

**United Nations Theme Group on Poverty**

**ILO Moscow Office**

**Working Towards  
a Poverty Eradication Strategy  
in Russia:**

*Analysis and Recommendations*

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## Foreword

Issues on poverty in Russia have been closely attended by the organizations of the UN system since 1995, when the Human Development Report in Russia was initially published. The issues on living standards and quality of life are the key components of such a report.

The financial crisis of August 1998 brought a wide-scale decline in living standards, thus the UNDP together with the ILO Moscow Office held the round table “The August Crisis and Poverty Scale in Russia”. As it was stated at the round table discussions, the poverty level can no longer be treated as the criteria to determine success (or failure) of the reforms. Reduction of scale and depth of poverty is to become a primary objective of the social policy. The ILO Moscow Office invited Mr Khan – a leading specialist on poverty issues – to provide consultations on poverty monitoring and development of poverty reduction strategy. He rendered a number of consultations to the Russian researchers of poverty issues and to the officials of the Ministry of Labour and Social Development of the Russian Federation.

On October 6, 1999 in Moscow the ILO (its Moscow Office), the Ministry of Labour and Social Development of the Russian Federation, Federation of the Independent Trade Unions of Russia and Coordinative Council of the Association of the Russian Employers held a joint International Conference “Social and Labour Sphere: Overcoming Adverse Consequences of the Financial Crisis in Russia”. The Recommendations of the Conferences cited the aggravating poverty as one of the gravest negative consequences of the reforms pursued.

Presently the poverty issues are included in the Program of Cooperation between Russia and the ILO for the period of 2000-2001 and constitute a separate section. Within this Program the ILO expert Mr A.A.Razumov prepared the report “Russia: Toward Poverty Alleviation Strategy. An Analysis and Methodological Tool” In 2000 resident-coordinator, a.i., of the UN Programs Mr Jean-Victor Gruat initiated the topical groups composed by the representatives of the international organizations, that work in Moscow. Within the work-frame of these groups it was decided to develop Recommendations to the Government of the Russian Federation on Poverty Reduction Strategy. The Allotment of the Swedish Government was to finance the preparation of the document. The materials prepared by all the international organizations working in Moscow were used to develop the Recommendations on Poverty Reduction in Russia.

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## Introduction

In the recent decade there were the two major well-pronounced tendencies in regards of the population incomes – they mostly tended to decrease, while the income differentiation grew.

According to the Goskomstat<sup>2</sup> data, in 2000 the real incomes of population amounted to 35,8%<sup>3</sup> of the last decade level, while the differentiation coefficient grew from 4,5 to 14 times. Thus, the number of the poor increased. In Russia the approach to define and to measure poverty classifies citizen and household poor in case their income is below the subsistence minimum.

As for poverty scale and expansion, out of the years of reforms 1992, 1993, 1999 and 2000 were the hardest. In those years poverty level amounted and even exceeded 30%.<sup>4</sup> In 1992-1993 poverty increase was due to liberalization of prices, when the real incomes of population suffered a 40% decline. In 1999 high poverty level was brought by the financial crisis of 1998. In 2000 we witnessed a certain paradox: while the economy and the level of average income were up, the number of the poor increased as well. In fact, bigger poverty was disclosed due to the introduction of new methodic to calculate a subsistence minimum amount. In case the 2000 data is estimated by methodic based on the amount of the subsistence minimum of 1992, the percentage of the poor would have been estimated as 24% (while being measured by the amount of the subsistence minimum of 2000 it was 30%).

We would like to note, that under the conditions of the transitory economy ways and means to estimate the size of the population of the poor in Russia are yet to be discussed. The issues on poverty definition and measurements were dwelt upon in detail in the ILO report “Russia: Development of Poverty Reduction Strategy. Analysis and Methodological Approaches”. Thus, we are not going to closely attend these issues, but would like to underline that, the figures on poverty penetration can be easily altered in case one manipulates poverty definitions and measuring approaches.

The present report is based mostly on the official data provided by the Goskomstat. However, in those cases when official data and methodic to measure poverty were not capable to provide a comprehensive estimation of significance and intensity of the social and economic processes that aggravate poverty, we made use of the data estimated through alternative approaches to measure poverty, as well as of the data of independent surveys. Such data exclusively allowed us to estimate the interconnection between the living standards and population health indexes.

Serious economic recession that took place in all countries with transitory economy to a great extent aggravated the wide poverty expansion. Thus, perspectives of poverty reduction are very much determined by the new start of economy. Meanwhile, modernization processes are accompanied by the unprecedentedly increasing inequality as the outcome of the economic activity is distributed. Unequal distribution takes place at the level of an enterprise and

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<sup>2</sup> The RF Committee of Statistics (transl.)

<sup>3</sup> Calculated by the author according to the data of the RF Goskomstat. The Sources: 1. The Social and Economic Situation in Russia in 2000, Book of Statistics, M. 2001. 2. Social Situation and Living Standards of the Population of Russia. Collected Statistics. Goskomstat RF., - M., 2000.

