, in particular, avoidable mortality;
- to improve the reproductive health of the population;
- to increase health expectancy and active life by reducing the incidence of disease, trauma and disability;
- to improve the quality of life for chronic patients and disabled people by increasing their opportunities for self-fulfilment.

The most urgent task is to implement measures for reducing mortality due to unnatural causes such as work-related injuries, traumas in daily life, homicide, traffic accidents, and alcoholic and other intoxication, as well as reducing mortality due to circulatory diseases and carcinomas among the working-age population, and infant and child mortality.

Source: Report on the State and Trends of Demographic Development in Russia. Moscow, 2001, p.34 (in Russian).

reducing Russia's extremely high mortality rate. It would be wrong to say that such studies are not being carried out at all,¹⁴ but they remain largely inadequate.

A thorough and nationally representative study of the health of the Soviet population was conducted in the early 1970s,¹⁵ but its results were never used. Studies accompanying the 1979 census were considerably more limited in scope. The complex study of the health of the population carried out in 1989–1991 by the N.A. Semashko Research Institute in connection with the 1989 census¹⁶ was even more limited in size and aims. The Russian Ministry of Health systematically collects data on the incidence of disease based on registered visits to doctors and the number of chronic patients registered at medical institutions,¹⁷ and the statistical publications of the World Health Organisation¹⁸ devote as much attention to Russia as to most European countries. Nevertheless, such data is clearly insufficient for working out specific measures to reduce the mortality rate. Due to lack of reliable information, available estimates of the incidence of certain diseases differ by an order of magnitude and mutually exclusive recommendations are made for combating certain causes of mortality. Existing estimates of the incidence of many diseases do not correspond to available data on the mortality resulting from them.

It is clear that international experience in reducing mortality needs to be studied and assimilated — particularly the experience of countries that achieved good results in relatively short periods of time, such as Finland in the 1970s and 1980s, Portugal in the 1980s, and Poland and the Czech Republic in the 1990s. The experience of the Baltic States, where the mortality rate began to fall steadily in the late 1990s (in contrast to Russia), could also be useful. Understanding has to be gained of how social and medical technologies for reducing mortality, which have been effective in other countries, could be applied in Russia today.

In October 2002, a nation-wide census was held in Russia. Since 1970, all censuses were accompanied by study of the social differentiation of demographic processes. No such work was carried out as part of the 2002 census. That is because, under a 1997 federal law, birth, marriage, divorce and death certificates do not contain any socio-economic information about parents, those being married, divorced couples or the deceased. As pointed out in the 2000 Human Development Report for the Russian Federation, Russian statistics have gradually lost a considerable amount of standard demographic data.

All available demographic projections foresee reduction of the population in Russia at least until 2050. They are also very cautious in their estimates of future growth of life expectancy. Mortality trends in Russia in the twentieth century and the current levels of mortality are

mostly the result of Soviet social policies. It is unrealistic to expect that the problem of excessively high mortality can be resolved by improvements in living standards and the quality and accessibility of health care in the absence of systematic measures.

¹ The number of children that would be born alive to a woman during her lifetime if she were to bear children at each age in accordance with prevailing age-specific fertility rates.

² "Predpolozhitelnaya chislennost' naseleniya Rossiyskoy Federatsii do 2016 g." in *Statistichesky byulleten'*, 2002.

³ "O vozmozhnykh putyakh demographicheskogo razvitiya Rossii v pervoy polovine XXI veka" in *Voprosy statistiki*, 3, 2002, pp.3—10.

⁴ Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2000 Revision*, www.un.org/esa/population/demobase.

⁵ A.G. Vishnevsky, ed. *Naselenie Rossii*, 2001. *Devyat' ezhegodny demografichesky doklad*. Centre for Human Demography and Ecology of the Institute for National Economic Forecasting of the Russian Academy of Science, Moscow, 2002. This projection was worked out in the framework of the project "Demographic Development of Russia in the Global Context: Analyses and Projections," supported by the Russian Foundation for Fundamental Research (grant No. 02-06-80242).

⁶ W. Lutz, W. Sanderson and S. Scherbov, "The end of world population growth" in *Nature*, 412, 2001, pp. 543—545; W. Lutz and S. Scherbov, "An expert-based framework for probabilistic national population projections: The example of Austria" in *European Journal of Population*, 14, 1998, pp.1—17.

⁷ Population Division of the Department of Economic and Social Affairs of the United

Nations Secretariat, *World Population Prospects: The 2000 Revision*, www.un.org/esa/population/demobase.

⁸ E.M. Andreev, V.M. Shkolnikov, and M. McKee, "Prodolzhitel'nost' zdorovoy zhizni" in *Voprosy statistiki*, 11, 2002, pp. 16—21. To calculate health expectancy, the number of persons in each age group in an ordinary mortality-rate table is divided into health groups in the same way as the real population in the same age group is divided into health groups. In this article, the data from people's assessment of their own health from the Russian Longitudinal Monitoring Survey are used (cf. http://www.cpc.unc.edu/projects/rllms/rllms_home.html).

⁹ Andreev, Y.M. "Vozmozhnye prichiny kolebaniy prodolzhitelnosti zhizni v Rossii v 90-e gody" in *Voprosy statistiki*, 11, 2002, pp.3—15.

¹⁰ A.G. Vishnevsky, ed., *Naselenie Rossii*, 2000. *Sed'moy ezhegodny demografichesky doklad*. Centre for Human Demography and Ecology of the Institute for National Economic Forecasting of the Russian Academy of Science, Moscow, 2001, pp. 88—90.

¹¹ Based on *Demografichesky ezhegodnik Rossii*. State Committee of the Russian Federation on Statistics, Moscow, 2001, p. 105.

¹² 2001 Human Development Report for the Russian Federation. Moscow, pp.54—59.

¹³ *Doklad o sostoyanii i tendentsiyakh demograficheskogo razvitiya Rossii*. Ministry of Labour and Social Development of the Russian Federation. Prava cheloveka Publishing House, Moscow, 2001, pp.33—39.

¹⁴ See, for example, “Policies for the Control of the Transition Mortality Crisis.” UN Development Program. Project No. RUS/98/G53. Under the direction of V.V. Shkolnikov and V.V. Chervyakov. Moscow, 2000; or also F. Mesle, V. Shkolnikov and J. Vallin, *Poslednie tendentsii smerntnosti po prichinam smerti v Rossii, 1965—1994*. Moscow-Paris, 1996.

¹⁵ A.A. Romensky, *Resul'taty kompleksnogo izucheniya sostoyaniya zdorovya v svyazi so*

Vsesoyuznoy perepis'yu naseleniya 1970 g. Moscow, 1978.

¹⁶ T.I. Maximova, *Sovremennoye sostoyanie, tendentsii i perspektivnye otsenki zdorovya naseleniya*. Per Se Publishers, Moscow, 2002.

¹⁷ Mostly dermatological and venereal, cancer, and psycho-neurological clinics.

¹⁸ See, for example, World Health Organization, Regional Office for Europe, *European Health for All Database*.

The State and Social Insertion of Children

Official statistics showed a slight decline in juvenile crime and juvenile drug addiction in 2002 for the second consecutive year, and rise in the birth rate. The figures are presented in Reports on the Condition of Children in the Russian Federation, which are prepared by the Ministry of Labour and Social Development.

The Report published in December 2002 states that the "the number of registered juvenile crimes decreased from 208,300 in 1999 to 185,400 in 2001" and that "drug addiction decreased between 2000 and 2001 by 25% among children (from 0.8 to 0.6 per 100,000) and by 34.7% among adolescents (from 84.1 to 54.9 per 100,000)." The absolute number of new-born children also increased. The birth rate was 9.1 per 1000 people in 2001, compared with 8.7 in 2000 and 8.3 in 1999.

These figures offer some hope, suggesting that, after decades of growth of juvenile crime and drug addiction and a sharp demographic decline, the efforts of state institutions and civil society organisations to counteract these problems and others (such as abandoned children and child diseases) are finally beginning to bear fruit. However, it is too early to talk about recovery of Russian society. Studies by authors of the Report only suggest a slowdown in the spread of social illnesses. The 2002 Reports notes that current demographic processes in Russia are marked by "a very unfavourable combination for the country's future: a high mortality rate, a low birth rate, a growing number of divorces and a growing number of children born out of marriage" (Report on the Condition of Children in the Russian Federation, 2002). The authors of the report note that, although the registered juvenile crime rate is decreasing, "juvenile crimes are becoming more violent and socially dangerous... Juvenile gangs are becoming more organised, closely knit and stable in their structure; they have increasing ties with adult organised crime."

Over the last decade, behavioural risks have become increasingly widespread among minors. Children have begun to drink and smoke at an earlier age: in 2001 alone, the number of children under 14 registered at clinics for abuse of alcohol increased by 10.4%, while the number of such children between the ages of 15 and 17 increased by 3.8%.

The reasons for the lack of effectiveness of state organisations in working with children are clear. There is a huge number of federal ministries, departments, and departmental research, educational, training, correctional and other establishments and centres dealing with child problems. There are special sections work-

ing on these problems in federal offices of education, public health, social protection, culture, telecommunications, physical education and sport, migratory affairs, law enforcement, judicial proceedings and sentence execution, public prosecutor supervision, family affairs, youth affairs, professional training, employment, etc. The same administrative structures are found in every constituent member of the Russian Federation. This leads to a problem of inter-departmental disunity. There are too many departments working on youth problems, especially in view of the current lack of resources in the state budget. Their activities are poorly co-ordinated, despite the fact that they all focus on children, adolescents and young people. Their tasks largely overlap and are focused on social insertion of young people, i.e., preparing them for life in society. Their work should result in young people who are physically, psychologically, and morally healthy, who have a body of knowledge at their disposal, who are socially active, and who strive to improve themselves and to work for the common good.

We all know that social insertion is a complex problem and that the State is responsible for it, but the approach taken by the Russian government is inadequate for dealing with the scope and nature of the problem. This failure of the State has encouraged appearance of human rights organisations devoted to protection of child rights. They have proposed that the government establishes commissioners on child rights. The government agreed, and such commissioners are currently being appointed. However, a commission on the affairs of minors and protection of their rights was set up in Russia 85 years ago and this inter-departmental body still continues to work with children in difficult situations and their families. So the rights of the child will now be protected by both commissioners and a commission. Will this reduce the number of children whose rights are violated? The state can only resolve children's problems if it reforms the very structure of the educational process. Russia has amassed a very rich experience concerning social insertion of children, which can be very useful today. The state must make extensive cut-backs in its administrative apparatus, on the one hand, and, on the other hand, improve the labour conditions of those low-level workers who deal directly with the intellectual and physical education and the health of children.

V.Y. Snegovsky, Editor-in-chief of the journal "Deti ulits"
("Street Children")

Chapter 5

Public Health Policy and the Gender-Based Approach

Growing Role of the Public Health System

State health policy in Russia has spent the last 10 years under the rubric of “transition policy.” It is important to ask what such classification means for the role of the State as regards selection and implementation of national health targets. The health of individuals and society in any country depends on the economic, social and political environment in that country, and health should be viewed as a key criterion, along with criteria of equity and sustainable development, in the taking of political decisions at all levels. Policies aimed improving public health can regulate the social environment in various ways, but they require a sound legal framework in order to be successful.

The Russian legislature has adopted 37 federal public health laws in the last eight years alone and, according to available data, 256 public health laws had been adopted by regional assemblies in the 37 constituent regions of the Russian Federation by the end of 2002. The majority of these were legal acts whose goal was to restructure public health bodies and improve the quality of medical assistance.¹

Such diverse legislative activity in constituent members of the Russian Federation adds urgency to streamlining of the legal framework and adoption of a public health code, which has been in preparation for over six years now. Many of the new laws at federal and regional level are valuable. They include the federal laws “On preventing the spread of tuberculosis in the Russian Federation” (2001), “On the quality and safety of food products” (2000), “On medical drugs” (1998), “On narcotics and psychotropic substances” (1998), “On the Immunotherapy of Infectious Diseases” (1998), etc. But these laws do not constitute a unified system capable of addressing all problems of the public health system or protection of the health of every Russian citizen.²

As an interdisciplinary field, healthcare can only fulfil its tasks if assisted by the efforts and resources of other spheres of society. Education, social assistance, public health policy and management, and mass media have direct or indirect influence on the well-being and health of individuals and society at large. The International Conference on Primary Health Care (Alma-Ata, 1978) radically changed the paradigm of healthcare worldwide, leading to development of a new conception that determined the responsibility of states for the health of their citizens. In the 1970s programs such as “Health for All,” “Healthy City” (cf. Table A.3 in Addendum A) and others determined criteria for public health standards, opening up new fields of activity and showing that healthcare involves a very wide spectrum of services (not limited to medical care alone) whose goal is to protect, maintain and improve a nation's health. In other words, public health is “the science and art of preventing illness, increasing longevity and promoting health with the help of the combined efforts of society.”³

This approach lies at the heart of the European Public Health Strategy adopted by the World Health Organisation (WHO) in 1984 as well as of the Ottawa Public Health Charter (1986), which sets five main targets:

- to draft a public health policy;
- to create a favourable living environment;
- to encourage public participation;
- to develop individual knowledge and skills;
- to reorient public health services.

The core of this approach is inter-sectoral co-operation and an inter-disciplinary approach, whose necessity becomes especially apparent in the context of such factors as poverty, food quality, and the use of tobacco and alcohol. Even an ideal system of medical care would be unable to

Health should be viewed as a key criterion, along with criteria of equity and sustainable development, in the taking of political decisions at all levels

Mother and child health remains a key target of the national healthcare strategy of every state today

reverse negative public health trends all by itself. This chapter focuses on mother and child health and on the gender-based approach to public health policy.

Mother and Child Health

Mother and child health has always been a top priority of public health services, since these population groups are the most at risk from various sorts of diseases. The WHO declared mother and child health to be one its priorities as early as 1948, making it the only WHO priority linked not to a specific disease but to a specific demographic risk group. Mother and child health remains a key target of the national healthcare strategy of every state today. In view of the intrinsic link between health of the mother and of the child, women's health must be accorded equal importance with health of children as a decisive factor for the future of any country.

Many indicators of mother and child health have deteriorated during the 10-year period of reforms in Russia. In particular, we should note the following trends:

- high rates of maternal and infant mortality;
- decline in the health of pregnant women, post-natal health and the health of new-born children;
- high incidence of disease among women;
- high frequency of abortions;
- poor physical development of children and growing incidence of child disease.

Maternal mortality in Russia is fairly high in comparison with other developed countries (2.5 times higher than the European average), although it has begun to decline rapidly in recent years (cf. Figure 5.1), showing a fall of 27% by 2001 from 1997.

The maternal mortality indicator is 1.5 times higher in rural than in urban areas (46.7 and 32.3 per 100,000 live births, respectively). The causes of maternal death have remained virtually the same across the Russian Federation in the last five years. Three quarters of all deaths are still due to three causes: abortions; haemorrhages dur-

ing pregnancy, childbirth and the post-natal period; and toxæmia during pregnancy. The leading cause of maternal death continues to be after-effects of abortions, which accounted for 21.1% of maternal deaths in 2001 (compared with 24.3% in 2000).

The infant mortality rate in 2001 continued to decline from its peak in 1993, and the index has fallen by 16.1% over the last five years (1997–2001). All the main causes of infant mortality have declined: respiratory diseases (by 34.5%); infectious and parasitic diseases (by 33.9%); innate anomalies (by 16.3%); and problems arising during the perinatal period (by 11.1%). The main causes of infant mortality are closely linked to maternal health problems. Perinatal problems, inborn anomalies and respiratory diseases continue to be the three main causes of infant mortality, but their relative contribution has changed since Soviet times. The contemporary structure of infant mortality took shape at the beginning of the 1990s and has remained practically the same ever since, and the two biggest causes are problems arising during the perinatal period and innate anomalies. These two together account for 68.8% of infant deaths.

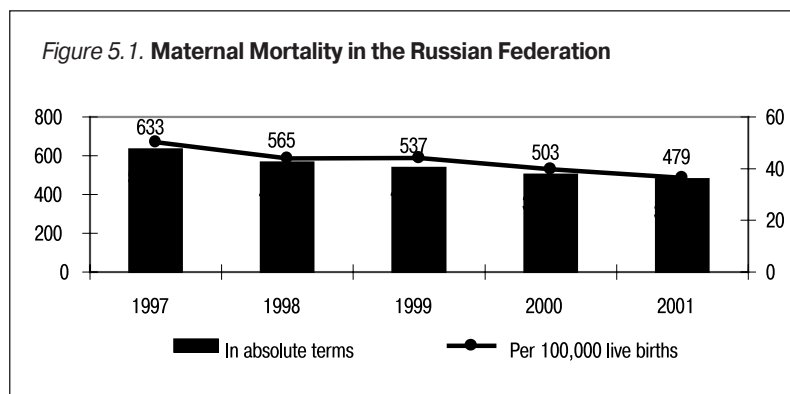
The percentage of women of reproductive age in the total female population of Russia was 50.4% (26.8% of the overall population) at the beginning of 2000. The health of pregnant women, post-natal health and the health of newborn children is deteriorating. According to official statistics, 50–60% of pregnant women are diagnosed as having extra-genital pathologies, which can lead to pathologies during pregnancy and pathologies of the foetus. Between 1997 and 2001, the number of pregnant women suffering from anaemia increased by 13%, from circulatory diseases by 4.2%, from diseases of the urogenital system by 27.4%, and from late toxæmia by 23%. On the positive side, indicators of the outcome of pregnancy remained fairly constant in Russia over the same period, suggesting maintenance of standards by local obstetric services.

Only one woman in three gives birth without complications, and the number of inflammatory post-natal disorders is increasing. Due to inadequate treatment in hospitals and prenatal clinics, many of

these women end up with chronic gynaecological diseases. Over the last five years, the incidence of gynaecological disease is growing: endometriozomy grew by 50% and sterility by 5.8%.4

Diseases leading to complications in childbirth are on the increase. Per 1000 deliveries in 1999, there were 268.7 cases of anaemia, 203.1 cases of late toxæmia, 134.6 cases of impaired labour, 96 cases of uro-genital disorders and 64.9 cases of disorders of the circulatory organs. The main causes of complications are anaemia, impaired labour and late toxæmia. Growth in the number of children born sick has become a steady trend. Whereas in 1980 only 7.9% of live-born children were born sick or fell sick after birth, this figure grew to 38.2% by 1999. Moreover, innate anomalies increased by 2.5 times over the same period and were found among 3% of new-born children. Complications arising during the perinatal period affected 48.4% of these children. Figures for 1999 show that 6.3 of every 100 newborn children weighed less than 2.5kg.

Levels of disease among women are on the increase (cf. Table 5.1). The three leading types of disease among women are disorders of the circulatory and respiratory systems (19% each) and of the digestive system (14–17%). Heart and vascular diseases, which remain one of the principal causes of female mortality in European and other developed countries, are 2–4 times



more frequent in Russia. The incidence of carcinomas of the reproductive system is also fairly high, but in Russia and the CIS cancer of the uterine neck, for example, leads to higher mortality rates than in Europe, and the difference between Russia and other countries for mortality rates from carcinomas continues to increase. As Table 5.1 indicates, the incidence of cancer is increasing, particularly of female cancers (breast, uterine and ovarian). These account for about 40% of all carcinomas among women, and their share increased throughout the 1990s.

There is a growing incidence of tuberculosis (a disease that was virtually eradicated in the USSR) among women. Tuberculosis has become a major national problem over the last 10 years, and in 2001, the incidence of tuberculosis among the population at large reached 88.5 per 100,000 compared with 34.0 in 1991.

Table 5.1

Incidence of Selected Diseases Among Women (number of registered first-time patients per 100,000 women)

Year	1980	1985	1990	1995	1997	1998	1999	2000	2001
Carcinomas	228.0	237.2	246.9	262.9	282.5	291.4	295.4	302.4	306.5
including: Breast cancer	30.8	36.4	39.6	48.0	52.0	55.0	57.7	58.3	59.1
Cancer of the uterine neck and body and the placenta	23.6	19.5	30.9	31.8	33.8	34.8	34.8		
Ovarian cancer	...	...	12.9	13.7	14.3	14.9	14.8	15.3	15.4
Active tuberculosis	...	23.8	...	28.5	32.5	34.8	37.9	40.7	42.1
Alcoholism and alcoholic psychoses	...	64.2	37.1	50.0	40.0	38.8	38.7	48.1	51.9
Cervical erosion and ectropium	...	806.9	711.3	646.3	625.1	634.1	659.5	645.8	633.2
Menstrual disorders	104.3	72.9	126.1	306.1	390.9	433.3	480.3	520.4	540.1
Sterility	...	...	53.2	52.1	59.2	61.1	66.6	64.9	63.0
Pregnancy, labour and the postnatal stage (per 100,000 women between the ages of 15 and 49)	...	...	3653.4	3792.0	4089.9	4313.9	5503.5	5364.5	5604.3

Women are about 20% of HIV patients and 90% of them are of reproductive age, creating a risk of HIV transmission from mother to child during pregnancy and birth. Since official records have been kept, 3,774 children have been born from HIV-infected mothers, and 1,958 were born in 2002 alone (statistics of 1st December). Furthermore, one out of four women HIV-infected mothers did not receive consultations regarding pregnancy, and HIV tests were only carried out on these women just before delivery.

Frequency of abortions remains high in Russia, but their absolute number had halved by 2001 compared with 1990 (Table 5.2).

The state of child health gives cause for alarm (cf. Figure 5.2). It is characterised by the following trends:

- growing incidence of child disease;
- growing number of disabled children;
- spread of drug addiction, venereal diseases, AIDS and alcoholism among children;
- decline in the general physical development of children;
- psychological problems and anti-social forms of behaviour.

Both total incidence of disease and incidence of specific diseases among children are growing. During the period 1996–2000, the incidence of disease among children under 15 increased by almost 22% and among adolescents

(15–18 years old) by almost 24%. The most widespread diseases continue to be disorders of the digestive system, eye diseases, traumas, poisoning, and disorders of the muscular and skeletal system.

There is a growing incidence of active tuberculosis among children. In 1999, there were 18 first-time diagnoses of tuberculosis per 100,000 children compared with 8 in 1990. Thus, the incidence of tuberculosis more than doubled over 10 years. The incidence of sexually transmitted diseases also increased. In 1999, 10 children per 100,000 suffered from syphilis, and by early 2002 there were 677 cases of HIV-infected children under 15 in Russia, including 355 girls. There were more than 38,000 cases of HIV-infection among adolescents between the ages of 15 and 20, including more than 2,000 girls between the ages of 15 and 18. Spread of these diseases is a serious blow for the young generation in Russia.

Growing alcohol consumption by children is another alarming trend: there were 27 first-time diagnoses of alcoholism per 100,000 children registered at clinics in 1999. Alcoholism among parents is major causes of alcoholism among children, and has turned a large number of children into virtual orphans even though their parents are still alive: such is the condition of almost 600,000 Russian children. In 2001 as many as 827 adolescents per 100,000 were abusing alcohol, which is three times more than among the population at large. Drug addiction has spread rapidly: since 1995, the total amount of drugs used in Russia has increased by 30% annually. The age at which drug users first tried drugs has substantially reduced (to 11–12 years), and incidence of drug addiction among adolescents has increased by 12.8 times in ten years. If the drug trade continues to expand at the same rate for the next 5–7 years, the number of serious drug addicts will be reach a terrifying level of 10 million, most of whom will be adolescents and young people.⁵

The number of disabled children under the age of 16 receiving social pensions significantly increased in the 1990s: the figure rose from 16.5 per 10,000 children in 1980 to 43.1 in 1990 and 203.8 in 1999. In 2001, measurements of the number of disabled

Table 5.2

Termination of Pregnancy (Abortions) in the Russian Federation

Year	Total number	Per 1,000 women between the ages of 15 and 49	Per 100 deliveries
1970	4,837,700	136.6	253.4
1975	4,670,700	126.3	221.0
1980	4,506,000	122.9	204.4
1985	4,454,400	121.5	187.4
1990	4,103,400	114.0	205.9
1993	3,244,000	88.4	235.0
1995	2,766,400	72.6	202.6
1998	2,346,100	60.6	182.6
1999	2,181,200	56.2	179.4
2000	2,138,800	55.0	168.7
2001	2,014,700	51.8	153.6

children included children under the age of 18 for the first time. The total number of disabled children reached 617,096 (189.3 per 10,000 children), of whom 58.1% were boys and 41.9% were girls. Children between the ages of 16 and 18 were 14.3% of the total number of disabled children (cf. Figure 5.3)

A nation-wide prophylactic medical examination for children was announced in April 2002 and subsequently carried out. Preliminary results show that 93% of all children in the Russian Federation were examined and 60% of them had health problems of various types.

Gender Aspects of Health

Gender ranks with other factors such as age, family status, income, and level of social care, as a major determinant of the health of individuals, groups and society at large. Equality of results of health measurements need to be treated with some caution, since medical studies show, for example, that women have certain biological advantages over men regarding life expectancy at virtually all stages of the life cycle. Social norms and practice may reduce or increase the advantages of women as regards life expectancy⁶ (cf. Box 5.1).

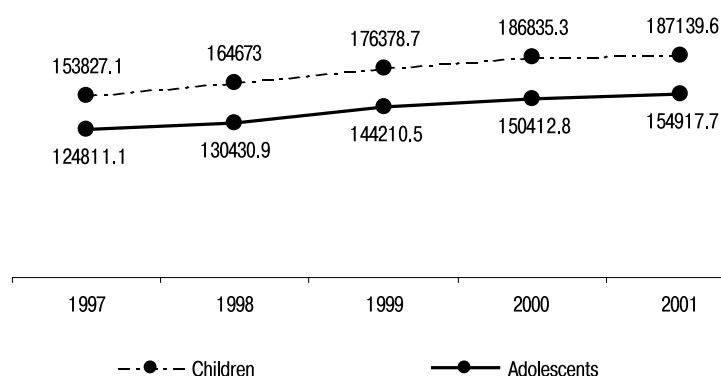
Gender equality in itself is not the goal but a means for ensuring sustainable development of society as a whole and of healthcare in particular. A gender approach to healthcare may influence the allocation of state resources in the public health domain.

Gender equality in healthcare presupposes the following:

- equal access of men and women to medical assistance provided through the public health system;
- their equal consumption of medical services in accordance with real needs;
- equal quality of medical services for men and women.

An important role can be played here by life expectancy at birth and incidence of disease (two of a limited number of health indicators that are available to scholars in most countries, including Russia). The mortality rate of men exceeds that of

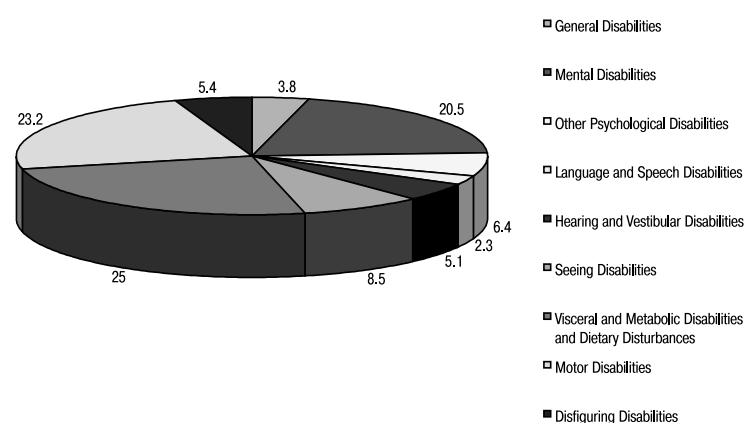
Figure 5.2. General Incidence of Disease Among Children (0–14 years old) and Adolescents (15–17) (per 100,000)



Source: Mother and Child Health Services in 2001. Ministry of Public Health of the Russian Federation. Moscow, 2002, p.55.

women almost everywhere in the world, but, as previous Russian Human Development Reports have already pointed out, this disparity is particularly great in Russia. The striking disparity of 13 years between the average life expectancies of men and women in Russia points to both demographic and social problems. If this trend continues, millions of women will become widows, and Russian cities and towns will become communities of single women over 60 (a situation which is already observed in rural areas, where the ageing of the population is more clearly visible). According to available estimates, the number of individuals passing out of the economically active age group in 2015 will be

Figure 5.3. Distribution of Disabled Children According to their Principal Disability (in percent)



BOX 5.1

Gender differences in healthcare are differences between men and women with respect to health indicators, availability and quality of medical assistance, effect of prophylactic campaigns, lifestyle and attitude towards health resulting from socio-economic conditions and the ethnic, cultural and historical traditions of a society.

Source: N.S. Grigorieva and T.V. Chubarova, *The Gender Approach to Healthcare*. Moscow, 2001 (in Russian).

1.7 times greater than the number of individuals entering that age group. By 2016, the number of young people between the ages of 17 and 19 will decrease from 6.7 million to 3.8 million. In healthcare, the ageing of the population will lead to a greater emphasis on providing health care for the elderly.

The incidence of various diseases also has a gender bias. Analysis of medical examinations of Moscow schoolchildren shows that boys are examined much more frequently than girls. The reason for this is very simple: compulsory military service. However, this bias in favour of boys is clearly unjustified, since 75% of girl high-school graduates are found to suffer from chronic illnesses, which helps to explain why the incidence of disease among adult women is greater than among adult men. Women seek medical assistance more often than men (25% more often on average) and they are hospitalised 15% more often than men. Women have special medical needs connected with their reproductive function, although men are more subject than women to heart and vascular diseases, cancers of certain organs, violence, traumas, suicide and work-related illnesses. It is interesting to note that the majority of medical personnel are women.

According to official statistics, the number of women alcoholics increased from 37 to 39 per 100,000 women over the period 1990–1999 and the total number of women alcoholics in 1999 was 29,800. The relative share of women in the total number of alcoholics has greatly increased over the last decade. Specialists note that alcoholism among women is more difficult to treat than among men. This is partly due to the fact that society has a much more severe and intolerant attitude towards women alcoholics, so that the latter try to hide their condition and only seek assistance when the condition is far advanced,

if at all. Drug addiction among women follows a similar pattern, and it grew more than five-fold over the period 1993–1999.

Consumption of beer has greatly increased in Russia: sales have grown by a factor of 2.1 over the last 10 years. The drink is particularly popular among adolescents and young people, including girls, and this is largely due to commercials, which popularise a certain type of behaviour. However, there are no warnings in school textbooks and other books for children and adolescents about the effect of alcohol on reproductive health. Television also remains silent on this topic.

Study of the causes and effects of domestic violence has great relevance in Russia, and understanding of what deserves to be classified as domestic violence differs among gender groups. However, a survey conducted in Russia as part of the UNIFEM “Life without Violence” Regional Information Campaign found that 92% of respondents recognised the existence of domestic violence and recognised that its most negative effect is the harm, which it causes to women's health: psychological harm (87.2%), physical harm (74.1%) and reproductive harm (34.8%). It is interesting that more men than women take the view that a woman who has been a victim of domestic violence will be unable to have a child (47% and 31%, respectively).⁷

A gender-based approach to healthcare may be very useful in determining the objectives of public health policies. Unsatisfactory levels of female health are linked to the relatively heavier biological and social burdens of women, who have most of the responsibility for continuation of the species and must often bear this responsibility in difficult social conditions. Society must therefore help women and find the necessary technologies to encourage women to put a high value on their own health. First steps in this direction have already been taken: in 2002, the draft of an official document entitled “The Social Status of Men and Women in Russian Society: A Gender Strategy of the Russian Federation” was presented for deliberation. If adopted, this document should determine state gender policy in Russia for a long time to come.

There are many different approaches to defining health, but a much-cited definition is that of the WHO, according to which health is a positive concept, including not only physiological well-being, but also social and personal capacities. Such a definition recognises the complex influence of biological and social factors on human health and illness. Nevertheless, practice shows that the so-called “medical” approach to health is far from having been overcome in Russia, and state institutions are very conservative in this regard. Mother and child health, and general health, require an interdisciplinary approach with participation of specialists from different fields and, above all, interaction between the social and medical domains, implying logistical and financial co-operation between healthcare institutions and social services. This does not take place in practice in Russia. Federal targeted programs

for improving mother and child health resolve isolated healthcare problems but are inadequate for changing the situation as a whole or for ensuring steady positive improvement.

The mechanisms that are used for implementing healthcare reform in Russia make it impossible for ordinary people to play an active part in the changes.

The different situations of men and women in society, differences in their way of life, and the need for public policies that maintain or change gender roles show the need for gender analysis in the field of healthcare. Such analysis has not yet been made mandatory for public health reviews in the Russian Federation, even though, as pointed out by the WHO, “the consideration of gender aspects in conducting research programs and initiatives is one of the best long-term approaches to make healthcare and prevention strategies more target-oriented and efficient”.⁸

*Health is
a positive concept,
including not
only physiological
well-being,
but also social
and personal
capacities*

¹ N.F. Gerasimenko, “Formirovanie zakonodatel'noy bazy v oblasti okhrany zdorovya v Rossiyskoy Federatsii” in *Okhrana materinstva i detstva v Rossii i Velikobritanii: mezhdistsiplinarny podkhod*. Meditsina Publishing House, Moscow, 2002, pp.15–21.

² S.I. Kolesnikov, “Vremya prinyatiya Kodeksa zakonov ob okhrane zdorovya skoro pridet...” in *Upravlenie zdavookhraneniem*, 1, 2001, pp.8–14.

³ E.D. Acheson, *Public Health in England: Report of the Committee of Enquiry into the Future Development and the Public Health Function*. London, 1988.

⁴ L.V. Gavrilova, “Sovremennye problemy v oblasti okhrany reproduktivnogo zdorovya zhen-

shchin v Rossii” in *Upravlenie zdavookhraneniem*, 2, 2002, pp.7–14.

⁵ “Narkomaniya, alkogolizm, SPID — ugroza budushchemu Rossii. Obzor materialov parlamentских slushany Komiteta po okhrane zdorovya i sportu 19 dekabrya 2002 g.” in *Upravlenie zdavookhraneniem*, 3, 2002, pp.74–88.

⁶ N.S. Grigorieva and T.V. Chubarova, *Genderny podkhod v zdavookhraneni*. Alfa-Print Publishers, Moscow, 2001.

⁷ *Rossiya: nasilie v semye — nasilie v obshchestve*. Moscow, 2002; *Domestic Violence and its Impact on Health: A Report on the World Situation*. WHO, 2003.

⁸ *European Public Health Report 2002*. WHO, European Series #97, p. 74.

Education in Russia in 2002: The Results of an Experiment to Introduce a Common State Examination and Registered Government Bonds

The 2000 and 2001 Human Development Reports for the Russian Federation gave detailed consideration to the government's "Conception for Modernising Russian Education up to 2010" and main trends in reform of state education. For this reason, the present Human Development Report does not contain a separate chapter on education, and preliminary results of education reform are presented in this Box.

In 2002 previous strategic decisions on education reform were worked out and made more specific. Decree #2866 of the Ministry of Education, dated 23rd July 2002, contains a plan of action in 2002–2004 for implementing the government's Conception. This document contains two sets of measures with the following aims:

- I. Respect of state guarantees on access to quality education.
- II. Raising the quality of general and vocational education.

Measures towards the first aim are as follows:

- to draft recommendations defining competencies of education management bodies and social services in providing targeted social assistance to schoolchildren and college students who are from low-income families, or have disabilities, or who are orphans or children without parental custody, for covering expenses for housing, food, medical care, summer recreation and health resorts, textbooks, etc.;
- to draft recommendations for postponing military service for graduates of higher and secondary vocational establishments who majored in education in order to allow them to work full-time as teachers, educators and vocational masters in state-registered general educational establishments, children's homes, boarding schools and primary vocational establishments;
- to raise the accessibility of pre-school education; to create a system of guarantees for the payment of educational services in pre-school establishments at the state's expense, to maintain and expand their resource

base at the founder's expense, and to fund the upkeep of children at their parents' expense with the support of targeted social assistance programs for low-income families;

- to create cultural educational centres, manufacturing training centres and medical centres at educational establishments (especially in rural areas);
- to provide special conditions for children with health problems at schools;
- to study and generalise the results of an experiment to create a Common State Examination (CSE); to draft managerial decisions for developing the CSE on the basis of the results of the experiment at each stage of its implementation and to monitor public opinion; and to increase the number of constituent members (regions) of the Russian Federation participating in the experiment to 75 (out of total 89) by the year 2004.

Measures for achievement of the second aim are focused on modernising education:

- to introduce specialised curriculum programs in senior high schools; to reduce the burden on students of general educational establishments and to improve the preparation of schoolchildren entering the system of vocational education; and to carry out relevant measures such as drafting concepts for a new model school and developing textbooks for such a school;
- to raise the health of schoolchildren and inmates of children's homes and to develop and implement the sub-program "Physical Education and Improvement of the Health of Children, Adolescents and Young People in the Russian Federation";
- to provide public support for innovative educational establishments serving as platforms for the modernisation of education;
- to conduct structural and institutional reforms of vocational education, to optimise the network of vocational establishments, to develop different models for inte-

Table 5.3

Results of the Experiment to Introduce a Common State Examination

Indicator	2001	2002	2003 (projected)
Number of constituent members of the Russian Federation participating in the Common State Examination (CSE)	5	16	49
Number of graduating high-school students participating in the CSE	30	300	715
Percentage share of graduating high-school students participating in the CSE (in the total number of graduating students)	2	23	58
Number of higher educational establishments participating in the CSE experiment	16	117	245
Number of schools participating in the CSE		7,849	18,581
Number of CSE Collection Centres		2,027	3,940
Number of CSE Primary Processing Centres		289	532

grating primary and secondary as well as vocational and higher education and to establish university complexes.

Experimental introduction of a Common State Examination (CSE) was expanded in 2002, bringing 16 Russian regions into the experiment (cf. Table 5.3).

The goals of the CSE are

- to make vocational education more accessible;
- to develop a system for more objective evaluation of high-school graduates and ensure equal conditions for entering higher and vocational educational establishments;
- to assure a smooth transition between general and vocational education;
- to achieve equivalence of marks on state certificates attesting completion of general secondary education;
- to assure state quality control of general education through an independent and more objective assessment of the standard of high-school graduates.

For purposes of legal regulation of the experiment and in accordance with Government Decree #222 "On Participation of Secondary Vocational Educational Establishments in the Experiment to Introduce a Common State Examination", dated 5th April 2002, the Ministry of Education approved a series of regulations entitled "On Conducting the Common State Examination" (Injunction #1306, dated 9th April 2002).

These regulations define procedures for certifying graduates of general educational establishments and for conducting entrance examinations and accepting students to vocational and higher educational establishments in the constituent members (regions) of the Russian Federation in which the experiment is being held. The CSE is meant to combine the certification of graduates of general educational establishments, on the one hand, and entrance examinations to vocational and higher educational establishments, on the other. The CSE is recognised by general educational establishments as a high-school certification examination and by vocational and higher educational establishments as an entrance examination. CSE student examination papers are assessed with the help of points (on a hundred-point scale) and marks (on a scale of five). High-school students who pass the CSE receive (a) a general secondary education certificate and (b) a report with their CSE results, which is valid until 31st December of the same year. If a student decides to postpone entering a higher educational establishment, he will have to take the CSE again in the year in which he intends to begin his higher studies. A state examination committee is created in each constituent member of the Russian Federation for holding the CSE and make-up of the committees is approved by the Russian Ministry of Education.

Last year, a new mechanism of financing higher educational establishments using so-called registered government bonds (RFBs) was also tested. The declared targets of the bond system are:

- (1) to make the system of state support for higher education more flexible and consequently more available to different categories of high-school graduates;
- (2) to make use of funds allocated to the higher education system more efficient by making higher education establishments function on a competitive basis and by making the flow of finances more transparent.

Under Decree #6 "On Conducting an Experiment in 2002—2003 to Finance Selected Higher Vocational Educational

Establishments with the Help of Registered Government Bonds", dated 14th January 2002, the Russian Government approved conditions and procedures for conducting this experiment in 2002—2003. These regulations stipulate that the experiment to finance higher educational establishments using RGBs is implemented together with the experiment to introduce the CSE. It defines the RGB as a "proof of the results of the Common State Examination taken by the individual with a note that attests the category of the bond that will serve as a basis for the allocation of federal funds to a higher educational establishment to cover tuition costs of the individual during the entire course of studies in accordance with state educational standards." For those individuals who did not take the CSE (graduates of previous years, graduates of educational establishments that did not participate in the experiment, etc.) or who took it in a field, which differs from the specialisation of a given higher educational establishment, state examination committees that administer the CSE will organise tests that correspond to the form and content of the CSE.

The list of higher educational establishments participating in the transition to RGB-financing was approved by Decree #1013 of the Minister of Education, dated 25th March 2002, and includes six higher educational establishments in three constituent members of the Russian Federation:

- Mari-El State Technical University;
- Mari-El State Pedagogical Institute;
- Mari-El State University;
- Chuvash State University;
- Chuvash State Pedagogical University;
- Yakut State University.

The higher educational establishments in the Mari-El and Chuvash Republics had previously participated in the CSE experiment.

It should be said that the list of selected higher educational establishments did not include private higher educational establishments and affiliates in the Mari-El and Chuvash Republics of state higher educational establishments, whose centres are located elsewhere. Moreover, departmental higher educational establishments refused to participate in the RGB experiment, which made the latter's participants less representative of the total pool of establishments in the selected regions.

Higher educational establishments participating in the experiment had to determine and publish the cost of tuition in each field of study, and the precise field and form of study, no later than three months before they started receipt of documents from potential students. These establishments had to accept new students in all fields of study exclusively on the basis of the RGB. The number of students whose tuition expenses were covered entirely by RGBs without additional payments by the students had to be at least 50% of the total number of students in the establishment and at least 25% of the total number of students in each field of study. If the tuition costs of a student were not completely covered by federal funds and exceeded the financial support of the RGB that he was awarded, he or she must sign a contract with the higher educational establishment for his studies and pay the difference between the tuition costs and the amount of RGB financial support as stipulated by the contract.

The conditions emphasise that federal funds are allocated to higher educational establishments participating in the experiment in accordance with the legal norms governing treasury implementation of the federal budget. Higher educational establishments depending on executive bodies of the constituent members of the Russian Federation and establishments depending on executive

bodies of municipalities are financed from budgets of the constituent members of the Russian Federation and municipal budgets, respectively. The Ministry of Education and the Ministry of Finance published joint Decree #1597/39n "On Adopting the

Method of Planning and Financing Federal Expenditures for Higher Vocational Education Using Registered Government Bonds", dated 29th April, to enforce this financing system. Five categories of RGBs are introduced for the period of the experi-

Table 5.4

Correspondence Between CSE Results, RGB Categories and Their Cost

RGB Category	Number of Points Received on the CSE	RGB Financing* (in roubles)
Category 1	more than 80–100	14,500
Category 2	more than 68–80	7,500
Category 3	more than 52–68	3,900
Category 4	more than 43–52	2,800
Category 5	more than 35–43	1,200

* Approved by Decree #1,013 of the Minister of Education of the Russian Federation of 25th March 2002.

ment, corresponding to the number of points received by a student in the CSE (cf. Table 5.4).

RGB funds cover the expenditures of higher educational establishments for salaries, the single social tax and other running expenses.

The RGB system gives high-school graduates the right to receive a higher vocational education at the state's expense, but the amount of financing depends on their CSE results and the amount of funds allocated in the state budget for higher education in a given year (cf. Table 5.4).

Table 5.5

Distribution of First-Year Students at Higher Educational Establishments Participating in the Experiment, according to RGB Category

RGB Category	First-Year Students (in %)	Graduating High-School Students Taking the CSE (in %)
Category 1	2	8
Category 2	38	9
Category 3	37	34
Category 4	11	25
Category 5	5	17
No Category	1	13

The six higher educational establishments participating in the experiment received applications from 35,000 high-school graduates, of which they accepted more than 14,300 for first-year studies during the 2002/2003 academic year, and 8,400 of these students (58% of the total) were accepted on the basis of RGBs.

The distribution of first-year students participating in the experiment according to RGB category is shown in Table 5.5.

Our analysis of the main trends of state education reform in 2002 shows that state education management bodies are keen to

begin practical development of experimental pilot programs for reform of general and vocational education. Such an attitude will help adaptation of the educational system to market conditions, but state structures need to react much more quickly and to adjust and elaborate reform strategy where needed.

Prof. I.A. Rozhdestvenskaya, Dr.Sc. (Economics),
Leading Researcher and Programme Coordinator
"Reform of the Education System" at the National
Training Foundation of Employees

Chapter 6

The State and Human Development in Russian Regions

Increasing regional disparities across Russia in the standard of living, the state of the labour market, accessibility of basic services and their financing, are a result of the growth of economic inequality during the transition period. One of the crucial tasks for the State is creation of equal opportunities for human development in the constituent members of the Russian Federation. However, this must be done judiciously, to avoid stunting development of strong donor regions. The task clearly requires a choice of priorities as well as the development of effective mechanisms for redistributing resources.

At the end of the 1990s, the process of political centralisation was followed by increased concentration of economic resources at the centre. The federal government tried to simplify matters by first centralising resources and then redistributing them in order to overcome the contradictions, which had arisen between different budgetary levels. It is still too early to pass judgement on social effects of this policy, but preliminary results are already apparent and they are mixed.

Redistribution of State Resources

The centralisation of financial resources was accompanied by a marked growth of redistribution: while federal support to other levels of government accounted for 9.3% of federal spending in 1999, it increased to 18.5% in 2001 and the amount of aid more than doubled in 2001 (a growth of 125%). The share of federal financial aid in consolidated regional budgets also practically doubled in 2001 (it grew from 10% to 18%). In addition to an increase in the amount of redistribution, the redistribution scheme became much more complicated. A number of new funds were set up alongside the Fund for Federal Support to Regions, which has existed since 1994. These are the Fund for Targeted Aid to Highly Subsidised Regions, the Compensation Fund for Financing Benefits for

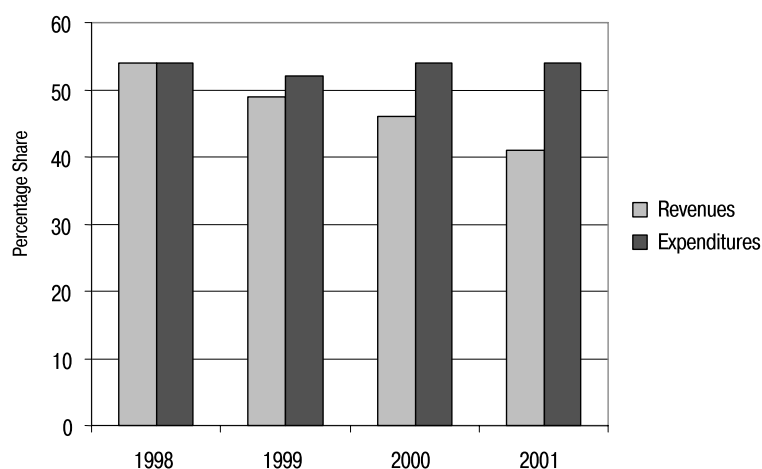
Children and the Disabled, and the Fund for Co-Financing Social Expenditures, which reimburses expenditures on salary increases and housing subsidies. As a result, children's allowances were paid in full in 2001, although regional payouts to the disabled were only 30–40% reimbursed. Nevertheless, the social orientation of the redistribution is clear.