<sup>4</sup> According to the Goskomstat data, the percentage of the poor in Russia was as follows: in 1992 – 33,3%; in 1993 – 31,5%; in 1994 – 22,4%; in 1995 – 24,7%; in 1996 – 22,1%; in 1997 – 20,8%; in 1998 – 23,4%; in 1999 – 29,9%; in 2000 – 30%.

industry, as well as across industries and regions. We would like to emphasize that the growing differentiation does not contribute to better economy, but, on the contrary, results in shadow distribution.

The following issues are to be considered when the poverty reduction strategy is being developed:

- For whom the poverty risk is the highest;
- What population groups prevail within the population of the poor;
- What social and economic processes added up to the increase of the population of the poor;
- What measures of state social and economic policy are to contribute to poverty reduction.

The report presents a step by step, detailed consideration of all these issues in order to estimate the objective capacities for the poverty reduction measures to be implemented. The system of recommendations is developed out of a comprehensive consideration of poverty issues. Poverty reduction strategy is sometimes pursued in patch-a-hole way. This results in the situation when contradictory programs are being simultaneously implemented, aggravated by a wrong choice of priorities. Poverty emerges due to a number of processes, not limited to economic ones, thus poverty reduction efforts are to be cover economic, institutional and political fields simultaneously. The main economic issue is the access of the poor to resources. As for political and institutional fields, discrimination of the poor is to be ruled out of political processes and state institutions functioning.

## 1. Characteristics of main social and demographic groups of the poor

The efficiency of poverty reduction measures is to a great extent determined by what particular types of population groups are most prone to higher poverty risks and who constitutes the majority of the poor.

Within the whole set of poverty reduction measures those are to be mostly emphasized that, first of all, contribute to the poverty reduction among the most numerous categories of the families of the poor, and secondly, are to support the most needy groups of population.

To identify such population groups we will employ the index that indicates the probability for various types of households to fall to poverty (the percentage of the poor) and the deficit income index that allows both to identify the families with maximal poverty depth and to determine those types of households that mostly yield to the overall poverty.

To estimate statistically meaningful factors, we employed the budget statistics of the RF Goskomstat (Appendix 1.1), results of alternative approaches to measure poverty (Appendix 1.2.) and model calculations, that were drawn by the project consultants (Appendix 1.3.).

The data provided by the State Committee on Statistics (Appendix 1, Tables 1.1.1. – 1.1.3) indicate that despite poverty escalation up to 30%-level, such characteristics as family composition, gender and age of family members still remain the major ones to estimate poverty risks. The household composition as for gender and age determines the potential number of the employed family members and the amount of dependant strain per one worker. The increasing dependant strain considerably aggravates poverty risks.<sup>5</sup> Families with high dependant strain, as it was back in pre-reform period, still remain among those with elevated risk to succumb to poverty.

Meanwhile, social and demographic composition of the population of the poor is determined not by the degree of poverty risks for the certain categories of families, but by their percentage out of the overall population. Thus, despite the fact that the poverty risk for two-parent families with 1-2 children is smaller than the average in the country, they constitute – being the most numerous - the largest group of the families of the poor (34,7%). Nearly half of total deficit of possessed resources is ascribed to them (Appendix 1, Table 1.1.3). The poverty reduction strategy can't ignore those, safe from the demographic point of view families, despite the fact that the index of poverty depth of other groups greatly exceeds the one for such families.

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<sup>5</sup> According to the data of the Institute for Social and Economic Problems of Population Distribution (ISEPPD) of the Russian Academy of Sciences when more strict definitions of poverty are employed (see the details in Appendix 2) the poverty risk for the families without dependants is 2% and for the families with more than 2 dependants per one employed family member rises up to 15% (Appendix 2, Table 10). However, life is the most severe for the households without any working family members (pensioners, unemployed, sometimes with dependants). Nearly 40% of them find themselves poor as estimated by absolute, relative and subjective approaches of poverty definition.

## 1.1. Population Groups and Households That Suffer the Most Severe Economic Situation

The analysis of poverty risks drawn for gender and age population groups (men, women and children older than 18 years old) indicates **that children have the highest risk to fall to poverty** (Appendix, Table 1.1.1). The high – due to children -dependant strain might have been partly alleviated by state allowances that prior to 1998 were paid to all the families with children and are presently being paid only to the poor. According to the new Federal Law, all the families with children younger than 16 years old and with incomes not higher than 100% amount of the subsistence minimum in the given subject of the Russian Federation are to receive monthly allowances on children. A certain annual amount of the allowance is determined and revised every next year.

For the year of 2001 the allowance is set at the amount of 70 roubles, that is 6% of the subsistence minimum amount for the beginning of the year. This type of allowance is paid from the federal budget and is due to the number of children in low-income families in a given region. In general, due to its small amount, this allowance can not fully alleviate poverty for the families with children. The problem of state support to the families with children is aggravated by the chronic failures to pay in time even these tiny sums, in various regions such payments were late for the period from a couple of months up to several years.