Although the federal government has concentrated fiscal revenues in its own hands, it has also begun to redistribute a lot more. For this reason, the share of sub-national (regional and local) budgets in the expenditures of the consolidated state budget has not changed (cf. Figure 6.1). However, centralisation of fiscal powers has also meant centralisation of decision-making and reduction of the fiscal autonomy of regions. In addition, acting legislation has reduced the number of regional and local taxes: up to 90% of taxes are categorised by law as federal taxes, while the nature of the payment base and the rates of 70% of fiscal revenues are determined by the federal government. The so-called regional taxes (whose payment bases and rates are determined to a greater or lesser degree by regional or local governments) cover less than 40% of regional government spending and a mere 13% of local budget spending.¹

The large disparities between economic development levels of regions undoubtedly require equalisation of budget resources through redistribution. Regions in eastern Russia are among those, which have received a considerable amount of federal aid in previous years. In 2000, Siberian and Far-Eastern regions provided 21% of federal fiscal revenues, but their share of federal financial aid was almost 40%. The list of 24 constituent members of the Russian Federation, in which federal financial aid outweighed total fiscal revenues supplied by the regions to the federal budget, includes 14 Siberian and Far-Eastern regions.² The financial aid to these regions was often several times higher (or

One of the crucial tasks for the State is creation of equal opportunities for human development in the constituent members of the Russian Federation. However, this must be done judiciously, to avoid stunting development of strong donor regions

Figure 6.1. Share of Consolidated Regional Budgets in the State Budgetary System (%)



even dozens of times higher) than their contribution to the federal budget.

In 2001, the role of the centre grew even more, as can be seen from a comparison of regional expenditures and federal financial aid. 71 of the 88 subjects of the Russian Federation (Chechnya not included) received transfers from the Fund for Federal Support to Regions; in 20 regions, transfers and other forms of financial aid accounted for more than 50% of their budgets. The latter include almost all Northern Caucasian republics, the Kalmyk and the Tyva Republics, Altai Territory, most of the underdeveloped autonomous districts in the eastern part of the country, and it is notable that only three of them are

“Russian” regions (the Amur and Bryansk Regions and Altai Territory).

However, despite the increasing amount of interregional redistribution (which amounted to 18.5% of federal revenues in 2001), the policy of equalisation had a smaller effect in 2002 than in previous years (cf. Table 6.1).

There are many arguments in favour of centralisation: the necessity of concentrating resources in the centre for reforming the tax system, lowering the fiscal burden and reducing inefficient spending of regional and local governments,³ which take advantage of the lack of control from nascent civil society in Russian regions. Yet there are also many reasons for caution about the centralisation process, particularly after the federal government's decision to increase salaries in the public sector by 1.89 times, which placed a burden on regional and local governments estimated at 1.1% of GDP.⁴ The result was massive salary payment delays in the overwhelming majority of regions in 2002 due to lack of regional and local resources. In several cases, municipal authorities were faced with the choice of either paying higher salaries to public workers or investing in the upkeep of municipal and housing infrastructure. This crisis situation had to be overcome by additional federal funding. Such policy encourages a dependent and passive attitude on the part of regional and local governments, particularly as regards implementation of social programs.

An optimal balance needs to be found between control from the centre and fiscal autonomy for regions and municipalities. Without such a balance, regional and local authorities lose their incentive to improve conditions for economic growth and implement sound social policies.

The federal government is aware of this problem. Federative and municipal reforms of the distribution of powers and financial resources between different levels of government are being prepared under the direction of Dmitry Kozak, the deputy head of the Russian Presidential Administration. However, the transition to a more complex system of separation of powers and redistribution of resources between different levels of government (federal, regional and local) has now been postponed until 2005–2007.

Table 6.1
Equalisation of Budget Incomes Per Capita of the Constituent Members of the Russian Federation

Year	1998	1999	2000	2001
Fractional Proportion of the Per Capita Income of the Ten Wealthiest Constituent Members of the Russian Federation to the Per Capita Income of the Ten Poorest Members				
Before Transfers	13.1	15.8	22.7	17.6
After Transfers	5.3	5.7	6.5	4.8
Ratio of the Real Per Capita Income of the Ten Poorest Members of the Russian Federation to the National Average*				
Before Transfers	0.09	0.07	0.06	0.11
After Transfers	0.23	0.33	0.48	0.65

* Adjusted for the cost of living. The deflator used is the regional budgetary expenditure index employed by the Ministry of Finances of the Russian Federation for calculating transfers.
Source: OECD Economic Surveys 2001–2002, p. 166.

Social Spending at Different Levels of Government

As explained in the 1998 and 2000 Human Development Reports for Russia, regional and (particularly) local budgets carry the main burden of social spending, including provision of municipal and housing services. The share of social spending in local budgets is 79%. Upkeep of municipal and housing services, which takes almost a quarter of total local spending, is a particularly arduous task due to delays in reform of this sector.

Federal government participation in social spending has grown in recent years. The share of social spending in the federal budget itself increased from 12.8% to 15.2% thanks to growth of real budget revenues by almost one-and-a-half times over the period 1999–2001. The distribution of spending responsibilities has stayed mostly the same, with sub-federal government still answerable for financing of healthcare and education. But financing of these sectors has been largely transferred from the municipal level to the regional level. Regional government is also playing an increasing role in other social spending.

The make-up of consolidated regional and local government budgets shows limited financial room for manoeuvre to increase investments in human development. In the Tyva Republic (one of the most backward constituent members of the Russian Federation), social expenditures are already nearly 70% of the budget (cf. Table 6.3). But even in the poorest constituent members of the Russian Federation, the expenditure pattern partly depends on the regional government's policy, which is not always very efficient. For example, despite the extremely low level of social development in the Republic of Ingushetia, the republican government used 21% of its revenues for supporting industry, building and agriculture in 2001, i.e., it essentially used state resources to finance the economy. In Moscow, the principal budgetary spending item remains municipal and housing services. To an extent that is natural since these services are a huge issue in any large city, but the spending bias is also the result of delays in reform of the municipal and housing sec-

Table 6.2
Share of Budgets of Various Levels in Social Spending

	Percentage of GDP		Percentage Share of Regional and Local Spending in Total Spending		Percentage Share of Local Spending in Total Spending	
	Federal Spending	Regional and Local Spending	1998	2001	1998	2001
Social Services (total)	2.3	6.0	83	73	56	42
including:						
Education	0.6	2.6	87	81	66	57
Healthcare	0.3	1.8	91	88	53	45
Social Policy	1.2	1.2	44	48	20	17
Public Utilities	0.0	2.6	100	100	72	62

Sources: Russian Ministry of Finances; 2000 Human Development Report for the Russian Federation

tor. The region with the largest resources at its disposal is the major oil and gas-extracting Khanty-Mansian Autonomous District. It uses part of these resources for social needs, which has resulted in above-average growth of many social indicators in the region.

Per capita social spending differs by a factor of almost seven among consolidated regional budgets, even when adjusted for the cost of living.⁵ In the Republic of Ingushetia, the per capita figure is below 60% of the national average, in the Khanty-Mansian Autonomous District it is four times higher than the average, and in Moscow, social budgetary spending per capita (adjusted for the cost of living) is 35% higher than the average (down from 51% in 1999). Federal centralisation has forced the city authorities to reduce relative social advantages of Muscovites compared with other Russians. This equalisation is fair in many ways, given that Moscow has the best labour market conditions and the highest salaries in the country. But reduction in the level of benefits and income supplements is felt most by socially vulnerable sections of the Moscow population, since the city (like the rest of the country) still lacks a targeted social protection system.

The share of social budgetary spending per capita is justifiably higher in north-eastern regions, which have unfavourable natural and climatic conditions and a con-

Table 6.3
Budgetary Spending Structure in Regions with the Highest and Lowest Human Development Indices
(2001; in %)

Consolidated Regional and Local Budgetary Spending	City of Moscow	Khanty-Mansian Autonomous District	Republic of Ingushetia	Tyva Republic	National Average
Education	9.3	13.9	16.0	28.8	17.5
Healthcare	9.2	10.1	13.5	18.4	12.7
Culture	2.1	1.7	1.7	3.7	2.3
Social Policy	7.8	3.8	11.0	9.3	8.0
Public Utilities	24.9	11.9	12.3	8.8	17.5
Other	46.7	58.6	45.5	31.0	42.0
Total	100	100	100	100	100

siderably higher cost of living (cf. Map B.1 in Addendum B). Nevertheless, the most serious social problems are in Russia's southern border regions, particularly in the least developed republics and autonomous districts. They have a low level of social budgetary spending despite the fact that the state redistributes a considerable part of its budgetary resources to these regions. Insufficient levels of own budget income and federal financing, as well as inefficient spending patterns, make it difficult to significantly improve human development conditions in the poorest regions at present.

The Role of the State in Equalising Regional Disparities in Incomes and Employment

The impact of centralisation in reducing regional disparities in incomes and employment has been limited. This is shown by changes in per capita incomes over the period 1999–2001. Calculations show that the five regions with the highest per capita incomes differed from the five regions with the lowest per capita incomes (adjusted for the cost of living) by a factor of 5.7 in 2000 and 5.4 in 2001. The economic advantages of “strong” regions lead to increasing gaps in regional development, and so far fiscal equalisation has only been able to slow down the growth of disparities in incomes between the most developed members of the Russian Federation (Moscow and export regions with highest earning levels)

and the least developed republics and autonomous districts.

We can get a more complete picture by comparing regions of different types according to the changes in real per capita cash incomes over the period 1999–2001 (cf. Figure 6.2). The most rapid growth of real per capita incomes took place in the leading oil exporting regions, while per capita incomes in other export regions grew more slowly. A group of poorly developed regions (all the republics in the southern part of European Russia and in southern Siberia, most autonomous districts and a few of the least developed Russian regions) benefited from the centralisation of budgetary policy since the main source of income of most people in these regions was state salaries and social transfers. Territories and regions in southern Russian experienced the biggest growth of incomes at the beginning of the economic recovery that followed the crisis (late 1999 and 2000), while incomes grew more slowly in traditional industrial regions that produce import substituting goods. The Russian Far East continued to be the worst off (not counting various autonomous districts and the Jewish Autonomous Region, where more than half of budget revenues came from federal transfers). Personal incomes in the Far East have lagged further and further behind the national average.

The state of regional labour markets markedly improved during 2001, and overall unemployment declined in 64 regions (out

Insufficient levels of own budget income and federal financing, as well as inefficient spending patterns, make it difficult to significantly improve human development conditions in the poorest regions at present

of total 89). However, basic disparities remained the same: the highest unemployment rates were still observed in most of the republics in the southern part of European Russia (17–35% of the employable population compared with the national average of 9%) and in ethnic territories in southern Siberia (13–24%). Unemployment grew in 2001 in about a dozen regions with low HDIs, including Northern Caucasian republics (Daghestan and Ingushetia) and parts of the Volga Federal District (the Chuvash Republic and the Komi-Perm Autonomous District), the Tyva Republic, the Chita Region and the Ust-Ordynsk Autonomous District in southern Siberia. There was also growth of unemployment in several export regions (the Komi Republic and the Belgorod, Vologda and Kemerovo Regions) as a result of deteriorating market conditions. However, actual levels of unemployment remained fairly low, although there was a rise to 15% in the Komi Republic. The unemployment rate in the economically backward regions of the Russian Far East (Magadan and Kamchatka Regions) remained 1.5–2 times higher than the national average.

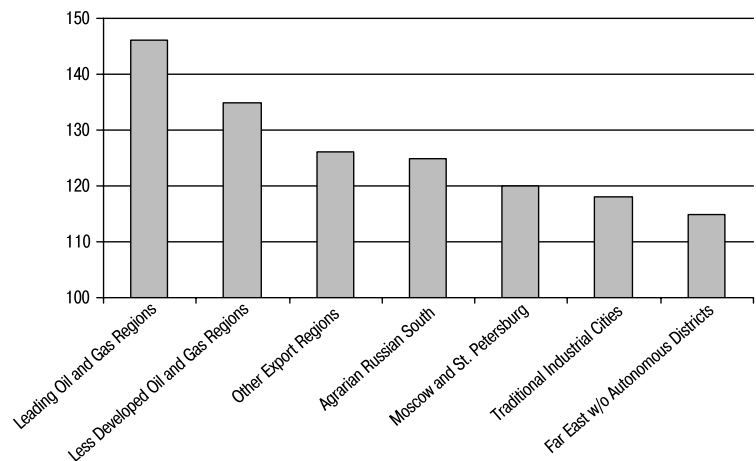
Regional labour market disparities are far from being overcome. They are likely to persist in the foreseeable future, since they cannot be solved by redistribution of budget resources alone: a fundamental improvement in the conditions regulating economic growth in difficult regions is needed.

Healthcare and Regional Health Indicators

The poor health of the population is one of the most serious problems of the transition period, despite the fact that child and maternal mortality rates have now dropped below Soviet levels after peaking in the mid-1990s. The reason for the fall in mortality rates is not entirely clear: in the analysis of health indicator trends, it is difficult to separate the influence of adaptive mechanisms, including a fall in the birth rate, from the contribution of the state to the development of medical services, which has begun to increase only in recent years.

On the whole, health and the life expectancy of people in Russian regions leave a lot to be desired. The life expectan-

Figure 6.2. Trends in Cash Incomes in Different Types of Regions in 1999–2001



cy is similar to that of developing countries (65.3 years in 2001) and ranges from 56.5 years in the Tyva Republic to 71–74 years in Daghestan and Ingushetia. The infant mortality rate in Russia exceeds that of developed countries by a factor of 2–3 and differs among Russian regions by a factor of more than three. In the cities of Moscow and St. Petersburg and the Leningrad and Samara Regions, 9–11 children under one year-old die per 1000 born, while in the poorly developed Northern Caucasian republics, the Tyva Republic and the Koryak Autonomous District, the mortality rate per 1000 children under one year-old is 30 or more. This is due to the poor state of public medicine in the latter regions, but it also reflects low incomes and the traditional way of life in those regions.

Fall in mortality among children under five years old in 1994–2000 can be attributed with more certainty to increased social spending by the State and the improvement of preventive care. The rate of vaccination against tuberculosis grew from 91% to 96% over the period 1995–2000, from 78% to 96% against diphtheria, from 85% to 97% against measles, and from 77% to 97% against poliomyelitis. However, substantial differences in accessibility and quality of medical care mean that the mortality rate for children between the ages of one and four is twice higher in rural areas than in urban areas, while child mortality is 2.5–3.5 times greater in relatively non-urbanised regions than in Moscow and St. Petersburg. The

differences between child mortality rates in urban and rural areas have grown over the transition period.

Maternal mortality rates fell by a third over the period 1997–2000, but there are still problem regions with consistently high maternal mortality (notably the poorly developed republics and autonomous districts of the Far East and Siberia). In European Russia, the mortality rate is lower for objective reasons: better natural and climatic conditions and a higher density of population and urban settlements, which means that medical establishments are more accessible. The quality of medical care is not decisive for maternal mortality rates: Moscow and St. Petersburg with their well-developed health services have rates that are close to the national average since women's health in those cities is negatively affected by environmental pollution and psychological stress.

Despite the positive trends in child and maternal mortality rates, the incidence of social diseases continues to grow. The Russian healthcare system was ill prepared for the sharp rise in incidence of HIV/AIDS, which reached epidemic proportions by the end of the 1990s and which was closely connected with increase in the number of drug addicts. The number of individuals infected with HIV/AIDS is particularly high in Moscow and St. Petersburg, in the Leningrad, Sverdlovsk and Samara Regions, and in the Khanty-Mansian Autonomous District, i.e., in exporting regions and cities with high personal income levels (cf. Table A.1 in Addendum A). In the cities of Norilsk and Togliatti, up to one percent of the population was infected in 2002. AIDS is becoming a disease of young people living in the most urbanised and wealthiest parts of Russia. However, the experience of Moscow shows that spread of the disease can be contained.

Comparison between state spending on healthcare and health indicators shows no direct relation (cf. Table 6.4). One reason for this is the extremely low per capita financing of healthcare by regional governments: the annual national average is 1,100 roubles per person. Secondly, a substantial part of financing is spent on upkeep of infrastructure (up to 50% of expenditures in the Far East, where climatic conditions are particularly severe, and 30–45% in

other regions). The public health systems of north-eastern regions receive more state funds than those of the Northern Caucasian republics and the autonomous districts of southern Siberia, but people's state of health is equally bad in all poorly developed regions (and in some others). Regional differences continue to be conditioned by natural and climatic conditions, the standard of living, and varied levels of modernity in people's lifestyle.

Overall, the role of the State in improvement of public health is clearly inadequate. Positive changes in child and maternal mortality rates are due to a decline in the birth rate as well as to improvements in the economic situation; the incidence of social diseases continues to grow; regional differences in public health remain virtually unchanged; and per capita financing of healthcare is minute in almost all regions and particularly in those regions where health problems are greatest.

Human Development Index

Regional disparities can be measured using the human development index (HDI), calculated for different regions using data of the State Committee of the Russian Federation on Statistics for 2000 (cf. Table 6.5). The index matched the level of developed countries (above 0.800) in only three Russian regions (Moscow, the major oil-extracting Tyumen Region, and Tatarstan, the most economically developed republic in the Russian Federation). The human development index for Moscow (0.864) was close to that for Slovenia and higher than those for the Czech Republic and Hungary. The regions with the lowest indices included the poorly developed republics and autonomous districts of Siberia and the Russian Far East. The Tyva Republic had the lowest HDI, close to that for Nicaragua and Gabon, due to the republic's poverty and extremely low life expectancy. Due to the huge gap between the top few regions and the rest, HDI exceeded the national average in only 12 regions — this is the smallest figure since these measurements began to be made five years ago. Still, almost half of Russian regions have approximately equal HDIs that are slightly below average. HDIs in 13 members of the Russian Federation are below the world average.

Table 6.4

Indicators of Healthcare Financing and Public Health Levels in Selected Members of the Russian Federation

Constituent Members of the Russian Federation with Different HDIs	Ratio of Regional Healthcare Expenditures Per Capita* to the National Average (in %)	Life Expectancy (in years)	Infant Mortality per 1,000 New-Born Children	Maternal Mortality per 100,000 Deliveries	Incidence of Active Tuberculosis per 100,000 individuals	Number of Drug Addicts per 100,000 individuals	Number of Doctors per 10,000 individuals
National Average	100	65.3		40	90	187	47
Regions with High HDIs							
City of Moscow	138	67.8	10.9	30	47	200	86
Khanty-Mansian Autonomous District	439	67.9	10.2	26	115	585	41
Republic of Tatarstan	179	67.5	14.8	11	75	137	44
Komi Republic	163	64.6	13.0	20	89	70	38
Belgorod Region	80	67.9	13.1	16	76	25	38
Samara Region	90	64.5	10.7	23	88	518	48
Regions with Low HDIs							
Tyva Republic	162	56.1	30.0	82	323	323	37
Chukotka Autonomous District	207	66.9	23.4	292	40	27	45
Republic of Ingushetia	62	74.1	33.0	–	162	49	20
Republic of Dagestan	71	70.7	18.5	10	91	115	42
Karachai-Cherkess Republic	76	68.5	29.7	66	66	172	34

*Adjusted for the cost of living.

Calculation of regional indices using stable methodology (cf. Addendum C) shows that the gap between regions with highest and lowest HDIs has increased over four years. This is mainly due to increase of economic inequality between regions. In 2000, two members of the Russian Federation accounted for more than 28% of total national GRP (Moscow with 21.4% and the Khanty-Mansian Autonomous District with 7%). The GRPs, adjusted for cost of living, of the Tyumen Region, which includes the Khanty-Mansian Autonomous District, and the Tyva Republic differ by more than 14 times (cf. Figure 6.3).

The second constituent of the HDI is the life expectancy index. It showed a downward trend in 2002, as in 1999. The fall in life expectancy was particularly great in central and north-western regions, especially in St. Petersburg, and was the main reason for the fall in their HDI.

The third constituent of the HDI is literacy and education levels. The growing education index continues to be the strong point of Russia and its regions, as the combined gross enrolment ratio increased in almost all regions. It should be said, however, that the education index for Moscow and St. Petersburg is overestimated due to the difficulty of calculating the number of students from other regions who attend educational establishments in these cities. The educational index for the Moscow and Leningrad Regions (from which students commute to establishments in the neighbouring cities) is underestimated for the same reason.

For the first time ever, the State Committee of the Russian Federation on Statistics published data on GRP of all autonomous districts in 2000, but did not include per capita GRP “due to incompatibility of population data and the results of economic activity.” The main problem is

Table 6.5

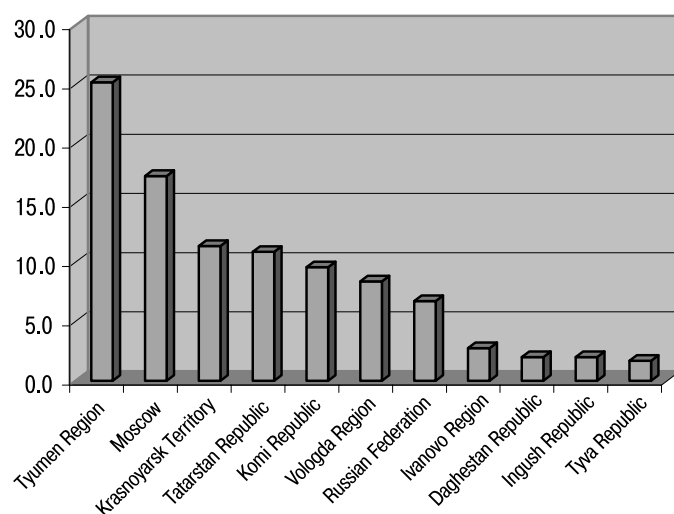
Human Development Index for the Constituent Members of the Russian Federation (for 2000)

Constituent Members of the Russian Federation	GRP Per Capita (PPP US\$)	Income Index	Life Expectancy (in years)	Life Expectancy Index	Combined Gross Enrolment Ratio (in %)	Education Index	HDI	National Ranking
1	2	3	4	5	6	7	8	9
Russian Federation	6,747	0.703	65.3	0.671	75.0	0.913	0.763	
City of Moscow	17,279	0.860	67.8	0.714	106.8	1.019	0.864	1
Tyumen Region	25,178	0.923	66.6	0.694	72.0	0.903	0.840	2
Republic of Tatarstan	10,871	0.783	67.5	0.709	77.0	0.920	0.804	3
Republic of Bashkortostan	7,664	0.724	66.8	0.696	76.8	0.919	0.780	4
City of St. Petersburg	5,693	0.675	66.0	0.684	94.2	0.977	0.779	5
Lipetsk Region	7,886	0.729	67.0	0.699	73.2	0.907	0.779	6
Vologda Region	8,460	0.741	65.9	0.681	71.9	0.903	0.775	7
Republic of Komi	9,623	0.762	64.6	0.660	69.9	0.896	0.773	8
Tomsk Region	6,835	0.705	65.0	0.667	84.5	0.945	0.772	9
Belgorod Region	5,841	0.679	67.9	0.715	78.0	0.923	0.772	10
Samara Region	7,562	0.722	64.5	0.658	76.3	0.918	0.766	11
Murmansk Region	7,205	0.714	66.1	0.686	69.9	0.896	0.765	12
Orenburg Region	6,953	0.708	65.1	0.668	75.3	0.914	0.763	13
Republic of Sakha (Yakutia)	7,745	0.726	64.6	0.660	71.7	0.902	0.763	14
Republic of Udmurtia	6,010	0.684	66.0	0.683	74.9	0.913	0.760	15
Orlov Region	5,644	0.673	65.6	0.676	78.4	0.925	0.758	16
Perm Region	7,566	0.722	63.7	0.646	72.5	0.905	0.758	17
Krasnodar Territory	5,834	0.679	66.8	0.696	69.8	0.896	0.757	18
Republic of Mordovia	4,811	0.646	67.0	0.699	78.1	0.924	0.756	19
Chelyabinsk Region	6,331	0.692	64.8	0.663	75.0	0.913	0.756	20
Krasnoyarsk Territory	8,084	0.733	62.7	0.629	72.0	0.903	0.755	21
Yaroslavl Region	6,017	0.684	65.2	0.670	73.5	0.908	0.754	22
Khabarovsk Territory	6,205	0.689	63.4	0.640	78.1	0.924	0.751	23
Republic of Northern Ossetia	3,507	0.594	68.5	0.725	80.6	0.932	0.750	24
Republic of Kalmykia	5,443	0.667	65.6	0.677	73.0	0.907	0.750	25
Republic of Kabardino-Balkaria	4,020	0.617	68.1	0.718	75.3	0.914	0.749	26
Novosibirsk Region	4,204	0.624	66.5	0.692	80.3	0.931	0.749	27
Astrakhan Region	5,403	0.666	65.4	0.673	72.7	0.906	0.748	28
Rostov Region	4,346	0.630	66.4	0.689	78.4	0.925	0.748	29
Voronezh Region	4,276	0.627	66.6	0.693	76.8	0.919	0.746	30
Nizhny Novgorod Region	5,383	0.665	65.1	0.668	72.3	0.904	0.746	31
Volgograd Region	4,614	0.640	66.3	0.689	72.6	0.905	0.745	32
Stavropol Territory	3,979	0.615	67.8	0.714	72.5	0.905	0.744	33
Ulyanov Region	4,702	0.643	66.1	0.685	72.2	0.904	0.744	34
Sverdlovsk Region	5,675	0.674	63.9	0.649	73.4	0.908	0.744	35
Omsk Region	4,283	0.627	66.4	0.691	74.1	0.910	0.743	36
Sakhalin Region	6,506	0.697	63.9	0.649	65.3	0.881	0.742	37

Table 6.5 (continued)

Constituent Members of the Russian Federation	GRP Per Capita (PPP US\$)	Income Index	Life Expectancy (in years)	Life Expectancy Index	Combined Gross Enrolment Ratio (in %)	Education Index	HDI	National Ranking
1	2	3	4	5	6	7	8	9
Saratov Region	4,465	0.634	65.1	0.668	77.1	0.920	0.741	38
Kursk Region	4,581	0.638	65.4	0.673	74.2	0.911	0.741	39
Arkhangelsk Region	5,741	0.676	63.6	0.643	70.1	0.897	0.739	40
Republic of Karelia	5,642	0.673	63.3	0.639	71.9	0.903	0.738	41
Ryazan Region	4,646	0.641	65.0	0.666	72.7	0.906	0.738	42
Irkutsk Region	6,284	0.691	61.9	0.615	72.7	0.906	0.737	43
Moscow Region	4,819	0.647	65.2	0.671	69.3	0.894	0.737	44
Republic of Chuvashia	3,525	0.595	66.6	0.694	76.7	0.919	0.736	45
Kirov Region	4,075	0.619	66.0	0.684	72.2	0.904	0.736	46
Tambov Region	4,402	0.632	65.4	0.674	70.8	0.899	0.735	47
Magadan Region	5,114	0.657	65.0	0.667	62.0	0.870	0.731	48
Novgorod Region	4,897	0.649	62.9	0.631	73.9	0.910	0.730	49
Republic of Adygeia	2,703	0.550	68.2	0.720	76.8	0.919	0.730	50
Kemerovo Region	5,092	0.656	62.8	0.631	71.8	0.903	0.730	51
Smolensk Region	4,998	0.653	63.5	0.642	69.3	0.894	0.730	52
Republic of Khakassia	4,580	0.638	63.8	0.647	71.9	0.903	0.729	53
Altai Territory	3,501	0.593	66.6	0.693	71.3	0.901	0.729	54
Republic of Karachaevo-Cherkessia	2,797	0.556	68.5	0.725	73.1	0.907	0.729	55
Kostroma Region	4,432	0.633	64.0	0.651	71.3	0.901	0.728	56
Tula Region	4,869	0.648	63.1	0.636	71.0	0.900	0.728	57
Kaliningrad Region	4,558	0.637	63.7	0.645	71.1	0.900	0.727	58
Primorye Territory	4,129	0.621	64.0	0.650	74.2	0.911	0.727	59
Penza Region	3,317	0.584	66.3	0.688	73.7	0.909	0.727	60
Kaluga Region	4,454	0.634	64.1	0.652	68.9	0.893	0.726	61
Vladimir Region	4,352	0.630	63.8	0.646	70.7	0.899	0.725	62
Kamchatka Region	4,407	0.632	64.2	0.653	68.1	0.890	0.725	63
Republic of Daghestan	2,016	0.501	70.7	0.761	74.1	0.910	0.724	64
Bryansk Region	3,654	0.601	64.8	0.663	72.1	0.904	0.722	65
Leningrad Region	5,687	0.674	62.9	0.632	57.6	0.855	0.720	66
Republic of Ingushetia	2,034	0.503	74.0	0.817	52.3	0.838	0.719	67
Tver Region	4,352	0.630	62.8	0.630	70.1	0.897	0.719	68
Mari-El Republic	2,989	0.567	65.0	0.666	75.5	0.915	0.716	69
Kurgan Region	3,359	0.587	64.8	0.664	69.8	0.896	0.715	70
Republic of Buryatia	3,687	0.602	63.2	0.636	71.9	0.903	0.714	71
Amur Region	3,890	0.611	63.1	0.635	67.2	0.887	0.711	72
Pskov Region	4,000	0.616	61.9	0.615	71.1	0.900	0.710	73
Altai Republic	3,184	0.578	63.2	0.637	75.3	0.914	0.710	74
Chukotka Autonomous District	3,455	0.591	66.9	0.698	52.0	0.837	0.709	75
Ivanovo Region	2,828	0.558	62.7	0.628	75.4	0.915	0.700	76
Chita Region	3,388	0.588	62.4	0.624	65.3	0.881	0.698	77
Jewish Autonomous Region	2,942	0.564	62.5	0.626	71.1	0.900	0.697	78
Tyva Republic	1,795	0.482	56.1	0.519	70.6	0.899	0.633	79

Figure 6.3. Constituent Members of the Russian Federation with the Highest and Lowest Per Capita GRP (in 2000; in PPP US\$)



that per capita GRP of the principal oil and gas-extracting autonomous districts (the Khanty-Mansian and the Yamalo-Nenets Autonomous Districts, as well as the Nenets Autonomous District, in which oil output is rapidly increasing) is excessive and unsuited for assessing human development. For the purposes of comparison, one could use the level of human development of other autonomous districts, whose HDI is, on the whole, representative. Map 2 in Addendum B shows the HDI of different regions, including autonomous districts.

Use of the HDI is currently increasing worldwide. The index serves for international comparisons and as an aid to individual countries in decision making, planning, etc. (cf. Box, p. 83).

The above budgetary analyses and comparisons allow a number of conclusions:

- regional human development is mostly determined by objective factors and conditions rather than the social policy of the State;
- in the last two years, fiscal policy has been increasingly centralised and redistributive, but the price paid for this equalisation is growing;
- centralisation imposes limits on strong regions and municipalities and makes them less autonomous in implementing social policy while encouraging a culture of reliance on the State in “weak” regions;
- strengthening of federal government has made it possible to monitor use of state funds in regions, particularly for social needs, which is particularly important as regards regions that receive federal aid;
- while the State has gradually improved its social policy relating to the “standard” problems of a transition economy, it has proved unready to face the new challenges of a global society, including the increasing incidence of AIDS and drug

addiction, which (contrary to the standard problems) arise in large, well-developed centres and spread to the country's periphery;

— the biggest problems for social policy are at the municipal level: rapid human development and the emergence of civil society in Russia are impossible without municipal reform, distribution of responsibilities and relevant resources between different levels of government, and a properly implemented policy of administrative decentralisation.

The Human Development Index is only one of many different ways of measuring social development. The UN has developed a new system of indicators called the UN Millennium Development Goals (cf. the Box “UN Millennium Development Goals” in Chapter 1) for counteracting the most serious social problems and assessing the effectiveness of state policy in this regard. Although it needs adjustment to make it applicable to Russian regions, this system of indicators is helpful in identifying the most urgent regional problems and finding ways to overcome them.

¹ Bremya gosudarstva i ekonomicheskaya politika: liberal'naya alternativa. Ekspertny Institut Publishers, Moscow, 2002, pp. 29–30 (in Russian).

² Strategiya dlya Rossii: novoe osvoenie Sibiri i Dal'nego Vostoka. Vol. 1. SVOP Publishers, Moscow, 2001, p.53 (in Russian).

³ A.M. Lavrov and V.A. Klimanov estimate that inefficient regional government expenditures can be reduced by 10–12%. See Bremya gosudarstva i ekonomicheskaya politika..., p.24.

⁴ OECD Economic Surveys 2001–2002. The Russian Federation.

⁵ Social spending includes expenditures on education, health, culture, social policy and on housing subsidies. The adjustment for the cost of living was calculated using the cost of a fixed set of consumer goods and services that were selected by the State Committee on Statistics for inter-regional comparisons of consumer purchasing power.

Application of the Human Development Index – International Experience

While the Human Development Report as a whole plays an important role in advocating for ideas of human development and highlighting critical concerns specific to the country context, the Human Development Index (HDI) can be a powerful tool with systematic impact through its application in development planning processes. The spatial representation and analysis of indicators of poverty, often called poverty mapping, is an increasingly important instrument for addressing social, economic and environmental problems with limited budgets. No longer the sole domain of economists and social scientists, poverty maps are now being used widely by policymakers and by civil society.

The HDI provides data that can be mapped and utilised in a similar fashion, providing a more holistic picture of human well-being to inform decision making. Measuring human development across a number of parameters, including physical and political geography, gender, urban/rural and ethnic grouping, has helped governments in many countries to target development programmes better and even to adjust fiscal expenditures. One of the best examples of HDI application is in Brazil, where a general process of decentralisation in a large country with significant regional variation increased the need for highly disaggregated data at all levels.

Since 1997, UNDP Brazil, in conjunction with the Applied Economic Research Institute (IPEA) of the Ministry of Planning and the Joao Pinheiro Foundation (MG), has produced an annual “Atlas of Human Development in Brazil”. This series of national and sub-national publications provide detailed disaggregated data for all 5,000 Brazilian municipalities and has led to the HDI becoming an accepted tool for resource allocation by the government.

National Level

The Atlas provides data for central government policy-making, such as the “Dawn Program”, which distributed approximately US\$4 billion to support poverty eradication initiatives during the three-year period from 1998–2001, including allocation of resources to all municipalities in Brazil.

More recently, and again thanks to the influence of the Atlas, the central government has made the use of the HDI mandatory as a basis for focusing resources, stating in its budgetary law, “when allocating funds for social programmes, priority will be given to areas with lower HDI values”.

State Level

The first report, for the state of Minas Gerais, disaggregated the HDI for all municipalities in the state. Based on these findings, the state government introduced the “Robin Hood Law” to ensure that more tax revenues are allocated to municipalities that perform poorly against a set of social and environmental indicators, including the HDI rankings. Through this process, approximately US\$200 million a year in tax revenues were redistributed to poor municipalities.

Another example of the use of the HDI at the state level is in the state of Sao Paulo. In the framework of the “Social Responsibility Law,” a new Sao Paulo Social Responsibility Index is used to reward the best performing counties. All municipalities and public service providers (sanitation, energy, telecom) are formally required to provide data, and non-compliance is penalised. Further, at the regional level, the HDI is used to select counties for medical supply distribution.

County Level

Under the “Alvorada Anti-Poverty Program,” the HDI is used to identify those counties most in need. Over 2,300 counties (approximate population of 38.3 million) were selected to receive US\$6.5 billion for health, sanitation, education and income generation projects to combat poverty.

In summary, the Atlas and HDI mapping has had widespread impact in Brazil. Scarce resources are now better targeted to those areas that are in greatest need. And an increase in transparency and accountability in decision-making has generated greater public support for the decentralisation process.

S. Sharp, M.A. (Economics), UNDP Assistant Resident Representative in the Russian Federation

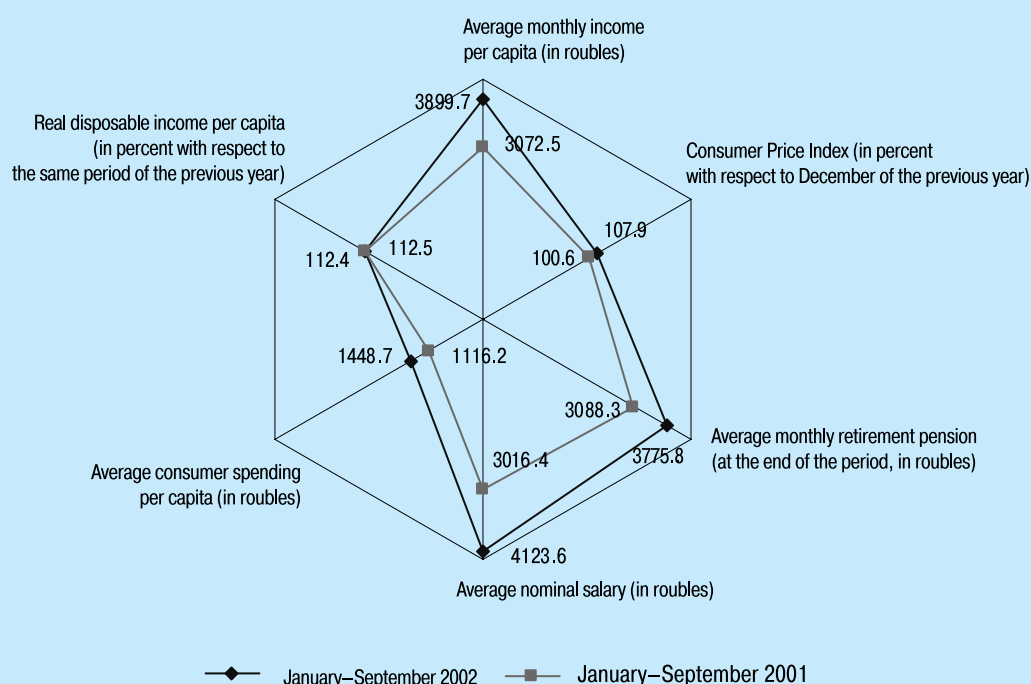
Human Development in the Samara Region

The main targets of socio-economic policy of the Samara regional government are real and sustainable growth of the standard and quality of living in the region, reduction of poverty (allowing individuals to achieve a high level of consumption through their personal incomes), and making essential social services accessible to everyone on the basis of minimal social standards. A strategy of economic and social development has

been drafted in the region to attain these goals. Major attention to social issues in Samara Region was recognised by the awarding to Samara of first prize in the category "Best Russian Region" at the third national contest for Russian social technology organisations.

Key standard of living indicators for Samara Region are shown in Figure 6.5.

Figure 6.4. Changes in Key Indicators of the Standard of Living in Samara Region in 2001 and 2002
(January—September)



Standard of living indicators for Samara Region remain among the highest in the Volga Federal District and in Russia as a whole. In January–September 2002 Samara Region ranked first in the Volga Federal District measured by average monthly cash income, consumer expenditures per capita, and the average monthly salary per employed individual.

Investment in human development is a priority target of regional social policy. Over the last 10 years, the share of expenditures on education, culture, health and the social sphere was over 40% of total expenditures of the consolidated regional budget. In January–September 2002, about 12.8 billion roubles were invested in the social sector (including expenditures on capital construction), representing 42.2% of total resources of the consolidated regional budget (the figure for the corresponding period of 2001 was 39.9%). 18.1% of this amount was spent on education, 10.7% on health and physical education, and 11.3% on social policy measures.

Seventeen comprehensive target programs and sets of social and cultural measures were implemented at regional budget expense for furthering human development. Their total cost was 658.5 million roubles, which represents a spending increase of 16.5% from 2001. The target programs address such problems as prevention of HIV infection, treatment and rehabilitation of drug addicts, countering crime, medical, social and professional reha-

bilitation of the disabled and the creation of a living environment suited to their needs, and improvements at poorly equipped rural schools.

However, human development in Samara, as elsewhere in Russia, is hindered by rapid income stratification of society. In 2002, the ratio of incomes of the wealthiest 10% to the poorest 10% of people was 19/1.

The task of making the minimum wage approach the cost of living has been addressed by regional tripartite agreements adopted since 1997 between the regional government, the federation of labour unions and the employers' union. In 2002 wage disparities between different sectors diminished: the average monthly salary differential between industry and agriculture was 3.8 (as opposed to 4 in 2001) and 4.9 between the oil-extraction industry and light industry (as opposed to 6 in 2001). Those employed in cultural and arts organisations benefited from 25% salary supplements and 150 regional stipends, financed from the regional budget. The social and labour situation in industry, agriculture (collective and individual farms) and the social sphere (health and education) were subject to continuous monitoring in 2002 in order to keep track of salary trends and assist administrative decision-making.

More than 450,000 people receive different types of assistance in Samara Region and 277 million roubles from the regional

budget were used to implement social assistance measures in 2002. At present, 90% of resources allocated from the regional budget for implementing these measures are distributed through a system of targeted social assistance. Retirement pension premiums are given to individuals who have performed outstanding services to the state or society or whose contributions or professional merits have fostered regional development.

A system of allowances is being introduced (to replace the former system of benefits and a single social allowance) and the Region has developed and implemented a "social passport" for regional residents. The number of people with incomes below the subsistence level has begun to fall: in the period January—December 2002, the share of such people was 30.5% of the total population, down from 35.8% during the first quarter of the same year.

The Samara regional government is developing partnership ties with municipalities, business circles and non-government organisations on the basis of agreements and comprehensive joint targeted programs. The regional targeted program "Development of Village Culture", which will be implemented in 2003—2005, is an example of such co-operation. Municipalities will co-finance about 40% of program costs.

One priority of the regional government priorities is to co-operate with integrated business groups, which are active in the region, in order to keep and create jobs, and industrial and technological potential, as well as developing fiscal revenues and the social sphere. One form of partnership is joint implementation of programs for development of the territories where such groups operate and where their workers live. For example, the oil company Yukos has supported creation of the Samara Regional Centre of the Internet Education Federation, which trains school teachers in the use of modern internet technologies. There is also a project to launch "Yukos classes" which would provide professional education for students in the upper classes of high-schools in areas where Yukos has operations. Another pilot project is entitled "Creation of Model Public Libraries in Villages."

Many technical assistance projects are being implemented in Samara Region as part of international programs. Over the last five years, more than 40 EU TACIS projects have been implemented. They include, in the social protection field, such projects as "Promoting the Development of Healthcare Services," "Developing a System for Providing Social Assistance to Vulnerable Sections of Society," and "DELFI: The Interaction of Labour Markets and Education". Since 1993, the Samara regional government has co-operated with the UK's Office for International Development, which is currently involved in work with the disabled, counteracting the spread of tuberculosis and HIV, and regulation of social conflicts. The joint project "Developing a System for the Regulation of Social Disputes", funded by the UK Office for International Development aims to create a regional system for out-of-court regulation of social disputes. The Samara regional government has also worked with the British Executive Service Overseas (BESO) to create a hospice with 20 beds in the Kinel-Cherkassk District of Samara Region in 2001.

An important factor in effective development of civil society in the region has been co-operation with non-profit organisations. This has included involvement of the "third sector" in regional fairs for social and cultural projects. The aim is to bring together creative, logistic, technical and financial resources and to promote dialogue and partnership between state structures, business and civil institutions. In 2000—2002, 29 social and cultural projects selected at Volga Federal District Fairs were implemented in Samara Region. They used 7.46 million roubles from the grant funds of federal district fairs, and more than 3 million roubles of co-financing were assigned by Samara regional government at the order of the regional governor. At the third Volga Federal District Fair, "Togliatti-2002", Samara Region received first prize (out of the 15 regions in the Volga Federal District) for the largest number of regional organisations selected in the contest. In 2003, another 16 projects for resolution of concrete social problems of the region will receive financing of 7.88 million roubles.

State Support for Municipal Government Reform

Improvement of the basic organisation and functioning of municipalities and definition of their role and place in the structure of government are priority tasks in building of the new Russian State. Municipal government is closest to people and, in the final analysis, assures stability and democracy of the entire system of government. Poor functioning of municipal government has a negative effect throughout society.

Study of the emergence of municipal government in Russia over the past decade shows that the fundamental right of citizens to resolve local problems themselves has not been implemented on a national scale. The current model of municipal government, based on the federal law "On the general principles of the organisation of municipal government in the Russian Federation" (1995) gives much room for manoeuvre in the forms and methods of organisation of municipal government, but has proved incapable of assuring financial independence of municipal government in the exercise of its functions and has not provided a framework for development of relations between different budgetary levels. Without this, the constitutional independence of municipal government is impossible, and the entire system of government suffers as a result.

Practical application of the federal law has brought to light a number of problems, which include poorly defined powers of municipalities, vague territorial structure of municipal government, inadequacy of resources to match responsibilities, and lack of a concrete framework for interaction between municipalities and other state bodies.

Russia therefore needs an in-depth reform of the municipal government system, and such reform can only be really effective if combined with reform of the entire system of government in the country. The first stage of this reform was the recognition in 2001—2002 that municipal government is an integral part of the system of government and affirmation of the principle of subsidiary responsibility of each level of government (federal, regional and local) for the execution of powers conferred on it by the Russian Constitution and federal law.

The purpose of improving municipal government is to make resolution of local issues in the competence of municipalities more efficient. The key tasks are to reform the system of municipal government, to make the powers of municipalities of each type correspond to their role and place in the system of government and the national economy, to optimise territorial boundaries of municipalities, to improve the municipal government structure, to ensure that

financial and material resources at the disposal of municipalities correspond to the functions they exercise, and to make management of municipal property more efficient.

In accordance with the "Conception of the Division of Powers between the Federal Government, the Governments of the Constituent Members of the Russian Federation and Municipal Government", proposals were drafted for amending the federal laws "On the general principles of organisation of representative (legislative) and executive government bodies of constituent members of the Russian Federation" and "On the general principles of organisation of municipal government in the Russian Federation." The volume of necessary amendments and addenda to the existing federal law "On the general principles of the organisation of municipal government in the Russian Federation" proved to be so great that a new version of the law will need to be adopted. The goal of the different proposals is to remove hindrances to the effective functioning of the system of municipal government in Russia, to encourage its development and to bring it into conformity with the Constitution.