Under new economic conditions life is the hardest for **one-parent families and families with many children**: the percentage of the poor among them reaches up to 60-80%. In this case, poverty is caused by both low incomes of the working family members and by heavy dependant strain. These types of households are certainly not the most common ones: according to the micro-census of 1994 one-parent families constituted 17% out of total population of households, while families with many children – only 9% of the total number of families with children under 18 years old.<sup>6</sup>

However, high poverty level, including its severe manifestations, can't be left out when poverty reduction strategy is formulated. To make things worse the last decade percentage of single-parent families grew due to the increasing divorces, out-of-wedlock birth as well as deaths of men of active age.

The most unfavourable economic situation of the families with many children and single-parent families is proved by the index of monthly deficit of possessed resources per one family member: for single-parent families it is 10% higher than the average deficit index for all other households; for the single-parent families with many children it was 40% higher and for the families of married couples with many children this index is 27% higher than the average (Appendix, Table 1.1.3).

Families with many children are more probable to fall to poverty not only because of dependant (children) strain, but because of insufficient gross incomes of the active family members. Here we witness the several poverty factors simultaneously at work. A big number of children in the family most frequently translates into limited labour opportunities for working mothers, thus aggravating the material provision of the families with many children.

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<sup>6</sup> Household Types and Composition in Russia (according to data of 1994 micro census), M., Goskomstat of Russia, 1995, p.59

The data gathered by special research indicate that in 40% of such families mothers either do not work or are employed at unqualified and, thus, low-paid jobs.<sup>7</sup> Upon analyzing major professional career types for women in families with various number of children one can easily come to the conclusion that women with many children make a definite pro-family choice. Most frequently professional activity is guided by the necessity to provide for the family, but not by the professional drive. The professional status of married mothers with many children tend to go down along with their overall social mobility (50% as compared with 20% with mothers of 1-2 children), while career growth was reported among 14% as compared with 36% for mothers with few children (Appendix 1.1., Table 1.1.12). This tendency emerged back in pre-reform period and was aggravated in the 90s that brought about the lack of jobs and competition at labour market.

In **single-parent families** several poverty factors are simultaneously at work and families of this type often land among the poor categories. The number of children – as compared with two-parent families – is smaller (an average 1,37 per family as compared with 1,6 in two-parent families)<sup>8</sup>, in most cases these are the families with the only child. But taking into consideration that in half of two-parent families there is one child per two parents it is easy to understand why the dependant strain in single-parent families translates into poverty. Private and state transfers are to partly compensate for this, but the way alimonies, allowances and loss-of-provider pensions are paid makes this compensation extremely insufficient.

Polls of divorced women and men indicate that alimony payments tend to decrease. In average, according to the polls of women in 1993, alimony covered only half of the food expenses for the child. It means that the second half of the food expenses plus other not less important expenses (clothes, shoes, education and preschool-expenses, medical services, etc) are borne by the mother. Only in 2% of all cases alimony turned out to be relatively high (at the level of average per capita income in the country for the poll period).<sup>9</sup> The poll of divorced men that was carried out in late 90es, did not indicate positive trends in alimony payments: only 1/5 of sums paid equaled or exceeded the subsistence minimum for the child, however, educational and medical expenses are not included. The minimal sum of alimony payments in 1998 was 20 roubles, and the maximum amounted to 3000 roubles.<sup>10</sup>

Presently the provision of “The Family Code of the Russian Federation” (1995) on alimony charging is practically ignored for the employment is frequently non-official and the incomes are not controlled. Thus, the amount of alimonies charged is most often limited by the set rate (%%), set for official wages at the main job. In case the alimony was received, its amount was at the same low level at the end of 1990s as it was in 1993 – less than a half of the subsistence minimum for a child, and it constituted only 17% out of the combined income of a single-mother family.

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<sup>7</sup> Prokophieva L. Large Families in Low-Fertility Regions: A Social Partrait. – in: Demographic Trends and Patterns in the Soviet Union before 1991. IIASA, Routledge, 1994, p.223.

<sup>8</sup> Household Types and Composition in Russia (according to data of 1994 micro census), M., Goskomstat of Russia, 1995, p.59

<sup>9</sup> Prokophieva L., Festy P. Alimony, Allowances and Family Incomes Upon the Divorce. Population and Society, 1996, No 15.

<sup>10</sup> Prokofieva L., Festy P. Le niveau de vie des familles en Russie apres un divorce. – Politiques sociales en France et en Russie. Paris, INED, 2001, p.92

Under such conditions just an agreement between the former spouses, without court settlement, serves as a relative guarantee of regular alimony payments as well as its bigger amount: the poll of 1998 indicated that women twice more often prefer such a step (27% as compared with 14% in 1993), despite the fact that in this case the amount and regularity of material support fully depends on the good will of fathers and is not under control of state institutions. Fathers, having shadow incomes, may decide for themselves what sum to allocate for children who live with mothers after divorce. This aggravates uncertainty and instability of living standards of the families of divorced women with children.