The proposed system for organisation and action of municipal government should serve to bring such government closer to the people. The reform will also mean that a municipal level of government will exist everywhere in Russia.

Improvement of local finances and growth of budget revenues at all levels are key aims of municipal government reform, which should stabilise funding of municipalities, secure long-term sources of revenue, increase motivation of municipal government bodies to develop their own revenue base, expand participation of ordinary people in municipal government, and enhance responsibility of elected officials for their decisions.

Drafting of the new version of the federal law "On the general principles of organisation of municipal government in the Russian Federation", which was finally submitted to the Duma by the Russian President at the end of 2002 drew a lot of public attention. Once the law is adopted, its implementation will also require the active participation of Russian citizens, non-government organisations and state bodies.

S.N. Miroshnikov, Ph.D. (Physics and Mathematics),
Senior Lecturer, Deputy Chief of the Local Governance
Department at the Ministry of Economic
Development and Trade

Chapter 7

Modernisation of the State Apparatus

Democratisation of the State Apparatus

By the end of the 1990s, Russian society was almost unanimous about the need for strong government.¹ This represented a major reversal of the sentiments that had prevailed during the preceding three decades. From the 1970s to the 1990s, the economy and other spheres of society were liberated from party and state control, at first gradually and surreptitiously, and then sharply and radically. The decline and fall of the Soviet regime allowed the emergence of new institutions, but the spontaneous development of market mechanisms largely outpaced the formation of a democratic law-based state. The imbalance between freedom and the rule of law, entrepreneurial initiative and stimuli for creating public benefits, increasing inequality and social policy designed to integrate society became a serious hindrance to human development and economic growth.

Weakening of the State is typical of revolutionary periods. The economic aspect of this is not so much a shrinkage of the public sector, i.e., of resources belonging to the State (although this may well happen, too), as growing inability of the State to exert a sustainable influence on this sector and on economic and social processes as a whole. Post-Soviet Russia witnessed the emergence of a “crumbly” public sector. It often covered the costs incurred by the private sector; it did not have the means to fulfil all of its responsibilities; and it was subject to uncoordinated and contradictory administration, which focused on the interests of its own management and failed to register impulses emanating from broad sections of the population.²

Formal reduction of state activities (privatisation, deregulation, cut-backs in state expenditures) and their formal growth (re-nationalisation, increased regulation, aggrandised budget) are both unable to protect against a “crumbly” public sector. The important thing is to determine who

should act in the name of the State and how they should act. Naturally, the issue is not personal qualities of leaders and administrators but the representation and realisation of interests and expectations in the framework of the political system.

Up to the end of the twentieth century, a true separation of powers did not exist in Russia. The state leader and his closest associates determined the most important legislative, executive, and even judicial decisions. The leader exercised direct control over the strictly hierarchical state apparatus (in fact or in popular perception). The law was a product and instrument of this appointed hierarchy.

Some beginnings of a separation of powers emerged on the local level in the second half of the 19th century and developed to a certain extent after 1905. These included elements of electoral, legislative and independent judicial institutions. However, these elements did not take root and were easily destroyed during the Soviet period. Separation of powers only began to emerge anew during the last decade.

Nevertheless, the Congress of People's Deputies of the USSR and all Russia's various parliaments (including the pre-Revolutionary State Dumas) have primarily exercised the role of interlocutors or more or less influential opponents of the “real power”, embodied by the leader of the State and his government. This has nothing in common with a full-fledged “classical” separation of powers, in which the executive is just an instrument for implementing the decisions of legislative power. Of course, the interaction between politicians and administrators everywhere in the world is much more complex in practice.³

The situation in Russia is less due to ambiguity concerning separation of powers in the Constitution (which does not put strict limits on presidential authority) than to factual separation of powers as it has evolved in practice. This evolution has been inevitably marked by a cultural stereotype that identifies power with the

The imbalance between freedom and the rule of law, entrepreneurial initiative and stimuli for creating public benefits, increasing inequality and social policy designed to integrate society became a serious hindrance to human development and economic growth

state apparatus. Recent revolutionary reform of the legal bases of the state has provided the preconditions and incentives for emergence of a new political culture and method of governance, but such processes cannot be rapid (cf. Box 7.1).

Such a cultural and political context has limited the effectiveness of constitutional reforms. The real role played by the executive branch in public life does not correspond to its legal status. The administrative hierarchy is personified as “those in charge”. The judicial system is taken to be a constituent part of this hierarchy, and deputies (members of legislatures) are not expected to exercise power but only to “petition” for ordinary people. It is no coincidence that voters prefer oppositional but not overly influential legislatures, while the term “partiya vlasti” (“the party of power”) does not refer to whichever party has enjoyed electoral success, but the party, which is unconditionally backed by the government.

All of this is not simply the result of the backwardness of voters. Mere change of the legal rules cannot give an overnight change of conceptual and behavioural stereotypes, particularly in view of the continuity of executive functions and personnel. Public interests in Russia, including those of the new economic elite, have traditionally been lobbied through administrative channels. The process of presenting various interests and finding a balance between them has been concentrated in these “corridors of power” since before the

Soviet period. Constant repetition of this traditional form of behaviour consolidated the administrative apparatus as the principal embodiment of the State. This has left the legislative branch out in the cold, since, in proper development of the separation of powers, the legislature should fashion a role as the representative of public interests and not only a legislative role.

A “model” relationship between the legislative and executive branches can only exist if interests are well structured in the components of a civil society, adequately articulated by political parties, and sufficiently understandable and stable to be represented through general elections, held every few years. If some of these conditions are not met, there is bound to be a “usurpation” (willing or unwilling, minimum or maximum, legal or illegal) of the prerogatives of the legislative branch by the executive branch, or, more generally, by the state apparatus. Hence a power distribution, which does not correspond to the ideal model (cf. Box 7.2).

The Russian State has traditionally been founded on the state apparatus. Given that real separation of powers has only started to appear in the last decade, the results for this short period of time are very impressive. What is striking is not that political parties and parliament are less powerful than the government, but that their influence is already to some extent comparable with that of the government. However, reforms to date have been accompanied by a general crisis in the exercise of power as old structures lose their capacities and new structures come into conflict with each other. As we said above, society is now calling for a stronger State.

What does not exist cannot be strengthened. Therefore, the first steps should be consolidation of the state apparatus and introduction of more efficient methods of administration. This is the most frequent interpretation of the recently popular idea of “consolidating vertical power”. Increase in the social status of Russian civil servants is bound to be a part of this, although it remains to be seen whether this process will take place in an orderly and transparent fashion and what the new status of civil servants will be.

Since the State has traditionally been almost synonymous with the apparatus of

BOX 7.1

The results of a comparative study show that the political sub-culture of more or less detached “observers” is typical for Russia: 56% of people come into that category, compared with 1—5% in Western countries. There is a distinct lack of “civil society” sub-culture in Russia: this category takes just 3% Russians, compared with 34% of people in the US, 21% in the UK and 9% in Mexico. However, Russian society is already sufficiently evolved to have left behind archaic “parish” or “subordinate” political subcultures, which claim only 14% of the population compared with 7% in the USA, 5% in the UK and 17% in Mexico (percentages from public opinion survey results, cited in V. Rukavishnikov, L. Halman and P. Ester, *Political Cultures and Social Change*. Moscow, 1998, p. 194 (in Russian)). As a value judgement, “support of democracy receives only three-quarters or even half as many adherents in Russia as in Latin American countries...” (A.Y. Melville, *Democratic Transits*. MONF Publishers, Moscow, 1999, p.86 (in Russian)). In Russia, “public opinion always personalises power and confuses its attitude to state institutions with its judgements about specific politicians. In this way, government is virtually identified with those in power.”

Source: Y. Levada, *From Opinions to Understanding: Sociological Essays 1993—2000*. VTsIOM Publishers, Moscow, 2000, p.324 (in Russian)

civil servants, will the emergence of a stronger State weaken the system of institutional checks and balances that has arisen in the process of democratisation? Russia's cultural and historical legacy will certainly continue to pose a threat to democratic reforms for a long time to come. Nevertheless, an optimistic answer to the above question is still possible. Indeed, Russia has a chance to create a mature, efficient and stable democratic state relatively quickly if

- the State apparatus is radically modernised;
- the modernisation keeps pace with the consolidation of power; and
- the strategy of modernisation is sufficiently in tune with the interests of the state apparatus itself.

It might seem doubtful that these conditions, particularly the last one, could be met. This would be true if the state apparatus was unified and determined to maintain the status quo. But the predominant role of the state apparatus in Russia actually testifies less to its real power and cohesiveness than to the power of tradition and the relative weakness of civil society and public politics. Most public politicians are not currently inclined to fight for a genuine redistribution of power or to take upon themselves the work that is carried out by the state apparatus (e.g., to propose alternative and fully worked-out alternatives to the decisions of the state apparatus), and the apparatus, naturally, is not making a special effort to share its powers with anyone else. However, this does not mean that it finds its responsibilities easy to bear or feels comfortable with them.

Civil Servants: Numbers, Structure and Interests

Contrary to the prevailing view, the number of civil servants in Russia is relatively low. The percentage share of civil servants in the total number of employees is 1.8%, which is approximately half of the figure in Japan, a third of that in Germany, a quarter of that in the USA and UK, etc.⁴ Altogether there are 1.1 million employees in state and municipal administrations, of which only 37,000 work at the federal level

BOX 7.2

Assessment of power of main state institutions on a five-point scale (based on a representative nation-wide sampling survey by the All-Russian Centre for Information and Public Opinion, carried out in September 2002):

- President: 3.89
- Government: 3.27
- Governors: 3.26
- Judicial system: 2.90
- Federal Council: 2.85
- State Legislature: 2.70
- Political parties: 2.46

Obviously, these figures give a "subjective" assessment of the influence of these institutions of government. However, public opinion does more than reflect "objective" influence of institutions: to a large extent public opinion determines that influence, since people listen to and obey the individuals and institutions, which they perceive as powerful. The influence of those institutions is increased and not simply exercised by such interaction.

(including 29,000 staff members of the central apparatus of federal executive bodies of power). The latter, actually quite small, group is what people usually suppose to be an excessive bureaucracy. The majority of civil servants, including federal ones, are scattered all over the country and perform ordinary and quite routine tasks. They work in tax, treasury, statistical and other bodies. The total number of employees in federal organs, including those working away from the centre, is 380,000.

Between 1994 and 2001, the number of civil servants increased by 135,000 or 13.6%. The overwhelming majority of workers in state and municipal administrations are employed in executive bodies of government (980,000 individuals). However, growth in the number of civil servants in legislative, judicial and other state bodies has been considerably faster than in the executive branch. As a result, the percentage share of employees in the executive branch among all civil servants decreased from 89% to 86% from 1994 to 2001.⁵

The majority of executive administration employees work in regional and local government bodies, and their number is steadily growing. Between 1994 and 2001, the number of civil servants at the sub-federal level of executive government increased by 18%, while their share in the total body of civil servants in executive government rose from 57% to 62%. The number of workers at federal government level grew rapidly in the mid-1990s and then began to decrease in absolute terms,

The bureaucracy is not a cohesive corporation, and this point determines the intrinsic dynamics of its modernisation

returning almost to the level of 1994 by 2001.

The bureaucracy is not a cohesive corporation, and this point determines the intrinsic dynamics of its modernisation. Many state and municipal government personnel, particularly in federal executive government, have been civil servants since Soviet times. However, this is mostly true of “Category C personnel,” who are not politically appointed. The make-up of Category A personnel (ministers, chiefs of staff, etc.) and Category B personnel (assistants and advisers of chief administrators, etc.), has changed more.

Nearly half of Category B civil servants in executive bodies of federal government, and more than 60% of top Category B personnel, began to work in the civil service before the Perestroika period.⁶ Adding all those who entered the civil service during Perestroika, the preponderance of former Soviet officials among top civil servants at all levels of state and municipal government is apparent.

Naturally, a certain amount of administrative experience is a prerequisite for occupying high civil service positions. However, this experience does not have to be exclusively confined to the state apparatus and, before the 1990s, the Communist Party and state apparatus was constantly replenished with individuals who had previously worked in other sectors (often in leadership positions). In the post-Soviet period, the state apparatus ceased to appeal to young managers, since the private sector offered higher salaries (cf. Box 7.3). In addition, frequent restructuring of the state apparatus encouraged its employees to leave, and the younger and more dynamic among them were more successful in finding jobs outside the civil service.

As salaries and conditions of state and municipal service became less attractive, an age gap developed among personnel. In

the central apparatus of executive bodies of federal government individuals aged 40-49 outnumber those aged 30-39 by almost two times; in administrations of constituent members of the Russian Federation, this preponderance is 1.6–1.7 times. The share of executive-branch civil servants aged 40 or more is 78% in the central apparatus, 48% in regional departments of federal government, 62% in regional governments, and 61% in municipal governments.

This has both advantages and disadvantages. On the plus side, older employees can offer experience and high professionalism, but they tend to be conservative in their thinking and action, and may tend to reduce new realities to the situation of the 1970–1980s. Negative aspects are least obvious in duties, which executive power carries out alone (inspections, sanctions, administrative discretion), but become manifest when administrators need to engage in a dialogue with civil society, interact with business or make analytical forecasts that have to take into account the real balance of new independent forces and interests. Many traditionally minded civil servants try to resolve problems by increasing state control over social life and regard direct administration of social life as a way of consolidating the State.

There is another, less obvious aspect. Since, In the USSR, the state and Communist Party apparatus was not separated in practice from the stratum of company managers, a bureaucratic caste did not exist. Management was, of course, quite bureaucratic on the whole, but the bureaucracy was not as sluggish and closed-off in Russia as in countries, which implemented the continental European bureaucratic model to the full. So Russian tradition does not point to consolidation of the State through creation of a closed bureaucracy that would be isolated from society and united in the protection of its own narrow interests. Any such tendency is a completely new threat. Where, then, does this threat come from?

The bulk of civil servants in Russia today consists of two quite similar yet distinct groups. The first one consists of elderly administrators who have not freed themselves from Soviet inertia in its negative and positive aspects. The “isolationism” which is found among this group is more due to

BOX 7.3

Deterioration of the competitive position of state service on the labour market can be easily illustrated by a comparison of the average salaries in state and municipal administration with those in the financial and banking sector (which demand similar professional qualifications): whereas salaries in the latter sector were only 13% greater than in the former in 1990, they were already twice as high by 2000.

rejection of the new business culture than to some corporate ethic. The second group is made up of a later generation of civil servants, which emerged when the state apparatus was competing for personnel with the emerging private sector, which offered much better opportunities for talented young civil servants. So this group is characterised by fairly low competitiveness and adaptability. This is the group that has a corporate spirit. Its members see a closed system as offering stability, protection against competition and transformation of civil service into a safe haven. Naturally, the latter point is also attractive to the older group of civil servants, whose principal goal is to work on until retirement. Overall then, the corporate spirit is a defensive attitude and not an aggressive one.

The desire for stability, isolation, and protection against competition has become apparent in many interviews and surveys.⁷ The modest ambitions of such civil servants are to avoid dismissal or demotion during restructuring of the apparatus; to make length of service into the main factor deciding promotions and salaries; to require a special training for the civil service; to create a special medical system for civil servants; etc.

However, this approach is not acceptable for another group of civil servants, admittedly small and relatively uninfluential as yet. These people came from the world of politics, science and business and filled a significant number of top positions in the state apparatus during the last decade. These officials may represent broad public interests (if there were a real separation of powers in Russia, many of these young and ambitious administrators would have preferred to go into politics instead). Or they may represent particular interests — a situation, which sometimes (though not always) leads to corruption. At any rate, these civil servants are the least interested in stability and protection of the corporate rights of the civil service.

So the state apparatus is disunited, and none of the influential groups are satisfied with the way things stand at present. The longing for stability is not a desire to preserve the situation of the 1990s but, on the contrary, to overcome it. In other words, what we see is not the corporate spirit of an established caste but the hope (in some

parts of the civil service) that such a caste will appear. Consolidation into a caste is impossible without the participation of the most able top managers, but they are not an intrinsic part of the would-be civil service corporation (at least for the time being). How will the situation develop under such circumstances?

There is no reason to expect concerted opposition to reform of the state apparatus. The goals and actual development of reforms will be influenced by the highly diverse interests that are present in the apparatus, and since there is no clearly dominant interest, inconsistency and sensitivity to weak impulses will make it hard to maintain a clear direction. So design and implementation of the reforms will depend on the attitudes of its individual participants, and public politicians and civil society can exercise a real influence.

The most promising direction for civil service reform is that supported by top civil servants and aimed at improving the “technical” or “instrumental” efficiency of the state apparatus. This means ensuring the adequate, precise and timely performance of instructions and procedures assigned by superiors to their subordinates, rational use of resources, restoration of manageability and discipline, etc. Increase of technical efficiency is also inseparable from anti-corruption measures.

Corruption is mostly confined to the lowest and middle levels of the bureaucracy and usually involves violation of internal regulations. Of course, corruption is ultimately a breach of law, but the law usually defines only a general regulatory framework, whose specifics and adaptation to actual situations depends on the decision of some official in the administration. So corruption is the purchase of influence over an official, with negative effect both for the public interest and for prerogatives of the upper levels of the apparatus itself.

The consolidation, which is needed for achieving technical and functional efficiency of the state apparatus, is not tantamount to the defence of corporate interests (i.e., the interests of the “average” civil servant). The point is to overcome erosion of the civil service hierarchy, which has made citizens and business dependent on the diverging wills and interests of officials at various levels. In the same way, strengthen-

... reform of the state apparatus, to ensure its technical efficiency, is a key precondition for broader positive changes

ing of vertical power does not only refer to relations between federal, regional and local government but also to the functioning of the state apparatus at every level.

Such strengthening is a necessary but not sufficient condition for increasing the functional efficiency of government, which, in turn, is a necessary but not sufficient condition for the State as a whole to function properly.⁸ The latter goal also depends on relations between the branches of government, on the one hand, and between the government and various social forces, on the other. Such relations cannot be altered quickly by mere political will. Nevertheless, reform of the state apparatus, to ensure its technical efficiency, is a key precondition for broader positive changes.

Components of Reform

From Fragmentation to Unity

By the end of the 1990s, the state apparatus had disintegrated into isolated local “teams.”⁹ The need to overcome this state of affairs was one of the main points of the first annual address by President Vladimir Putin to the Russian Federal Assembly. Putin indicated that federal executive bodies would play a leading role in solving the problem (cf. Box 7.4).

Changes were made to federative relations in order to consolidate vertical power. Legislation of constituent members of the Russian Federation was brought into accordance with federal legislation, entitlement for membership of the Council of the Federation (the upper house of parliament) was changed, and a new State Council of the Russian Federation was created. The main innovation in the state

apparatus itself was designation of plenipotentiary representatives of the Russian President in seven federal districts, into which the country was divided, and a number of important new measures in the bills “On introducing addenda and amendments to the federal law ‘On the general principles of the organisation of legislative (representative) and executive bodies of government in the constituent members of the Russian Federation,’” “On the general principles of the organisation of municipal government in the Russian Federation,” “On the public service system in the Russian Federation,” and “On the civil service system in the Russian Federation.”

The designation of plenipotentiary representatives of the President evoked a broad and contradictory public response, but their real place in the system of government is not always well understood. They belong to the Administration of the President of the Russian Federation, whose function is to ensure implementation of the decisions of the President of the Russian Federation and his consultative bodies. This apparently technical role acquires content from the constitutional powers of the President of the Russian Federation, and the President’s powers reflect the situation in Russia, where the separation of powers (both horizontal and vertical) is only just coming into being, and the balance between them and concrete mechanisms of interaction between them are only being developed.

The Constitution of the Russian Federation stipulates that “state power in the Russian Federation is exercised on the basis of the separation of powers into legislative, executive and judicial branches,” which function independently (Article 10). However, the Constitution also stipulates that the President of the Russian Federation, who does not belong to any of the branches of government, determines the general directions of domestic and foreign policy (Article 80). The broad powers of the President derive from this article.¹⁰ On the one hand, the powers of the President in the legislative domain are comparable to those of the chambers of the Federal Assembly of the Russian Federation, and, on the other hand, the President has all the essential attributes of the head of the executive branch (including

BOX 7.4

“We have woken up to the fact that a hesitating government and a weak state make economic and other reforms useless... We have created only “islands” of power but have failed to connect them with reliable bridges... The vacuum of power has resulted in private corporations and clans taking over state functions... The motive force behind our policies should be federal executive bodies of government, which are capable of initiative and responsibility... But the federal government can do nothing if it does not work harmoniously with regional and local government... The task, in essence, is to bring together all the resources of the state in order to implement a unified development strategy for the country.”

Source: Address of the President of the Russian Federation to the Federal Assembly, 8th July 2000

the right to preside at government meetings).¹¹ It should be said that, in the 1990s, unprecedented powers were at times necessary to prevent the disintegration of government (although there were also many cases of abuse of such authority).

Insofar as the tasks that are incumbent upon the President by law have a territorial constituent, they are carried out with the help of the plenipotentiary representatives. Such tasks include approving appointments in the territorial departments of federal executive bodies, endorsing candidates for state honours, resolving problems connected with the operation of law-enforcement agencies, and, above all, exercising control functions. It is no coincidence that federal inspectors are key figures in the offices of the plenipotentiary representatives of the President of the Russian Federation. Lately, the scope of control has increased, and it is carried out more rapidly (particularly monitoring of the process of bringing regional legislation into conformity with federal law).

Inevitably, the integrating role of the President (and consequently his Administration) in the Russian system of government uses mechanisms that reflect the factual imbalance between branches of government as well as between its bureaucratic and political components. Consultations, and the mutual comparison and adjustment of expectations and intentions, have a special importance, because interests are mainly represented and co-ordinated through the state apparatus. People often underestimate the importance of such consultations for relations between departments on a single level and between bureaucratic structures at different levels (federal, regional and local). In the process of the consolidation of power, the need for such comparisons and adjustments, particularly “from below”, has greatly increased.

It is clear in this connection that the plenipotentiary representatives of the President of the Russian Federation have more to do than their official responsibilities would suggest. In addition to engaging in consultations, they also have roles in inter-regional co-operation, financing of development programs, etc. This has an integrative effect, mainly on the structures of the state apparatus itself.

As we have already pointed out, consolidation of the state and municipal apparatus is to a substantial extent part of the wider reform of federative relations in Russia. This point is not only to eliminate legal discrepancies or determine the “relation of forces” between different state bodies. The main task is to overcome two fundamental defects in the “vertical” separation of powers that arose in the 1990s. Firstly, distribution of rights and responsibilities in matters subject to joint jurisdiction of federal, regional and local authorities is vague. Secondly, there is a wide discrepancy between the fiscal capacity of regions and their formal rights and responsibilities with regard to citizens and institutions. These interrelated phenomena have made it possible to conduct populist policies by making decisions without specifying the authority that would implement them.

These phenomena tend to block legal and public exercise of power and to reinforce the power of the administrative apparatus, mainly by encouraging internal “trading” between parts of the apparatus over resources and responsibilities. Therefore reform of federative relations will have a great influence on modernisation of the state apparatus.