Upon the marriage break (after a divorce or husband's death) a single-mother family in most cases suffers a considerably harder situation, than before. The research made on families after divorce (1993) indicated that the living standards lowered in 60% of cases as compared with 13% of improvements, and for the 27% of the families nothing changed.

Prokofieva L., Festy P. Le niveau de vie des familles en Russie apres un divorce, p.91.

Growing number of death of men of active age in Russia in the 1990s brought about a new problem – the material provision for the children after the death of a father. However, the currently existing type of loss-of-provider pensions - that in average amounts up to 366 roubles (for the end of 1999)<sup>11</sup>, and equals to 40% of the amount of the subsistence minimum for a child, is not to fully compensate the lowered family income.

The limited social support of the state to the families with children is to some extent compensated by private transfers through the system of interfamily mutual assistance. This measure, traditionally frequent in Russia before, presently tends to expansion and modifications due to social transformations in the society. The overall percentage of households that receive material support amounts has reached 32-36% in the cities of various sizes. More than a half of single-parent families receive a material support from relatives (56-58% of the families) and 21-24% receive it on a regular basis. In this case the support constitutes more than 1/5 of the combined income of the family.

Ovcharova L., Prokofieva I., Poverty and Interfamily Solidarity in Russia in the Transition Period. Public Opinion Monitoring. VTSIOM, 2000, № 4, p.29.

In case a single-parent family emerges due to the out-of-wedlock birth state monthly allowances paid for children under 16 years of age are to partly compensate for the high dependant strain. For single mothers the amount of such allowance is set at the sum of 140 roubles or 12% of the subsistence minimum of a child. Such situation has a considerable impact on the dynamics of poverty growth among single-parent families for the number of out-of-wedlock birth has doubled in the last decade (from 12% of the total number of all children born in 1990 up to 27% - in 1998),<sup>12</sup> but is still lower than in western countries.

There is a certain number of single mothers with children who actually live in two-parent families, for the marriage is not officially registered, however such cases are still relatively

<sup>11</sup> Provision of Pensions and Social Protection of the Population of the Russian Federation in 1999. Collected Statistics. M., Mintrud of Russia, (the Ministry of Labour of Russia, intrp.), 2000, p.35.

<sup>12</sup> Population of Russia in 1999. M., TzDECh, 2000, p.61.

rare in Russia (according to the micro census in 1994, only 7% of married couples lived together with an official marriage).<sup>13</sup>

The second salary is not fully compensated through the system of state and private transfers, thus making women provide for her children by her own individual income. Judging by formal criteria (education and qualifications) single mothers share the same skills as married women, but presently the professional success and higher salaries are not determined by these factors only. Jobs in non-state sectors of the economy, additional employment are the key elements to rise incomes. From this point of view, the labour activity level is the highest among women heading single-parent families.<sup>14</sup>

However, even in the most favourable period of the country's development, when the opportunities for multiply employment were expanded and the unemployment was relatively low (1993), the overall earned income of women from single-parent families in general did not equal to the income level of men and was slightly higher than the one of the women from two-parent families (for 18%).

t can be explained by the limited number and types jobs providing extra earnings as well as by the objective difficulties arising when one switches to the private sector: the job positions in non-state enterprises, in private businesses demand for long hours and great efforts while neither social infrastructure nor everyday social services and childcare are enough developed. The necessity to care for children add up to the limited labour and professional capacities of women.

Next demographic group of households mostly prone to the risk to fall to poverty is constituted by the **single pensioners of senior age**. Despite the fact that pensioners are a socially vulnerable population group, to be a pensioner is not a factor for elevated poverty risk in Russia when poverty is estimated through the difference between possessed resources and the subsistence minimum. According to the official statistical data of 1999, single pensioners had a more than twice lower risk to fall to poverty as compared with other groups of households. Data on poverty level of particular gender and age population groups also indicate that despite the growing number of the poor among the senior pensioners, their poverty risk is not higher than the average index in Russia.

Nevertheless, the actual deep poverty of the senior is hidden behind the peculiarities of statistical aggregation. First of all, a group of single pensioners as a separately considered demographic household group is not homogeneous by age. High poverty risk is cushioned by the "young pensioners" among whom there are many who are working for the first 5 years upon retirement (55-59 years for women and 60-64 for men). The employment level among the men is considerably higher: 48,1% as compared with 36,7% for women.<sup>15</sup> From another point of view within gender and age groups we can not separate the pensioners who live in families and from those residing separately. The data of numerous research carried out in many regions of Russia during the last decade indicate that pensioners who live separately

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<sup>13</sup> Marriage Status and Birthrate in Russia (according to the data of 1994 micro-census). M., Goskomstat of Russia, 1995, p.9.

<sup>14</sup> Living Standards of the Urban Population of Russia and the Social Problems of the Reforms. M., ISEPPD and INTERCENTER, 1995, p.92

<sup>15</sup> Roschin S.Y. Labour Activity of the Senior Population. – in: Demographic and Social and Economic Aspects of Population Aging. M., MGU (Moscow State University, interpr.), 1999, p.137.

and wholly provide for themselves are a lot behind those living in families with working relatives.