The reform bills also include a number of important clarifications concerning relations between executive bodies. The clearer the separation of powers, the greater the need for such regulations. They define, among other things, the participation of regional administrations in drafting of federal bills on matters subject to joint jurisdiction as well as legality and mechanisms for transfer of certain federal powers to regional government. They also define situations, in which federal government can temporarily assume certain regional powers, including creation of a temporary financial administration in a region with a large fiscal debt. Analogous measures governing relations between regional government and municipal (local) government are also envisaged.

Another important development is creation of administrative courts. Such courts are envisaged in Article 118 of the Russian Constitution along with constitutional, civil and criminal courts. The function of administrative courts is to hear cases against wrongful decisions of government,

Plenipotentiary representatives of the President of the Russian Federation, whose function is to ensure implementation of the decisions of the President and its consultative bodies belong to the Administration of the President

Consolidation of the state and municipal apparatus is to a substantial extent part of the wider reform of federative relations

The Reform objectives include a major increase in the efficiency of public servants for development of civil society and consolidation of the State, and creation of an integrated civil service system with due regard to historical, cultural, ethnic and other specific features of the Russian Federation

such measures introduced by a government department or legislation introduced by a constituent members of the Russian Federation, which are claimed to violate the rights of citizens or federal law. Administrative courts have not been set up to date, leaving citizens and institutions less well defended against arbitrary acts of the state apparatus. The existing procedure of appealing to other courts, all the way up to the Constitutional Court, is extremely cumbersome, so the judicial branch has been incapable of resisting arbitrary behaviour by government.

Administrative courts are thus being set up for the first time in Russia. It is important that their geographical jurisdictions (21 in number) do not coincide with the geography of the constituent members of the Russian Federation. That increases optimism that the new courts will be genuinely independent from the regional and local administrative apparatus.

Civil Service Reform

In August 2001, the President of the Russian Federation signed the "Conception of Public Service Reform in the Russian Federation." Its stated objectives include a major increase in the efficiency of public servants for development of civil society and consolidation of the State, and creation of an integrated civil service system with due regard to historical, cultural, ethnic and other specific features of the Russian Federation.

The point of the word "integrated" is that uniform principles should be developed for organisation of civil, military and law-enforcement services at the federal and regional level. Citizens should have equal access to public service careers, requirements for public servants should be standardised, there should be openness, administrative subordination, etc. Installing uniform conditions across the public service is not an easy task. In particular, military service is exclusively federal, while most civil servants work at the level of constituent members of the Russian Federation. And civil service at the regional level is at least as hard to compare with civil service at the municipal level as with military service.

This leads to a number of problems, one example of which is retirement pen-

sions. There is a complex system of retirement pensions for military servicemen, which draws on the resources of the federal budget. Theoretically, it would not be difficult to include federal civil servants in this system. However, inclusion of regional civil servants in this system would require the federal government to finance directly a considerable part of the expenditures of governments of the constituent members of the Russian Federation. Leaving aside the practical aspects of this, the Russian Constitution gives the federal government responsibility only for the federal civil service, while civil servants of constituent members of the Federation are not included in matters subject to joint jurisdiction and therefore fall in the exclusive jurisdiction of the constituent members. On the other hand, full separation of pension arrangements for federal and regional public servants in each region would necessarily be inefficient, because civil servants (unlike military personnel) often move from federal to regional positions and vice-versa.

The best solution from a practical point of view would be to pay retirement pensions to federal, regional and municipal civil servants from a single fund, which would be financed by the corresponding levels of government. But that means that real unification of pension guarantees for civil servants is only achievable by some distancing from the system of pensions for military personnel. The choice is between that and greater integration with the military pension system, entailing loss of pension uniformity between different levels of the civil service and overall economic inefficiency.

This shows that integrity of public service in a democratic federative state cannot be based only on principles of formal unity, good order, and comparability. What is crucial is not a fixed state of the system, but a dynamic, which allow the state apparatus to react flexibly and effectively to particular demands of society. The system of promotions and salaries in public service are another criterion of how well this is being achieved.

Two distinct approaches came to the fore when reform drafting began. According to one of these, a state employee should have a guarantee of being able to serve until

retirement with periodic increases in salary, position, and rank, unless he is guilty of grave misconduct. According to such an approach, the organisation of open contests for vacant positions (including municipal positions, and jobs in state enterprises and agencies) would be an infringement of the rights of civil servants who occupy positions just below the vacancy, and introduction of salary gradation based on the complexity and productivity of jobs would be unfair to those who have longer service records. The other, diametrically opposed, approach is that position and salary should not be a remuneration for length of service, but a recognition of specific competitive achievement.

The documents defining paths for public service reform contain numerous compromise formulae on the mechanisms to be used, but they fortunately allow for experimental development of these mechanisms. Thus, the “Program of Public Service Reform in the Russian Federation (2003–2005)”, which was approved by the Russian President in autumn 2002, includes a number of experiments and pilot projects for organising contests and certification exams for civil servants, remunerating service, assessing its efficiency, introducing detailed service regulations, etc. In other words, it proposes to develop and compare different mechanisms on the basis of their effectiveness instead of making an a priori choice.

Reform of the state administration in Russia is happening at a time when the legal preconditions for division of powers are mainly already in place but actual functioning of the State is proving slow to change. This reflects the centuries-old tradition of the prevalence of executive power and its apparatus over other branches of government and civil society. The future development of the Russian State is largely dependent on the implementation and immediate results of administrative reform. Many different outcomes are possible, from erosion of lawful, democratic norms to establishment of a stable and efficient law-governed state, where the administration plays an instrumental role.

Consolidation and strengthening of the State is impossible without raising of the social status of public servants and greater attention to organisation of their functions. The question is whether this will be accompanied by further isolation of the state apparatus from society, or by their mutual integration and positive interaction with emphasis on the needs of society and a crossover of management practice between state administration and other sectors.

Public service is currently going through a personnel crisis. Its main corps consists to a large extent of elderly former-Soviet officials. Irrespective of their faults

or merits, this group will inevitably disappear in the next 10 years. The nature of the future corps of civil servants remains unclear, particularly since young officials are very diverse in their background, interests and motivation. In view of these factors, reform is particularly urgent, but the state apparatus contains elements, who could put a brake on progressive changes as well as elements, who are capable of speeding them up.

The keynote of reforms at their current stage is ensuring unity of the state apparatus. This goal is stated, for example, in the bills “On public service in the Russian Federation” and “On the civil service system in the Russian Federation” as well as in a series of implemented or proposed measures for vertical separation of powers between bodies of government. There is also emphasis on efficiency improvements. Under present circumstances in Russia, reform aimed at increasing efficiency must involve greater flexibility in organisation and remuneration of work, greater openness in hiring policy, greater transparency and a stronger correlation between changes in the style of work and changes in mechanisms of financing. So the choice in favour of efficiency has essentially forced a choice in favour of managerial, rather than caste organisation of public service.

¹ Social surveys have described it as a generally prevailing “yearning for order.” See, for example, *Obshchestvennoe mnenie*, VTsIOM Publishers, Moscow, 2000, p.68 (in Russian).

² For more details, see L.I. Yakobson, “Spetsifika gosudarstva kak sub’ekta khozyaystvennoy deyatel’nosti” in *Gosudarstvo i otrasli infrastruktury v sovremennoy rynochnoy ekonomike*. Moscow, Nauka Publishers, 2001 (in Russian).

³ See, for example, E. Page and W. Wright, *Bureaucratic Elites in Western European States*. Oxford University Press, 1999.

⁴ The data on the number of public employees (including trends and structure) are taken from V.E. Gimpel’son, *Chislennost’ i sostav rossiyskoy byurokratii: mezhdru sovetskoy nomenklatury i gossluzhboy grazhdanskogo obshchestva*. GU-VShE Publishing House, Moscow, 2002 (in Russian).

⁵ It is worth noting that not all persons employed in the state administration are considered to be public or municipal servants. Those who carry out technical support functions in state bodies do not have this status. However, this has little effect on structural comparisons like the one at hand.

⁶ Without going into the details of the current classification, it should be said that the positions to which we are referring include all those which involve at least a certain degree of independent, non-routine work and that exercise a certain amount of influence (at least occasionally).

⁷ I make use here, in particular, of a study conducted at the Higher School of Economics under the direction of P.M. Kudyukin.

⁸ Thus, corruption in the broad sense of the term is not only the acceptance of bribes (in which top-ranking administrators are usually not involved), but also the intertwining of different business and political and administrative elites and interests. These usually do not violate the law directly (unless an administrator runs a business personally) and, consequently, can be overcome only through radical changes in the formation and functioning of elites.

⁹ For more details, see L. Jakobson, “Administrative Reform in Russia’s Economic Development” in K.T. Liou (ed.), *Administrative Reform and National Economic Development*. Aldershot, Ashgate, 2000.

¹⁰ V.A. Chetvernin, *Konstitutsiya Rossiyskoy Federatsii*. MONF Publishers, Moscow, 1997, pp. 352–353 (in Russian). Experts of constitutional law are mostly unanimous in saying that Russia is neither a presidential republic (as, for example, the USA) nor even a so-called mixed republic (as France).

¹¹ It should be kept in mind that resolutions of the Government of the Russian Federation practically never differ from the position of the person who presides at the meeting at which a resolution is taken. Thus the President of the Russian Federation enjoys the virtual right to make his decisions take the form of decrees or executive resolutions.

The State Apparatus in the Russian Federation: Current Situation, Problems, and Directions of Reform

At the start of 2000 the State and public service in Russia faced a number external, internal and technical problems. Externally, relations between the state apparatus and civil society were marred by lack of transparency, absence of legal and organisational control by civil society over decisions and their implementation, increasing corruption and abusive practices among public servants, and slowness and red tape in the work of the apparatus. The state apparatus had proved unable to manage crises, including recurrent power supply problems, non-payment of salaries in the public sector, and reduction of state regulation in many sectors of the economy, etc. Political, economic and social tension in various regions, due to these failures, had the effect of undermining the prestige of government and alienating society.

The internal problems of the state apparatus were no less serious. Incompetence of the apparatus was hindering development of free enterprise and investments in the economy as the public sector retreated. The habit of administrators to think exclusively in terms of their own department and the absence of public service regulations led to irresponsibility and selective implementation of decisions. Public service discipline slackened, since nothing had replaced the former mechanisms of Communist Party control. An inconsistent hiring policy in the public service was aggravated by outdated systems of selection, evaluation, promotion, training and re-training. No system basing advancement on professional merits had been worked out and effective work incentives were lacking. The state apparatus was failing to use modern technologies in management of state affairs, including information technologies (partly because they were not made available), without which large-scale national projects were impossible. Public administration remained conservative, hierarchical and closed. Finally, there was an obvious discrepancy between the social and legal status of public servants and their responsibilities (in particular, the level of social protection and salaries was unsatisfactory).

There were discrepancies and gaps in the rules governing public service. Existing legislation offered no integrated framework for public service, since the federal law from 1995 "On the foundations of public service in the Russian Federation" applied almost exclusively to the civil service, reflected a temporary state of affairs, and conflicted with other federal laws and acts adopted after 1995.

A system for managing public service at different levels of government (federal and regional) was lacking, and mechanisms for interaction between state and municipal service had not been worked out.

Structure of the apparatus developed according to internal laws, i.e., by aggrandisement and misappropriation of power, and substitution of departmental priorities for those of the State. Confusion in single entities of legislative functions, law-enforcement functions and provision of services to the population made matters worse (these functions should be separated in the coming administrative reform). Personnel numbers in departments and ministry offices grew and the chaotic creation of territorial bodies of executive power became commonplace.

Statistical data on public employees confirm the poor state of the service. There is a long-standing imbalance between the number of employees in government bodies of the constituent members of the Russian Federation, local government bodies, and the central apparatus of federal government bodies and their territorial departments. The total number of personnel in the state apparatus is insufficient by the standards of countries, where state administration is in relatively good shape, and budget spending on the apparatus is also inadequate by such stan-

dards. The Russian public service also has an age problem (it is losing its younger and even middle-aged workers), and a general problem with staff retention. Educational background of state employees tends to be inadequate or in the wrong field. Average salaries are low and differ greatly between various constituent members of the Russian Federation. And there is a gender imbalance among personnel.

Attempts at resolving the problems of public service and conducting systemic reforms of the state apparatus began as far back as in 1992–1993, but no real results were achieved until the autumn of 2000, when an organisational structure was set up on the President's order (Order #2331) to mastermind reform of the administration. This structure was headed by the Commission for Reforming the Public Service in the Russian Federation, which is presided by the Prime Minister of the Russian Federation. In the summer of 2001 a "Conception of Reform of the Public Service System in the Russian Federation" was submitted to the President, who approved it on 15th August 2001 (Order #1496). According to the Conception, the public service should be reformed gradually and systematically on the basis of special programs (adequately financed and resourced) in conjunction with administrative, military and judicial reforms.

Implementation of the Conception began in the autumn of 2001 with priority tasks of drafting and presenting to the State Legislature a bill entitled "On the public service system in the Russian Federation" and preparing a federal presidential medium-term program entitled "Reform of Public Service in the Russian Federation (2003–2005)."

The draft bill was presented to the State Legislature in November 2002 (Bill #265808-3). It defines the Russian system of public service as consisting of three main constituents (federal civil service, military service and law-enforcement service) and two levels (federal state service and state service in the constituent members of the Russian Federation). This bill offers a legal basis for unifying the structure and functioning of the entire public service system, and a unified approach for drafting laws and normative acts on public service at federal and regional levels. The bill defines positions in public service (divided into groups and categories), calls for legal stipulation of qualification requirements for state service, requires work performance assessments as part of certification and qualification examinations, introduces a competitive system for filling vacant positions, makes employment contracts mandatory, and creates a system for movement between different types of federal state service by defining the equivalence of administrative, diplomatic, military and other official grades. The bill also defines a system of management of the public service and, for the first time, makes provisions for its further development through implementation of federal programs for federal public service reform and development and programs in constituent members of the Russian Federation.

Adoption of this bill should radically alter the legislative and organisational bases of public service, creating a new professional multi-level system and helping the state apparatus to serve the needs of society.

The medium-term presidential program, which was developed and approved by Presidential Order #1336 from 19th November 2002, has an experimental and scientific bias, including a system of reform management, and research projects to support drafting of further legislation on public administration. The program calls for redesign of all training and retraining programs for federal public servants at all levels, and a solid resource basis for public service. Experiments and pilot projects will only be implemented on national level if initial limited implementation is

successful. Countries, which modernise their state apparatus in the 1960s and 1970s, followed similar programs.

The high priority given to the Program and the importance placed on it by Vladimir Putin in his annual address to the Federal Assembly suggests that it will move ahead fairly quickly.

A further draft law "On civil service in the Russian Federation" is being prepared for consideration by legislators and should back up the federal law "On the public service system in the Russian Federation."

There is clear movement towards reform of the state apparatus in 2002-2003 and an ever greater number of government bodies, research and educational establishments, and groups of experts are participating in the process. It is unfortunate, though, that the process has received little publicity, and there has been no concerted effort to involve the general public. Also there is a threat that bills on public service reform that are being prepared

for the State Legislature may serve as "pawns" in the 2003—2004 election campaigns. Finally, it would be desirable for public service reform to be carried out in conjunction with other reforms of Russia's state structure.

We have shown why Russia, by force of circumstances, has had to launch a reform of its state apparatus. Russia can and should benefit from the experience of other countries, which have carried out such modernisation. But the scale of the task in Russia is probably unprecedented in the world and it would be fair to say that the country is at the front line of modernisation of the state apparatus in the 21st century.

Prof. A.G. Barabashev, Dr.Sc. (Philosophy),
Deputy Dean of the Public Administration Department
at Moscow State University

Chapter 8

Government and Business: Towards a New Social Contract

The model of a social contract between business and the state that appeared in Russia during the transition period has exhausted its potential and no longer satisfies either of the parties. The essence of this social contract was that the government derived direct and indirect revenues from regulation of business, i.e., regulation became a sort of “public enterprise.” The result was that many businesses withdrew from every kind of public control into the shadow economy.

The “commercial” approach to the regulation of business involves a system of administrative barriers, which companies have to overcome by paying fees. The latter are not even bribes but various kinds of lawful fees for registration papers, certificates, stickers, permits, licenses, expert evaluations, etc. In most cases, the fees are considered not to be taxes but payments for the provision of services. Therefore, the money goes not to the state budget but to numerous state enterprises created by government inspection bodies or to “authorised” private companies that are de facto affiliated with the government. Such fees, by their very nature, should be classified as fiscal charges, since they are payments for state activities, e.g., for issuing authorisation to do business. In other words, a system of “private taxation” has developed in addition to the already existing official fiscal system (cf. Box 8.1).

These fees are added to a tax burden that is already too heavy for many businesses to bear. Finally, confusing and conflicting requirements (fiscal and non-fiscal) create a situation, where fulfilment of one requirement hinders fulfilment of another (the anecdotal case, cited in the media, is that of jewellery stores, which are fined by the fire inspectors if they put gratings on their windows and by the police if they do not). Such absurdities force many businesses, particularly small businesses, to withdraw into the shadow economy.

After 2000, this situation became an obstacle for both business and government.

The illegal status of business stops it growing, attracting investments, obtaining loans, and entering international markets (including stock markets). Uncertainty, instability and a lack of confidence in the future hamper long-term activities, e.g., attraction of private capital for long-term investment projects, which are potentially interesting to business, since the usual profit rate in Russia is higher than elsewhere.

The system of levies on business is also an obstacle for the State, or more precisely for the presidential branch of power, which wants to strengthen vertical power, but faces the problem of medium-level government officials who are practically independent in their actions. It renders traditional government methods of managing the state apparatus ineffective.

One should not underestimate the potential resistance to any change in this status quo from bureaucrats, who fear losing a substantial source of revenues under conditions of very scarce budget financing, which is inadequate to cover even basic departmental costs. Radical change in state regulation of business therefore requires administrative and local government reform. Without it, all deregulatory measures will be ineffective and face strong resistance from the bureaucracy, as such measures will undermine the foundations of the current bureaucratic system.

The policy of deregulating the economy, which was announced in 2000 and which aimed at removing excessive trade barriers, was the first step towards a new

The illegal status of business stops it growing, attracting investments, obtaining loans, and entering international markets (including stock markets)

BOX 8.1

In 2001, Professor V.L. Tambovtsev, Dr.Sc. in Economics, and his group conducted a study of the total direct loss sustained by the Russian economy from administrative barriers. The study estimated the monthly expenditures for overcoming administrative barriers in commerce and industry as being between 18 and 19 milliard roubles. The monthly retail trade turnover was about 188 milliard roubles in 2000. Thus, exactions amounted to more than 10% of the turnover. Consumer expenses resulting from administrative barriers were 500-550 roubles per family per month.

social contract between government and business. The possibility of officially concluding a new social contract will offer itself in 2003 (a parliamentary election year). It remains to be seen whether business can put forward terms and conditions that will be supported by the public and accepted by the government.

Deregulation of the Economy

First Wave of Deregulation Laws

The first three laws on deregulation of the economy were passed in 2001. The law “On protection of the rights of legal entities and individual entrepreneurs during state inspections (supervisions)” came into force immediately after its adoption in August 2001. It was followed by the revised law on licensing (in force since 11th February 2002) and the revised law on the registration of legal entities (in force since 1st July 2002). It is certainly too early to give a final assessment of the effect of these laws on the business climate in Russia. However, it has been clear from the start that three statutory acts on their own will not bring any fundamental changes, and this has been amply borne out by the first attempts at applying them.

For instance, a substantial reduction and simplification of procedures has been achieved in the domain of inspections. This concerns inspection bodies such as the Trade Inspection Office, the Sanitary and Epidemiological Inspection, the Wheat Inspection, the Fire Department, etc. But the major threat to businesses comes from structures authorised to use force, such as the Tax Police, offices of the Ministry of the Interior, the Federal Security Service, the Federal Agency for Government Communication and Information, the Central Customs Committee, etc. The three laws do not apply to these types of institutions. Search and investigation procedures carried out by these institutions have not been revised yet and currently permit practically every kind of interference in a company's work, including blocking of bank accounts, the attachment of warehouses and other property, the seizure of documents and information — in short, complete paralysing of a company's activity.

Nevertheless, the new law on licensing does represent a major step forward. The

list of activities that are subject to licensing has been substantially reduced, while the procedures for obtaining licenses have become simple and intelligible, and the prescribed schedules are observed. However, the problem of quasi-licensing that is widespread at the municipal level (various types of permits, patents, etc.) has still to be resolved.

The situation with registration of legal entities is mixed. Registration has not generally been a serious obstacle for even the smallest businesses. However, the situation differs a lot from one Russian region to another and even within a single town (from one tax office to another). The most frequent problem is long lines and general lack of organisation, due in large part to the fact that the government decree, which made tax inspection offices responsible for registration procedures, was only issued a few days before the law went into effect, so that offices did not have enough time to prepare. The situation was made worse by a requirement, which forced already registered legal entities to re-register in the autumn of 2002. Offices, which had not managed to streamline document processing, missed deadlines, and a new business sprang up — the trade in queue places. An objective assessment of the results will only be possible after the transitional problems die down. It will then become clear how the whole system works. However, it is already apparent that the announced principle of “one window” (unified registration at a single office) does not work, and companies still have to register at half a dozen different offices.

These statements are confirmed by quantitative studies, including the second round of administrative barrier monitoring conducted by the Centre for Economic and Financial Studies and Development in autumn 2002. According to businessmen themselves, costs due to state regulation of the market decreased somewhat, but costs of entering the market have remained about the same.

Debureaucratisation was the flagship policy of the State in 2001. Its quick and efficient passage was due to intensive work by the Ministry of Economic Development and Trade and even more to constant pressure from the presidential administration.

Second Wave of Deregulation Laws

The federal law “On the bases of technical regulation”, adopted in December 2002 and due for introduction in mid-2003, will introduce fundamental changes in the general system of standardisation and safety and quality control, and will also create new opportunities for dialogue between government and business on development of quality standards for products (technical regulations), as well as various kinds of voluntary certification systems that are more flexible and based on genuine responsibilities towards consumers.

Reforms in this area were long overdue, as mandatory observance of outdated government standards was hampering economic development. Obligatory certification applied to more than 80% of products and services but was not really capable of guaranteeing their safety. It is actually possible to buy certificates for any kind of product at a low price without any need for tests. The essence of the proposed reform is as follows:

- Obligatory requirements for products and services are established in technical regulations, which are laws or subordinate legislation adopted according to a special procedure. Technical regulations can be adopted only after public discussion. Application for new technical regulations to be adopted can be initiated by any person or entity. This allows market participants to take part in development of obligatory requirements and ensures that the requirements are accessible for all interested parties.
- Standards cease to be obligatory and become recommendatory. This means that the government has the right to adopt a state standard in any field, but it must stimulate its observance through market incentives (for example, the government might hold a state procurement competition, in which only companies that are in conformity with the standards can participate). In addition, the introduction of recommendatory standards is a strong incentive for development of voluntary certification.

- The product certification system is fundamentally transformed. Certification will be mainly on the basis of a declaration of conformity. Obligatory testing will become an exceptional approach used only for products (and not services) and only in cases that are specified in relevant technical regulations.
- The responsibility of producers is greatly enhanced. The new law provides for product recall. Formerly, only the antimonopoly authorities had the right to recall a product, and used it very rarely, since many procedural issues remained unsolved.

A draft bill offering a revised version of the federal law “On the protection of consumer rights” and a draft federal bill entitled “On self-regulatory organisations” (described in Box 8.2) are also noteworthy among the second wave of deregulatory measures. The revision of the consumer rights law aims to make market participants truly responsible for their actions instead of simply being subject to administrative regulation (this change is the essence of the ideology of deregulation). The law establishes a procedure for recalling products and provides more detailed requirements for consumer information, including information on genetically modified products. It attempts to put a legislative ban on the use of pyramid schemes by businesses in their relations with consumers. Leading consumer organisations participated in discussion of the draft, which has been approved by all relevant departments and submitted for assessment by the government.

It is unfortunate that the euphoria from passage of some useful legislation has created the illusion that deregulation has been accomplished. The pace and efficiency of interaction between government and public interest groups participating in the reforms has now abated.

Taxation

Work on new tax laws continued in 2002, but most of the changes have not lessened the difficulties faced by businesses, despite the much-trumpeted tax reduction. The problem here is not tax rates but determination of the taxable base, meth-

The introduction of tax accounting in addition to bookkeeping has become a serious problem, especially for small business

ods used for tax accounting and book-keeping, and the order, in which laws are changed.

The introduction of tax accounting in addition to book-keeping has become a serious problem, especially for small business. The situation involves inconvenient submission deadlines for different tax reports, confusing and unintelligible forms, and heavy fines for errors. However, an even more serious problem is the introduction of backdated requirements and the lack of instructions on how to switch from the old method of tax assessment and payment to the new method. On the whole, it can be said that companies' accounting expenditures have grown considerably. The problem is aggravated by shortage of qualified accountants (especially in the regions) who could understand and keep up with the constantly changing requirements.

In addition, many widely publicised

“simplifications” in tax policy are applicable only to a small number of companies. For example, new amendments to the Tax Code providing for simplified taxation of small businesses came into force on 1st January 2003. But they are only applicable to companies whose annual turnover does not exceed 10 million roubles, i.e., to very small businesses engaged in retail trade or the service sector, such as a retail stand or a modest hairdresser's shop. If the company's turnover exceeds the established limit, it must recalculate and pay additional taxes for the elapsed period according to the “standard” procedure. Thus, the situation does not stimulate growth of business and encourages companies to conceal the part of their turnover, which makes them subject to the arduous procedure. Expenditures for recalculating tax payments and filling out new tax forms often exceed the additional amount of taxes to be paid.

The announced “tax revolution” did not take place. Combined with half-measures in the domain of deregulation, this has resulted in a serious crisis of confidence on the part of business, encouraged negative assessments even of favourable changes, and slowed down the legalisation of business, especially unorganised business, which is the weakest and most vulnerable business sector. This has had an adverse effect on economic and social development of the whole country.

Dialogue Between Society, Business and Government

The renewal of the social contract requires negotiations between the parties and, consequently, the creation of a platform, the selection of participants, and the development of negotiation techniques.

The first serious attempt at this type of dialogue took place at a civil forum in 2001, which included a “Society—Business—Government” negotiating platform. Some of the agreements reached at the forum were then included in a government decree. In particular, it was agreed that representatives of the non-government sector (business associations, civil society organisations, independent experts) would be included on the State Commission for Removal of Administrative Barriers. It was also agreed that a public expert council for

BOX 8.2

Self-regulatory organisations are business associations that have special rules for their members in addition to those established by the government. They monitor observance of the rules and apply sanctions to members who violate them. Membership in such an organisation gives a company the right to use the organisation's collective brand-name, creating guarantees for consumers over and above those offered by law. The package of deregulatory bills views self-regulation as fostering genuine responsibility of companies for their behaviour vis-a-vis consumers and competitors, and encourages development to a situation where companies are licensed and monitored by their self-regulating organisation instead of by the state.

For a long time, there were two approaches to regulating this field: (a) a special law is needed and (b) instead of a special law, amendments should be made to the existing Civil Code and to the federal law on non-commercial organisations. After a long discussion, the decision was taken in favour of a special law which would regulate the activities of self-regulatory organisations. There were proposals to provide for self-regulating organisations by amendments to the existing Civil Code and the federal law on non-commercial organisations. But it was finally decided to draft a whole new law on self-regulatory organisations. There were disagreements over what was needed. Self-regulatory organisations in the financial sector, whose creation had been required by law, insisted on obligatory membership based on the principle “one industry -- one self-regulatory organisation”. They also insisted on delegating powers of state inspection agencies (including the right to license market participants) to self-regulatory organisations. Self-regulatory organisations that had been established on a voluntary basis, were mainly against these ideas. The outcome was two separate drafts: the first for financial self-regulatory organisations and the second for other self-regulatory organisations. This led to a further difficulty, since financial organisations insisted on exclusive rights to the term “self-regulatory organisation”, which was unacceptable for self-regulatory organisations on the commodities market. A special working group of representatives of various self-regulatory organisations therefore finally prepared a unified law draft.

The draft defines the characteristics of self-regulatory organisations, establishes requirements for information, which they must provide, and governs the relationship between these organisations and state inspection agencies. The draft has been submitted to relevant state departments for approval.

promoting competition would be set up at the Ministry for Antimonopoly Policy. Unfortunately, neither of the agreements was implemented.

Nevertheless, negotiations continue to be the priority means for changing the terms of the social contract, and for making the sides observe new rules that would enable departure from an outmoded model of government-business relations.

There were some important steps in this direction in 2002. Business associations (many of which arose as participants in the deregulation process) learnt how to conduct an open and transparent dialogue with the government. And the government, having renounced a strategy based exclusively on consideration of the balance of forces between oligarchic structures and back-room deals with them, is also developing new ways of communicating with business. From this point of view, the development of negotiation technologies (launching negotiations, becoming accustomed to them, and calling on an “independent umpire” — civil society — to monitor the dialogue) can be more important than the direct results of the dialogue.

The principal achievement has been institutionalisation of the negotiation process. The mechanisms of concluding a new social contract, which have been developed in practice, and which involve non-profit business associations as a negotiating partner, are being incorporated in normative acts. For example, the law on the protection of the rights of businessmen during inspections gives business associations and non-profit organisations the right to file a suit on the grounds of the violation of the rights of businessmen protected by this law. The technical regulation legislation goes even further by prescribing public discussion of proposed technical regulations and allowing prerogatives for self-regulating, sectoral and other business associations. Finally, the bill on self-regulating organisations gives the latter the right to take part in adoption of regulations in different sectors and to participate in the drafting of all normative acts relating to the activities of their members. These examples show how institutionalised participation of non-profit business associations is being expanded: from the possibility of *contesting* unlawful actions during inspec-

tions to *advising* on technical regulations and, finally, participating in the development of all aspects of Russia's regulative legal base.

In addition to “vertical” negotiations (with the State), “horizontal” negotiations (between business associations and civil society organisations) are also being institutionalised. While this process was sporadic in 2000–2001, it began to intensify in 2002. This was largely thanks to creation of negotiating platforms, such as the Togliatti Dialogue, at which an annual program of co-operation was agreed upon, and the Presidential Human Rights Commission, which has begun to consider a whole range of issues relating to the rights of businessmen.

Technical Regulations

The new law on technical regulation covers the procedure for introducing obligatory safety requirements, requiring public review of such introduction. Involvement of industry representatives in the development of technical regulations seems to be the optimal solution at present, since the government lacks necessary expert resources for a complete understanding and adequate legislative formulation of contemporary technical aspects of different industries.

Development of technical regulation began in 2002 within the context of a project supported by the Economic Department of the Presidential Administration. By the time the law on technical regulation was passed, proposals on the structure of technical regulations had been prepared and a large number of sectoral technical regulations had been drafted. In addition, most “horizontal” technical regulations, i.e., extra-sectoral regulations that establish safety requirements irrespective of the area of operation (for instance, fire or sanitary safety requirements) had also been developed. The regulations were prepared by special working groups bringing together government specialists and experts from sectoral business associations, and they stand a good chance of quick approval.

The process has promoted self-organisation by business and development of associative skills that will enable business to conduct a dialogue with the government.

Independents also took part in initial drafting of two government programs, the "Conception for Development of Domestic Trade", mainly prepared by the Ministry of Economic Development and Trade, and the "Conception of Antimonopoly Policy", proposed by the Ministry of Antimonopoly Policy

Self-Regulation

As discussed above, the bill on self-regulatory organisations was drafted by a working group composed of representatives of the government (more precisely, various branches of power such as the Ministry of Economic Development and Trade, which is the main sponsor of the law, and both chambers of Parliament), representatives of business associations (which have different views as to the content of the law), and civil society representatives (members of consumer rights organisations). Encouragingly, the three sides in the working group managed to reach agreement despite starting from diametrically opposite positions.

WTO Accession

This dialogue has not yet moved into the public domain, but the government and leading businessmen have been in conclave, and disagreements remain on a number of issues. Russia must avoid joining the WTO on conditions that would be advantageous to a certain group of businessmen at the expense of society and the economy as a whole. In particular, it is vital to take account of interests of small business associations, consumer associations and trade unions.

Key Economic Policy Documents

At the end of 2000 independent organisations (mainly business associations) joined in drafting of the package of deregulation laws. Independents also took part in initial drafting of two government programs, the "Conception for Development of Domestic Trade", mainly prepared by the Ministry of Economic Development and Trade, and the "Conception of Antimonopoly Policy", proposed by the Ministry of Antimonopoly Policy. Both documents were offered for wider public debate by representatives of the business community and civil society organisations in 2002. So business associations were successful in persuading government to increase the public aspect of policy elaboration.

The "Togliatti Dialogue"

The "Togliatti Dialogue" in November 2002 featured a series of events, including a social projects fair, a conference of

experts, and a number of negotiation platforms. The "Society and Business" platform was successful in developing an agenda and joint negotiating position of these two parties for further dialogue between themselves and the government.

Platform participants included representatives of the most powerful civil society network organisations, including the International Confederation of Consumer Societies, the International Socio-Environmental Union, human rights organisations, etc. Business associations such as the Chamber of Commerce and Industry of the Russian Federation, the Russian Union of Industrialists and Entrepreneurs, the Union of Business Organisations of Russia, etc., were also represented. The agreements reached by the parties were published in the platform proceedings. It was agreed that the agenda for negotiations with the government should contain the following issues:

- development of an administrative reform draft;
- regulation of inspections of businesses and non-commercial organisations by state organisations, which have authorisation to use force;
- support for the federal bill on self-regulatory organisations;
- a platform to discuss proposals for deregulating government environmental control;
- public examination of the proposed Housing Code under the auspices of the Presidential Human Rights Commission to ensure civil, social, and economic rights (including the right to information), with involvement of major civil society organisations and business associations;
- joint actions to implement retirement pension reform through development of a market for contributory pension resources.

Business and civil society organisations found a common language in the Togliatti dialogue, inspiring hope that their agreements will be effective, and offering the government a stronger interlocutor.

Presidential Human Rights Commission

The Presidential Human Rights Commission is a promising platform for dialogue, since it specialises in economic rights of the individual as well as pure human rights. Composition of the Commission was revised in the autumn of 2002, and it now includes a few representatives of civil society organisations specialising in economic rights. The Commission has potential to reconcile the interests of business and society on economic rights issues and elaborate

joint positions for dialogue with government. In particular, the Commission will continue work in 2003 on implementation of the Togliatti Agreements regarding control over government agencies that can use force during inspections of private companies. It will also focus on housing and public utilities reform and transition to a contributory pension scheme. These issues were emphasised at the President's meeting with the Commission on 10th December 2002.

Returning to the idea of renewing the social contract between the state, society, and business in an election year, we can suggest some key issues that could form a basis for talks:

1. Deregulation should be continued in the following directions:
 - preparation and approval of remaining measures in the second wave of deregulation laws;
 - limiting authority of government agencies to use force during inspections of companies, possibly through insertion of provisions in the federal law "On the protection of the rights of legal entities and individual entrepreneurs during state inspections (supervisions)";
 - revising the law on registration of legal entities to correct defects that have become apparent during implementation;
 - overhaul of licensing regulations,
 - preparing a federal law on permits and approvals, which are needed for investment projects. This was originally supposed to be a part of the package of deregulation laws, but was left out due to its complexity.
2. Potential for deregulation is limited by shortcomings of government, so that reform of the State is needed for further progress. Administrative and municipal reforms are currently being drafted without public debate, creating doubts about the outcome. This process should be made public and based on contract, with involvement of business associations and independent analytical centres.
3. Administrative barriers distort the competitive environment, create inequalities between different players and form exclusive, monopolistic markets that are controlled by particular commercial groups. In this context, deregulation represents a step towards changing the nature of competition. Therefore, the drafting, public discussion and approval of new competition policies is very important.
4. Radical simplification of tax accounting and book-keeping is needed, and, more generally, a realistic taxation policy that does not hinder the growth of business.
5. The interests of business and society coincide regarding transition to a contributory pension scheme. Contributory pension resources in a market environment give citizens the freedom of choice and open new avenues for business. Nevertheless, pension reform is a difficult task, not least because the state is involved both as market regulator and market participant. Business and society should be involved in development of adequate rules.

Potential for deregulation is limited by shortcomings of government, so that reform of the State is needed for further progress

6. The de facto gradual legalisation of business should be facilitated by the following measures:
- recognising company initiatives to legalise themselves through their relationships with consumers and shareholders;
 - stated tax rates that are equal or nearly equal to the effective rates;
 - non-contradictory regulations for business;
 - giving up the “presumption of guilt” in regulation of business (this is a crucial precondition for constructive government-business relations).

Chapter 9

Environmental Protection and the Development of Civil Society in Russia

Proper use of natural resources and development of civil society seem at first sight to be completely different issues. In fact, they represent a single issue, and one of the most important in Russia today. This chapter gives a brief exposition of the problem.

It is undeniable that Russia's economy and prospects for national revival are predicated on the country's huge natural resource potential. This will remain the case for a long time to come. But improper use of these resources could lead to their depletion, degradation and pollution.

Probably not everyone could give an accurate definition of exactly what is meant by natural resources. The natural resources, which immediately spring to mind, are the raw materials that have become market commodities. But there are other natural resources, such as the air, natural landscapes with their recreational and aesthetic value, etc., which are just as important. Hence the need for an overall appraisal of the country's natural wealth. Economists usually call this an appraisal of the total value of natural resources. That is obviously a very important approach, but it has its limits. Natural resources are, in fact, priceless, and any appraisal only corresponds to our current understanding of the significance of a given resource and our current ability to evaluate it properly. Our assessment of the value of resources will undoubtedly change as we ourselves evolve. The main priority should be to ensure growth in value of natural resources and development of environmental protection services (cf. Box 9.1).

Russia still lacks a civil society. It is undoubtedly taking shape, but very slowly. Civil society places a high value on human life and health, and the country's future may be said to depend on whether evolution of civil society can catch up with the unimpeded expansion of natural resource exploitation. This is an issue of political, economic, social and environmental significance. Recognition that the expanding activities of humanity must fit into the nat-

ural limits of the environment and natural resources is at the heart of the concept of sustainable development, and experience shows that no government can achieve sustainable development without active involvement of a fully-fledged civil society.

So human and natural resources have to become the main values of the State and society, and Russia's future development will depend on the degree to which value of these resources is enhanced. Only civil society can act as the initiator and guarantor of this process.

The Situation Today

After a series of successes in environment management and environmental protection at the beginning of the Perestroika period, developments in recent years show that less attention is being paid to environmental issues. The clearest step in this direction was abolition of a special state environmental control body. A simple economic model based on assuring economic growth at the expense of natural resources is being implemented. It might be objected that financial resources are an important part of sustainable development, so the apparent contradiction between technological progress and sustainable development disappears. Environmental protection will get the attention it deserves in due time, when economic progress and cultural growth are sufficiently advanced,

It is undeniable that Russia's economy and prospects for national revival are predicated on the country's huge natural resource potential

BOX 9.1

"The main target in this domain is to ensure rational non-depletive usage of natural resources in the market economy, to reduce pressure on the environment, and to enlist state and private funds for achievement of environmental goals.

This requires

- introduction of a system of rent for use of natural resources,
- inclusion in economic indicators of the full cost of natural objects with due allowance for their environmental function as well as the cost of environmental protection work (services)."

Source: Order #1225-p of the Government of the Russian Federation on 31st August 2002 ("Environmental Doctrine of the Russian Federation"), published in Rossiyskaya Gazeta, 176 (3,044), 18th September 2002

Environmental protection will get the attention it deserves in due time, when economic progress and cultural growth are sufficiently advanced, so the argument goes

Ignoring the needs of environmental protection is economically unsound in the short as well as the long term

so the argument goes. But the question is: what price will Russia pay for such patience? Such an approach is not only cruel to both humankind and the environment — it is also economically unsound.

Russia has a chance to avoid the mistakes of the West. Billions of dollars were spent on cleaning up the Great Lakes in the USA and Canada, and the rivers in Western Europe. Unfortunately, the West is not keen to share its experience with Russia. Sustainable development needs essential, fairly inexpensive and efficient steps in order to improve the situation before an environmental catastrophe takes place and the country is forced to pay a much greater price. Understanding of this and general spread of environmental awareness depends on the development of civil society.

Ignoring the needs of environmental protection is economically unsound in the short as well as the long term. Dismantling of Russia's system of environmental control has greatly reduced state revenues in the form of payments by business for use and pollution of the environment, and attractiveness of investing in Russian natural resources has actually fallen instead of growing.

Although the Russian economy is based on natural resources, the country does not use the resulting profits for the development of society. Without even considering very extensive illegal usage of resources, there is a profound contradiction between the make-up of undistributed profits in the economy, much of which come from natural resources (labour accounts for 5%, capital for 20% and natural resources for 75% of the total), and the make-up of budget revenues (about 70% of which come from payroll taxes, while natural resources only account for about 20%).¹ According to experts, health problems resulting from environmental pollution in Russia cost the state 6.3% of GDP on average.² Despite the formal economic upturn and increase in GDP by 9% in 2000, the index of genuine savings, which is calculated by the World Bank and takes environmental factors into account, was negative, showing a drop of 13.4%.³

The only way to change the situation and create the preconditions for sustainable development in Russia is to use laws to

force transition to a system of rent payments for the use of natural resources. Rent payments at proper levels should result in lower payroll and capital taxes. This requires a number of political decisions and the adoption of legislation containing a realistic economic appraisal of natural resources. It also calls for the introduction of addenda and amendments to the Tax Code and other federal laws that would coordinate the scale of natural resource rent, taxes and other charges. Revenues from natural resource rent should be spent on environmental protection and social needs.

To the casual observer, it may seem that such steps would hinder incipient economic growth. The sceptics note that environmental problems have lost their urgency in many other countries, and suggest that this is a natural cyclic development of priorities in the world community. However, the consequences of environmental *laissez-faire* for Russia may be very different from those in developed countries, where established state regulation mechanisms, a mature civil society and a certain level of environmental awareness guarantee that the necessary measures for environmental protection will always be taken. By contrast, in Russia, ignorance of the importance of environmental protection among government officials and the population at large means that lack of a conscious effort to instil awareness and force action could lead to a catastrophe (for Russia, but also for the world, given the tremendous importance of Russian ecosystems for the equilibrium of the Earth's biosphere).

The Russian government and society are both to blame for this state of affairs, and resolute tackling of environmental issues in Russia depends on emergence of a stratum of responsible citizens who will force action regardless of the political balance of forces in the country.

The Special Role of Civil Society in Resolution of Environmental Problems in Contemporary Russia

The role of civil structures depends on the situation in a country at a given point in time. In a developed democratic state where government structures principally express public interests, society does not have to play a particularly overt role. This is

evidence of civil society's strength, not its weakness. The main role of society in such a situation is to adjust the (mostly correct) line of the government and to remind it of what it forgot to do.

The role of civil society is completely different in a situation where key issues of fundamental importance for the long-term good of society are being ignored. In such a situation, society has to do more than "help and participate" — it has to initiate many processes. This is the special role of the "green" movement and the nucleus of civil society as a whole in Russia today (cf. Box 9.2). Civil society cannot take the place of the government and fulfil important state tasks by itself, but it must exert pressure, take the initiative and help government structures to resolve key issues. In the long run, these efforts should bear fruit in the form of a well-developed mechanism of real co-operation. When civil society becomes strong, it no longer has to act overtly: at that point its efforts tend to focus on the local (municipal) level, as well as on the activities of professional non-governmental organisations which work out issues that are of importance to all sectors of society, both at the national and international levels.

Indeed, non-government organisations (NGOs) are already playing an increasing role in attracting attention to issues of environmental management and protection in Russia. Their initiatives, which are possible largely thanks to the support of the world community, include organisation of national conferences, congresses and referenda on environmental protection and environmental safety, elaboration by experts of national and regional environmental policy priorities, issues of environmental doctrine, sustainable development, evolution of the timber industry, development of protected natural areas, and many other questions. The best indication of growing strength of the green movement was public reaction against closure of independent environmental protection agencies and against a decision to import foreign nuclear waste. NGOs collected 2.5 million signatures in support of a national referendum on these two issues. Although the referendum demand was refused on formal grounds, the movement undoubtedly focused government attention on the

need to address environmental problems, since the Russian President has since ordered development of an Environmental Doctrine.

The Russian Ministry of Natural Resources admits that, while it can work independently in the domain of environmental management, it cannot carry out environmental protection tasks on its own, but relies on help from the green movement. Representatives of the green movement sit on councils at the Ministry of Natural Resources and the Ministry of Atomic Energy as well as at the Federation Council and the Duma. They also participate in the Inter-agency Commission of the National Security Council of the Russian Federation on Environmental Safety. Finally, a representative of the green movement sits on the Presidential Human Rights Commission. Green movement representatives thus have roles in most legislative and executive bodies of government, though it has to be admitted that they sometimes lack sufficient determination to make the government listen to their arguments. Environmental activists also try to work together with business structures, including the Chamber of Commerce and Industry of the Russian Federation, the Russian Union of Industrialists and Entrepreneurs, and other business associations and individual companies as well as various NGOs (human rights organisations, consumer associations, etc.).

The aims of the non-government sector, including environmentalists, are the

The Russian President has ordered development of an Environmental Doctrine

BOX 9.2

Excerpt from the Declaration of the Russian Green Movement to the Rio+10 Summit

"We see the following long-term targets for further development of the process:

- to assure development of civil society: the new tasks in this process should be to unify various civil sectors, including the environmental, human rights, women's and other movements, and to promote co-operation between civil society and business on the basis of common interests in order to assure a favourable living environment;
- to ensure a healthy environment: further development is impossible without healthy forests, oceans, cities and the health of all the natural phenomena, which surround us; such is the precondition for a healthy society;
- to raise the value of natural resources both from the point of view of the economy and of people's attitudes: special measures should be developed in the economic, legal and cultural domains."

Source: Na puti k ustoychivomu razvitiyu Rossii (Bulletin "Towards a Sustainable Russia"), 20, 2002

*In addition
to promoting
participation
of the public at large,
the development
of professional NGOs
is of paramount
importance*

same in Russia as in other countries: to involve large groups of society in the resolution of significant problems and to provide experts to governmental and non-governmental organisations. These efforts have led to the creation of an economic and legal basis for environmental protection in Russia. Experts agree that Russian environmental legislation is just as good as that of other countries, while Russian environmental standards are even stricter than in developed countries. Unfortunately, there is a major enforcement problem, and that is unlikely to change until civil society and a certain level of environmental awareness emerge in Russia. Hence the urgency of promoting environmental awareness, and involving civil society in development and implementation of environmental policy at both national and local levels.