According to the RMESH<sup>16</sup> data (1998), out of total number of pensioners there about 2/3 live separately, among which one can single out married couples (sometimes with dependants) and pensioners living alone (Appendix 1.1, Table 1.1.4). Practically the same figures were obtained through polls on living standards and poverty of the urban population (cited by ISEPPD the Russian Academy of Sciences.)<sup>17</sup> (Appendix 1.1., Table 1.1.5)

The outcome of these special research provide grounds to classify the group of senior single pensioners, 90% of which are women, as households mostly vulnerable to fall to poverty. So according to the data of comprehensive research (RMESH, November 1998) while the average (general) poverty level of pensioners was 46,5%, the percentage of poor senior women amounted up to 54% (Appendix 1.1, Table 1.1.4). As for the men of senior age the average amount of their pensions is for the moment not lower than the one of other pensioners for among them there are many veterans of the WWII whose pensions are higher.

The list of population groups, that are prone to fall to poverty, is not limited by the categories identified above, though they have the highest poverty risk. Thus, among two-parent families the poverty risk raises for **young families** when the material status of the family goes down upon the birth of a child: the percentage of poor families at this stage rises 1,6 times (from 26,1 for the young families without children up to 42,1 for the young families with children).

The problems of higher poverty risks for young families after a birth of a child are first of all brought about by double dependant strain. The delivery of a child is usually followed by mother's leave from the active job, for, at least, one and a half years of a officially paid childcare leave. The amount of allowances on childcare, based on the amount of minimal wages, does not compensate for mother's salary now absent from the family budget.

At the same time, according to the research of ISEPPD of the Russian Academy of Sciences, the natural decline of the family material status caused by the birth of a child nowadays looks more smooth as compared with the late 80s when such a decrease amounted to 2,6 times (Appendix 1.1, Table 1.1.6). This indicates that when planning a child young families to a greater extent count on their own material resources. When on official maternity leave women try to find a childcare-compatible job – home-based occupations, jobs for several hours a day. Besides young fathers try to make use of the new – as compared with late 80s - opportunities of additional earnings and better-paid jobs.

The described above household types, that are mostly prone to fall to poverty, were identified by demographic factor (demographic family composition, age, gender), however, there exist a wide range of *social factors* that add up to poverty risks.

**Being a family with a handicapped family member** is one of such factors. Poor development of care services for handicapped pushes one of the adult family members leave a job (mostly women) to care for a handicapped, thus a dependant strain on the working family members increases. Low amount of pensions for handicapped along with expanding range of paid medical services poorly compensates the absence of the second paycheck in the family. Thus, life turns out to be much harder for handicapped pensioners as compared with old-age pensioners: according to the data of the State Committee on Statistics – poverty

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<sup>16</sup> Russian Monitoring of Economic Situation and Health of the Population

<sup>17</sup> Poverty: Alternative Definition and Measurement Approaches. M., Moscow Carnegie Center, 1998, p.186.

among them is 1,5 times higher, while the extreme poverty is twice more frequent (Appendix 1.1, Table 1.1.7).

According to official data, in 1990 the number of handicapped amounted up to 9,6 million people (the ones of the three political Ministries are not considered), including 0,6 million of children under 16 years old. Unfortunately, the budget researchers do not single out households with handicapped, thus we can use only the data of local surveys.

According to RMESHHP materials of 1998, living conditions of the handicapped pensioners directly influence their material provision. The handicapped without relatives or living separately in 2/3 of cases live below poverty line (Appendix 1, Table 1.1.8). The percentage of single handicapped pensioners is certainly lower than of old-age pensioners and they tend to live in households with numerous members in order to obtain the necessary care<sup>18</sup>. But in these cases additional dependant strain adds up to the poverty level in families (52% of such families have the incomes below the subsistence minimum).

As for the poverty level differences for the handicapped pensioners of particular age groups, the RMESHHP 3 data of 1998 indicate that the most severe poverty is suffered by the families with handicapped children, they are followed by the handicapped of the active age, while the conditions of the elder handicapped are not that hard due to much higher pensions and special benefits for WWII veterans.

Out of total number of handicapped children about 1/3 live in special care institutions, the rest are brought up in families. Meanwhile the calculation procedure for the subsistence minimum does not take into consideration the specific needs of handicapped children. The material status and situation in the families with handicapped children – even when it formally equals to the necessary income level – turns out to be extremely difficult

Analysis of social and demographic structure of such families indicates that most of them are families of single mothers; such families are characterized by the heavier dependant strain as well. Mothers have to leave jobs and the family budget becomes much weaker. All this makes the families with handicapped children the most socially vulnerable group to fall to poverty. An extremely poor development of infrastructure that is to aid to care for handicapped children deprives mothers of the opportunities to keep the job and is of negative influence on the living standards of the families with handicapped children.

The majority of handicapped are of active age: either they are handicapped since childhood or became handicapped or disabled due to an accident (including job-related accidents) or to an illness. Many of the handicapped are still to some extent capable to work under friendly conditions, however, it is very hard for them to find employment, even a part-time one, or to transport themselves to a job.