Development of Civil Society

Governmental structures usually complain about the lack of professionalism of the non-government sector and the disorganised and non-constructive nature of its activities and initiatives. In turn, NGOs complain about lack of attention and support from the government.

Nobody in the Russian government today would openly reject co-operation with NGOs or declare that development of civil society is unnecessary. Everyone, including the President and his entourage, warmly acclaim civil society and speak of the need for real co-operation between state institutions and the non-government sector. Unfortunately, this is usually as far as things go. The opinions of society are still insufficiently heard.

Attempts to create a civil society from above (usually justified by references to the passivity of society after decades of socialism) are not likely to succeed. Instead of producing a real civil society, they will at best create an imitation, like that which existed under socialism. Such a model could not carry out the functions of civil society and would not deceive anyone in Russia or abroad. The only way to create a real civil society is to encourage and support activity and initiatives from below. This involves, for example, creating public councils, whose recommendations should be taken into account by state structures;

including representatives of civil structures in government councils and commissions; implementing joint measures and projects; supporting NGOs and allowing them to participate in problem solving; encouraging businesses to provide such support, etc.

In addition to promoting participation of the public at large, the development of professional NGOs is of paramount importance. Such organisations could discover problems and shortcomings and seek ways of putting them right. Co-operation can to a great extent be initiated by NGOs themselves, if

- they are selective in their assessment of government policy, opposing certain decisions which can rationally be shown to be unfounded and supporting others that could make a positive contribution;
- they are able to show in practice that they can not only criticise but also make constructive suggestions that are of help to government institutions.

Such an approach will increase the authority and influence of NGOs among the public and among research, educational and state organisations, opening the way to real co-operation. Without this, even the best NGO projects will be regarded as mere declarations of public opinion.

The non-government sector is bound to include both large and relatively small professional organisations, but they can only fulfil their social role if they overcome their differences and join forces for the resolution of urgent problems. Attempts to build civil society “quickly and cheaply” by creating a hierarchic structure of NGOs (resembling the state hierarchy) are dangerous and will in fact cause the tender plant of civil society to wither before it blooms. The most effective form of interaction between civil society organisations would be the formation of temporary informal coalitions for the resolution of specific problems. Informal coalitions of civil society organisations have frequently organised national environmental congresses and conferences, and a round table for environmental NGOs would allow effective information exchange between them.

Russian NGOs are staffed, in part, by an outflow of personnel from research, educational and state structures, due to financial and organisational instability of such structures. But NGOs also act as seed beds, providing staff for state structures. NGOs are generally stable and not over-dependent on the political situation and the individuals in power. This gives them more scope for self-expression and for elaborating projects to implement their ideas.

Many NGOs travel a development path from promoting public environmental awareness to protecting environmental rights, assessing the damage to human and environmental health and making economic assessments. Such development brings NGOs into closer contact with other sectors of the democratic movement, encouraging creation of broader coalitions.

Besides their traditional activities of drawing the public at large into the resolution of problems and exerting pressure on state bodies, NGOs have realised the necessity of working directly with the government. Even the best projects and recommendations cannot have the desired long-term effect if they are not accepted by the government. NGOs have to make state institutions interested in co-operation by showing them that if they take constructive steps they can count on a level of expert and public support, which they would not otherwise receive. Government and business representatives must understand that co-operation with structures of civil society is advantageous for them on local, national and international levels. Dialogue often fails due to a formal approach on the part of government, and government's lack of understanding of the specifics of NGOs and of how to work with them. State structures must grasp (or learn from their foreign colleagues) that, if they spend enough time and energy on explaining the importance and correctness of their decisions to the public, they can count on its support, but, if they fail to explain themselves, their activities will meet public opposition. Another important factor is that civil servants often find work in the non-government sector. This is especially true in Russia, and particularly in the domain of environmental protection and environmental management, where instability of

state structures leads to rapid turnover of personnel, who often leave the public sector to work in NGOs or vice-versa.

Emergence of civil society is also helped when representatives of state and business structures recognise that they (and their families) are themselves members of that society. This is particularly important for building a model of civil society at the local (municipal) level.

A promising direction for NGO development would be creation of non-government centres bringing together professionals and activists to help resolve key problems of environmental management, regardless of the current situation in state structures. They would be able to work directly with state structures and businesses at all levels (federal, regional and municipal) and act as a basis for the development of a coalition with other sectors of democratic civil society.

Co-operation between the state and civil society is an important precondition for Russia to secure support from the world community. The issue here is partly humanitarian, but other countries also recognise that environmental problems and lack of civil society in Russia are a threat to them as well as to Russia itself. The experience and resources of the world community can contribute much to development of civil society in Russia. International sponsors prefer to fund civil society organisations, even when the task in question is drafting and implementation of joint projects between those organisations and government and when the results are intended for government use, because use of funds by NGOs tends to be more transparent and efficient. In this respect, co-operation with NGOs is valuable to the government, which receives indirect funding assistance.

Related to this, there is an interesting new trend in funding of projects in the course of their implementation. Initial pilot studies usually receive support only from private foundations, but the studies may win support from foreign governments or international foundations after they show positive results. And when it becomes clear that they can be applied in practice, they may receive support from the Russian budget. There have already been examples of such project develop-

State structures must grasp (or learn from their foreign colleagues) that, if they spend enough time and energy on explaining the importance and correctness of their decisions to the public, they can count on its support, but, if they fail to explain themselves, their activities will meet public opposition

*The experience
and resources
of the world
community can
contribute much
to development
of civil society
in Russia*

ments in Russia (support of projects for environmental monitoring in protected natural areas).

It is obvious that civil society cannot develop without support from inside the country, and NGOs are justly reproached for having weak roots and receiving funds from abroad. Unfortunately, the lack of domestic support is an objective fact, and NGOs that are more reliant on domestic than foreign support are currently the exception rather than the rule.

The onus of responsibility for changing this situation is with the government, which must abandon its repeated attempts to create civil society from above and, instead, support all such endeavours from below. However, it is important that such support should not be purely politically

motivated. The government should have a genuine interest in co-operating with NGOs in order to improve its own work, and the task of convincing the government that it needs to work with NGOs is largely down to the latter themselves. The state can also assist by creating conditions that would encourage business to provide such support to NGOs. In particular, it can create favourable conditions for charity activities. As in other countries, Russian businesses should have the choice of either placing their trust in the government and giving it the necessary resources in the form of taxes or managing part of these resources themselves. This requires increasing the civic consciousness of Russian business as well as developing the necessary legislative framework.

Russian economic policy is increasingly based on exploitation of natural resources, and the mainstay of the country's environmental policy should therefore be raising the value of its natural resources.

This priority, and that of democratic development of the country as a whole,

requires all-round development of civil society, which can be helped by pooling the efforts of various "green" organisations and promoting their co-operation with other sectors of civil society, as well as promoting co-operation between all the principal sectors of society, including the state, business and the general public.

¹ "Pora khodit' s kozyrey" in Rossiyskaya nauchnaya gazeta, 1, 15th January 2003.

² S.N. Bobylev, V.N. Sidorenko, G.V. Safonov, S.L. Avaliani, E.B. Struktova, and A.A. Golub, Makroekonomicheskaya otsenka izderzhek dlya zdorovya naseleniya Rossii ot zagryazneniya okru-

zhayushchey sredy. World Bank Institute and Environmental Protection Foundation, Moscow, 2002, p.32 (in Russian).

³ The Little Green Data Book 2002. The World Bank, 2002, p.180.

Addenda

Addendum A

Table A.1.

Difference in the Average Life Expectancy Between the European Union and Russia for Different Age Groups and Causes of Death

Cause of Death	Men			Women		
	Total	Age		Total	в Age	
		0–64	65 and over		0–64	65 and over
All causes	13.56	10.90	2.66	7.98	4.44	3.55
Infectious and parasitic diseases	0.54	0.54	0.00	0.12	0.15	-0.03
including: tuberculosis	0.46	0.44	0.02	0.08	0.07	0.00
Tumours	0.67	0.70	-0.03	0.11	0.32	-0.21
including: carcinomas of the stomach and intestines	0.35	0.23	0.12	0.26	0.17	0.10
carcinomas of the trachea, bronchi and lungs	0.27	0.23	0.03	-0.10	-0.05	-0.05
Circulatory diseases	5.61	3.02	2.59	5.45	1.46	3.99
including: ischeamic heart disease	3.09	1.73	1.36	2.50	0.59	1.91
vascular cerebral diseases	2.01	0.77	1.24	2.75	0.61	2.14
Respiratory diseases	0.61	0.62	-0.01	0.03	0.25	-0.22
Digestive diseases	0.26	0.26	-0.01	0.07	0.12	-0.05
Inborn anomalies and other causes of perinatal death	0.63	0.64	0.00	0.51	0.51	0.00
Other diseases	-0.09	0.10	-0.19	-0.19	0.20	-0.39
Accidents	4.96	4.80	0.16	1.43	1.37	0.06
including: automobile accidents	0.17	0.16	0.00	0.09	0.08	0.01
poisoning	0.86	0.82	0.03	0.28	0.26	0.02
suicide	0.88	0.83	0.05	0.13	0.11	0.02
homicide	0.71	0.69	0.02	0.26	0.24	0.02
injuries inflicted with uncertain intentions	0.83	0.79	0.04	0.25	0.22	0.03
Other symptoms or ambiguous conditions	0.38	0.22	0.15	0.45	0.05	0.40

Table A.2.

Probability of Death (Number of Deaths per 1,000 New-Born Children) and the Average Age at Death in the European Union and Russia According to Cause of Death

	Men				Women			
	Probability of Death		Average Age at Death		Probability of Death		Average Age at Death	
	Russia	EU	Russia	EU	Russia	EU	Russia	EU
Infectious and parasitic diseases	20	9	44.8	70.9	5	9	40.8	76.4
including: tuberculosis	17	1	48.5	72.2	3	1	49.6	76.5
Tumours	156	274	64.4	72.6	127	206	66.3	74.0
including: carcinomas of the stomach and intestines	40	47	66.4	74.0	38	40	69.5	77.0
carcinomas of the trachea, bronchi and lungs	48	71	64.6	71.0	9	20	68.6	71.8
Circulatory diseases	480	399	69.2	77.4	657	468	77.3	82.3
including: ischaemic heart disease	249	175	68.4	75.8	279	156	77.4	81.6
vascular cerebral diseases	163	94	72.0	79.1	286	134	77.6	82.4
Respiratory diseases	57	103	62.5	79.3	28	88	66.3	82.1
Digestive diseases	30	43	59.0	71.3	23	42	66.6	78.1
Inborn anomalies and other causes of perinatal death	14	5	1.7	8.9	11	4	2.1	11.1
Other diseases	25	85	55.8	74.7	27	110	60.7	80.1
Accidents	184	52	42.9	56.2	58	33	49.4	70.2
including: automobile accidents	14	12	39.9	44.2	6	4	46.7	49.3
poisoning	29	1	45.2	44.6	9	1	49.7	58.7
suicide	37	14	44.5	54.4	8	5	54.3	57.3
homicide	21	1	40.4	41.0	8	0	46.8	46.1
injuries inflicted with uncertain intentions	28	3	44.3	52.1	9	2	50.8	63.1
Other symptoms or ambiguous conditions	54	21	41.6	65.8	18	21	48.4	79.0

Table A.3.
Steps to a Healthy City

1. A clean and safe physical environment.
2. A stable and self-sufficient ecosystem.
3. A closely-knit civil society.
4. The active participation of city inhabitants in the making of political decisions that affect their life and health.
5. The satisfaction of the basic needs of all inhabitants (food, water, housing, income, work).
6. A broad network of social, information and cultural resources.
7. Promotion of ethnic and cultural diversity.
8. Preservation of the cultural heritage.
9. Optimal level of medical services.
10. Good health of inhabitants and a low incidence of disease.
11. Projects aimed at implementing these tasks.

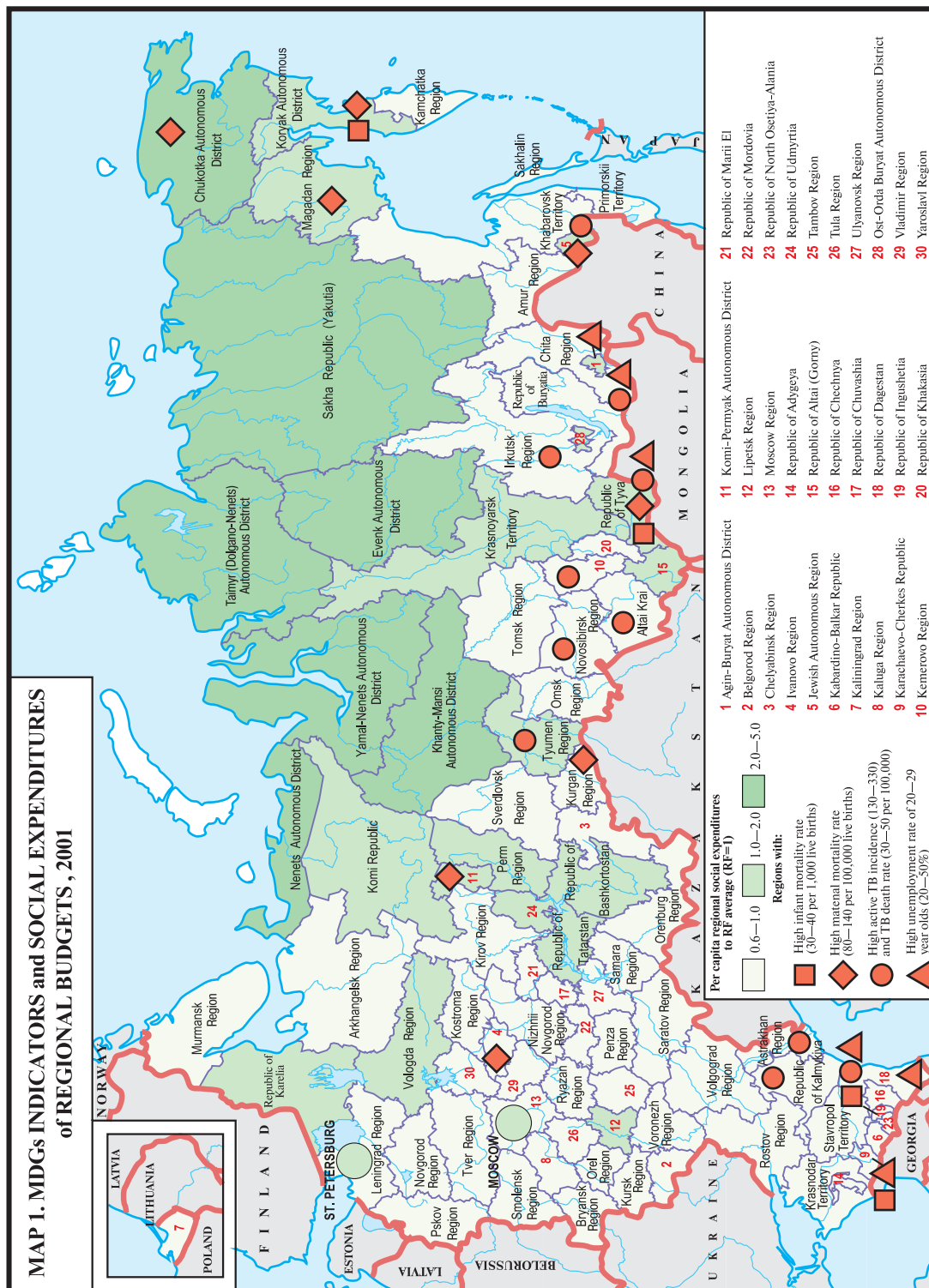
Source: WHO. *Twenty Steps for Developing a Healthy City Project*, 2nd Edition. Copenhagen: Regional Office for Europe. 1995.

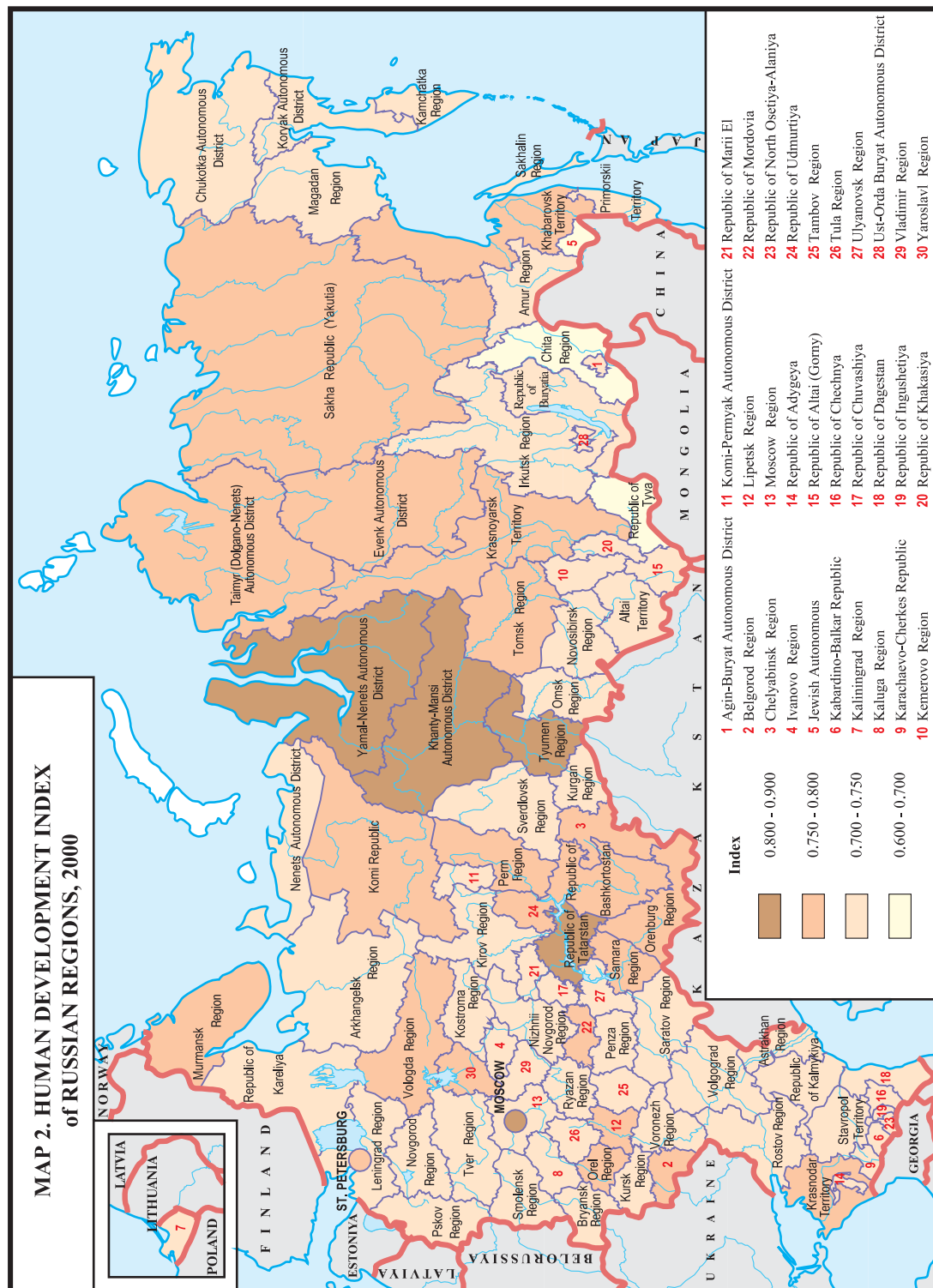
Table A.4.
Regions with the Highest Spread of HIV (per million inhabitants)

	New HIV Cases			Total Number of Cases over the Period 1987–2001
	1999	2000	2001	
Russian Federation	137	409	612	1443
Irkutsk Region	1160	1749	1313	4849
Samara Region	10	1467	2395	4651
Khanty-Mansian Autonomous District	550	1433	2112	4647
Orenburg Region	28	1622	1787	4108
Kaliningrad Region	463	416	558	4050
Tyumen Region (not including autonomous districts)	614	1514	1325	3946
Sverdlovsk Region	28	823	2119	3659
City of St. Petersburg	65	921	1984	3609
Ulyanov Region	20	1616	1242	3284
Chelyabinsk Region	51	1012	1403	2927
Moscow Region	671	911	727	2679
Leningrad Region	54	655	1297	2648

Source: HIV Infection Newsletter #24, Federal Research and Training Centre for Preventing and Counteracting AIDS and the Central Epidemiological Research Institute of the Ministry of Health of the Russian Federation, 2002 (in Russian).

Addendum B





Addendum C

Calculating the Human Development Index for the Constituent Members of the Russian Federation

The Human Development Index (HDI) consists of components that have equal weight:

- income as measured by the gross domestic product (gross regional product) in purchasing power parity US dollars (PPP US\$)
- education as measured by the adult literacy rate (with two-thirds weight) and the gross enrolment ratio among children and young people between the ages of 6 and 23 (with one-third weight of 1/3)
- life expectancy, as measured by the life expectancy at birth.

Fixed minimum and maximum values are established for each of the dimension indices:

- the life expectancy at birth: 25 and 85 years
- adult literacy rate: 0% and 100%
- gross enrolment ratio among children and young people: 0% and 100%
- real GDP per capita (PPP US\$): \$100 and \$40,000

The dimension indices are calculated using the following formula:

$$Index = \frac{actual\ value\ X_i - min.\ value\ X_i}{max.\ value\ X_i - min.\ value\ X_i} \quad (1)$$

The income index is calculated slightly differently: it uses the base-ten logarithm of the real GDP per capita. Income is adjusted in view of the fact that, beyond a certain

point, increases in income do not lead to a higher level of human development. Taking the logarithm limits the spread of income values and thus decreases the contribution of high income to the HDI.

$$W(Y) = \frac{\log y_i - \log y_{\min}}{\log y_{\max} - \log y_{\min}} \quad (2)$$

The human development index (HDI) is the arithmetic average of the three dimension indices: the life expectancy index, the education index (which consists of the adult literacy rate with a two-thirds weight and the gross enrolment ratio with a one-third weight) and the income index.

Additional procedures are used for calculating the income index for the constituent members of the Russian Federation:

- adjusting (proportionally increasing) the gross regional product (GRP) of each constituent member of the Russian Federation based on the undistributed part of the national GDP
- adjusting the GRP for the difference in prices by multiplying it by the ratio of the average national cost of living to the cost of living in the region
- converting it into purchasing power parity US dollars (PPP US\$) for the given year.

For the purposes of calculating the education index, the adult literacy rate is taken to be 99.5% of the population. The gross enrolment ratio is taken to be the ratio between the number of students in all the different types of educational establishments (schools and primary, secondary and higher educational establishments) to the total population between the ages of 6 and 23.

The Human Development Index can take values between 0 and 1. The lower limit for developed countries is 0.800.

Human Development Report. Russian Federation. 2002/2003

Published by

Izdatelstvo VES MIR

9^a Kolpachnyi pereulok, Moscow, 101831, Russia

Tel.: +7(095) 923 6839, 923 8568

Fax: +7(095) 925 4269

E-mail: vesmirorder@vesmirbooks.ru

<http://www.vesmirbooks.ru>

Izdatelstvo VES MIR is a copublisher and official distributor
of all major international organizations

Printed by

Moscow Printing-house N 13

30, Denisovsky per., 107005, Moscow, Russia