Even in Moscow, where jobs offers are better and a certain assistance to handicapped is rendered, only 11% of handicapped of young age work, and 40% are eager to get a job.<sup>19</sup>

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<sup>18</sup> Vasin S.A., Soroko E.L., Boroyavlenskiy D.D. Social and Demographic Characteristics of the Handicapped (according to the data of 1994 micro census). Material of the Conference “Equal Opportunities for the Disabled: Problems and Solutions”, Council on the Issues of the Disabled, March, 3-4, 2000.

<sup>19</sup> Arkhangelsky V., Bodrova V., Kovalchuk Y., Khibovskaya E. Living Standards of the Disabled in Moscow. Public Opinion Monitoring, VTzIOM, No 1, 1999, p.50.

About 2/3 of working handicapped work at home, smaller number of them work at specialized enterprises and only a few are employed at regular working sites.

At the same time more than half of the handicapped are employed at high-qualified jobs. Nowadays there exist about 1,5 thousand of handicapped-friendly working sites and shops that hold 240 thousand of working places. However, only 80 thousand of them are occupied by the handicapped, thus providing the employment for only 12% of the handicapped.<sup>20</sup> Such types of enterprises usually target certain categories of handicapped, the ones with substantial loss of body functions (blind ones, mentally handicapped, with motor system impaired).

The declared target of the Law on the Social Protection of the Disabled and the Handicapped is full and rewarding participation of the disabled and the handicapped in social life. Thus, the policy to support the disabled and handicapped is to be translated not only into direct material aid, but to comprise prevention and rehabilitation.

Presently, social programs to support the disabled and handicapped are financed to keep this population category passive, to prevent the demands of another social group in various social spheres, labour market in particular. Measures to overcome the state of incapacity are not taken, thus it is somehow supported and procreated. The policy towards the disabled and the handicapped is to a some extent a replica of the policy on poverty, when the support rendered to the poor actually traps them in, instead of encouraging the efforts to overcome poverty.

National legislation on the issue lacks the mechanisms to implement the most important legal norms on incapacity prevention and on rehabilitation of the disabled and the handicapped, and this is one of its main flaws.

The disabled and the handicapped have a very much limited access to social infrastructure and to the environment adjusted to their needs. The Order of the President of the Russian Federation “On the Measures to Shape the Environment Accessible to the Disabled and the Handicapped” was signed back in 1992, it initiated the development of housing and social infrastructure standards with regards to the needs of the disabled and the handicapped. However, the lack of the enforcement mechanism has translated into the situation when the above-mentioned Order and other legal documents adopted to develop it are not observed.

The Law “On Social Protection of the Disabled and the Handicapped” was adopted back in 1995. By its nature it is more close to a program of social protection of the disabled and the handicapped for it renders the theoretical grounds to develop legal institutes of social protection. The Law stipulates that “the disabled and the handicapped are to be provided equal opportunities to implement civil, economic, political and other rights and freedoms ...”, it means special rights for the disabled and the handicapped are to be set, so they could become the full and equal members of the society.

The Law also provides a number of guarantees on the special rights of the disabled and the handicapped, which, being observed, turn to be guarantees of the implementation of the law. However, these guarantees couldn't be considered effective, for - according to the Art.35 – particular provisions of the law have different effective dates - a number of provisions were to become effective at the period of 1995-1999, and the law turned out to be practically

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<sup>20</sup> The Disabled in Russia: Disability Reasons and Dynamics, Collisions and Perspectives of the Social Policy. Bureau of Economic Analysis. M., ROSSPEN, 1999, p.226.

ineffective. As it is proved by practical experience, even the articles that should have become effective, fail to work. Thus, by its nature and in the form it was adopted, this law is more of a program, than a normative act.

Employment issues are of a great importance to the rehabilitation of the disabled and the handicapped. There should be provided mechanisms to make the enterprises interested in the employment of the disabled and the handicapped. Besides, this population category is to be provided an access to general and professional education, the higher in particular, as well as to professional retraining. Only high professional qualifications of a disabled or a handicapped, along with certain tax relief extended to enterprises, are to make the employers interested in hiring the disabled and the handicapped.

Insufficient financial means are allocated to federal programs to support veterans. This holds true about the articles of the laws, according to which those means are to be provided, especially the ones on creation of the disabled-friendly environment. Thus, implementation of the Russian legislative documents on the issue gets hindered.

Social policy on the disabled and handicapped children is to comprise both measures to prevent juvenile disabilities, including the preventive healthcare, and measures to develop quality education and professional guidance. Social infrastructure to assist mothers with handicapped and disabled children to partially or fully return to professional activity is of particular importance for such families. All the above-listed measures call not for temporary financial allocations, but for the revision of the ideology of the social policy in regards of the population groups in extremely hard life situations.

The Law “On the Social Protection of the Disabled and the Handicapped in the Russian Federation” stipulates the right of this population group for an unobstructed access to the social infrastructure and information. However, the corresponding articles failed to become effective. The whole structure of social protection of the disabled and the handicapped is getting ruined in the absence of the rights of the most importance. Discrimination turns to be approved and practiced, thus, the principle of equality, declared in the international documents on human rights and in the Constitution, is being disregarded.

In the opinion of jurists, it is time to treat the issue on the rights of the vulnerable social groups in terms of discrimination of their political and civil rights. The state has powers to grant or to withhold the rights, or – as it actually takes place – to declare the right without provision of any effective mechanisms of implementation. The issue can be treated differently in case the discrimination is banned.

For example, a disabled or a handicapped person is considered to be discriminated in case he is prevented to access the social infrastructure, for his capacities differ from those of healthy people. In case a single mother, or a mother with many children, is denied a job due to her family status, she is considered discriminated as well. Here we talk not about *social*, but about *civil and political rights* of which the clients of social services are deprived for they can not exercise them.

At the same time the state is to be relieved from the unbearable burden. As for its social function, the state is to distribute the powers between the subjects of the social relations. It is to establish the system and the procedures to settle arguments arising in this field, to develop

legislative regulations both for social services and for those providing employment and access to goods and services.

The basic legal principle to ban discrimination is to - first of all - serve the new model of social work. In case it is applied, the client of the social service, formerly treated as an object, becomes a subject of the relations, already existing and yet to emerge in the field of social protection. The client is encouraged to lead an active life in case the discrimination is banned. Thus, the transition from administrative model of social work to the concept of “independent life” is to be provided.<sup>21</sup>

**The unemployed family members** constitute the next social factor that lowers the combined family income and adds to the dependant strain. The budget research of the State Committee on Statistics does not dwell on total number of the households with unemployed, but only identifies the population group receiving unemployment benefits. However, even these figures indicate a high poverty risk for this population category: 69% of them have the possessed resources below the subsistence minimum, including those 29% with incomes twice or more times less than SM. (Appendix 1.1, Table 1.1.2).

The family well-being is more affected in case a man loses the job than when it is lost by a woman: independently of the household type the probability to join the poor is 57% when the job is lost by a man, and 43% - in case it is lost by a woman (Appendix 1.1, Table 1.1.9), for men are better paid than women. It is worth noting that poverty is more often brought about in case the first provider – independently from his/her gender – becomes unemployed.<sup>22</sup> The first providers are mostly men in two-parent families, and women – in single-mother families. This population group constitutes a 1/3 of the total number of unemployed and remains the same in time.<sup>23</sup>

The 90s in Russia faced the emergence of another group with elevated poverty risk, these are **the families of refuges and of the forced migrants**. The data about them can be obtained only through special research, for the state statistics lacks detailed information on them and does not include them into the list of households to be surveyed.

This population category emerged with the collapse of the USSR and due to numerous regional conflicts in the former Soviet Republics. By the January 1, 2000, the Federal Migration Office of Russia (FMS) had registered 1.5 million refugees and forced migrants, 20% of them were from the Russian regions of local conflicts. The age of the refugees - as compared with the age of average migrants – differs, for among them there are more children and senior citizen.<sup>24</sup> If – under regular conditions – families with children, including one-parent families, are less prone to move, than under extreme circumstances they are the very first ones to escape in order to save children from danger or discrimination in rights.

Accommodation is one of the major problems for the refugees. Polls carried out in 1997-1998 indicate that before relocation these families mostly had a good accommodation, while now – only 23% of them are separately accommodated in big cities and 43% - in villages. The rest

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<sup>21</sup> Levina M.I. “Social Worker: Legal Status and Development of Legislation”. In the book: “Social Legislation in Russia and in Great Britain.” M., 2000, p.168.

<sup>22</sup> We consider the first family provider the one with bigger salary.

<sup>23</sup> Population Employment Survey, May 2000, Goskomstat RF, p.204.

<sup>24</sup> Vitkovskaya G. Forced Migrants from CIS and Baltic Countries to Russia. Population and Society, No 18, 1997.

live in the shared apartments, rent some accommodation from private persons or share corners with relatives and friends, and sometimes do not have any shelter at all.<sup>25</sup>

In the first years of reforms there was adopted a program to aid refugees under which they had the right to be provided with free accommodation. But when the state capacities do not correspond to the actual accommodation needs of refugees, distribution of such accommodation gets corrupted and the problem of refugees' accommodation has not been solved.

However, if in the mid-90s the very problem of accommodation was of a decisive impact on refugees' assimilation in new places, now employment comes first. More than 60% of the migrants quit their professions, and these numbers are even higher in villages. The professional status of the migrants gets significantly lowered at the new place: the number of unqualified workers raises 2.5 times in big cities, and 4.3 times – in villages. The migrant workers are less paid (their wages are 30-40% lower than the ones of the local workers), despite the fact that their education and qualifications are usually higher. Thus, job dissatisfaction is high (46% - in big cities and 55% in the villages). However many of them can't switch jobs for they are earning the accommodation (17-24%), or "housing registration" (6-8%).

The forced migrants face difficulties obtaining social support and it is vital for people who escaped their native places. They very often have to leave behind all their possessions. Nearly half of them had not got any support in Russia. 28% of them were accommodated, often temporarily, 24% received one-time money allowances, food and casual household items, 8% received privileged housing loans, 6% were aid in getting employed, 6% were assisted in individual accommodation (were provided with land, construction materials, cattle and cattle food), 2% received legal aid. Thus, weak assimilation opportunities and lack of state aid make this population category extremely vulnerable to poverty risks.

## 1.2. The New Poor

An extremely unfavourable dynamics of living standards of population at the last decade had a negative impact not only on the population groups traditionally prone to poverty, but on the families with favourable demographic distribution as well: **two-parent families with 1 or 2 children**. As it was noted above, **this household type constitutes a high percentage of poor families**, though their poverty is not as deep as for the one-parent families or families with many children.

According to budget research, more than half of two-parent families were classified as poor, and 18% of them possess the resources that are twice or more times below the amount of subsistence minimum. (Appendix 1.1, Table 1.1.2). We note that these figures are not much different from poverty indexes for single-parent families, so deep social and economic crisis somehow leveled down all the family types in their severe poverty.

Where does poverty root for this type of households? Our surveys indicate that in 60% of two-parent families with two children the heavy dependant strain and low incomes of working family members are aggravated by dependants of active age and pensioners with low pensions.

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<sup>25</sup> Vitkovskaya G. Ten Years of Forced Migrations to Russia. Population and Society, No 32, 1998.

The rest 40% are the families of so-called “**the new poor**” when two working spouses can not provide for one or two children. Being employed at the state-budget enterprises or at not profitable enterprise is one more poverty factor. The wages are considerably lower in such industries as agriculture (44% as compared with average wage level in Russia), light industry (57%), public catering as well as the financed from the budget fields (education, healthcare, culture – 53-58%).<sup>26</sup> Women constitute the majority of employed in these industries, and this becomes one more factor adding up to feminine poverty.

It is worth noting, that in general the families of “**the new poor**” (separately residing citizens of active age, families without children and families with 1-2 children) account for about 50% of the total number of the population of the poor. In the Soviet period such families did not land within this category. Thus, we conclude that the **poverty expansion entangles new types of families**, headed by active people. Low wages, inadequate (poor) state support to the children and the unemployed are the reasons for such poverty expansion. These issues are to be dwelt upon in detail below.

### **1.3. Regional Differentiation**

Higher poverty risks for rural residents are to be immediately noted in case we analyze differentiation in poverty levels by the type of settlement and region. In 1999 average poverty risk for urban residents amounted to 40,9% as estimated by the index of possessed resources of statistical data, while for rural residents it amounted to 46,2%. Rural households account for 30,3% of the total number of the households of the poor (while rural residents constitute 27% of the total population). Higher poverty level for the rural residents is also accompanied by deeper poverty, as confirmed by income deficit index. In 1999 income deficit per a rural resident amounted to 374,7 roubles or 105% of the urban level.

Higher poverty risks for rural residents are mainly determined by the labour market situation: in rural settlements it is characterized by higher level of general unemployment and low wages. As for the industrial differentiation, agriculture is the very industry of the lowest wages, in 1999 the wages in agriculture amounted only to 41% of average wage level in the economy in general. It is worth noting, that along with low wages, agriculture is characterized by high wage differentiation. As indicated by 1999 data, the fund differentiation coefficient for agriculture amounted to 31,6 times. Only in banking wage differentiation is greater.

Access to land is the major means of adjustment for the rural residents, thus they have to intensely work at the subsidiary private farms. However, income deficit is only slightly compensated through sales of generated at SPF produce, such incomes tend to be concentrated by wealthy rural residents. For the poor rural residents in-kind incomings (food products) constitute meaningful source of material provision. In 1999 for the rural residents the in-kind incomings amounted to 24,7% out of the total amount of possessed resources (while for the urban residents it was only 5.2%), or 34% out of money income level. As it is estimated by the Goskomstat, for the rural residents the in-kind incomings decrease poverty risks for 10 points.

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<sup>26</sup> Economy and Life. No 51, December 2000.

Meanwhile, the expanding employment at SPF and the growing weight of in-kind incomes do not compensate for the losses suffered by the rural residents under the transitory economy. The majority of the rural families with high labour potential consider SPF employment as a means to survive, but not to successfully adjust to the market reforms. Success in life is associated with moving for permanent urban residence, thus starting 1994 the rural residents tend to move to cities. Cased by migration, smaller size of rural population is only to some extent compensated by immigrants.

Territorial contrasts of living standards constitute a currently emerging characteristic of the poverty in Russia and can be estimated through the ratio between per capita incomes and the subsistence minimum. The buying capacity of the population incomes of the poorest RF subjects is 8-12 times lower than the ones of the leading one (Moscow).

In the critical 1990s the regions of Russia split into two main groups: the “open” ones, linked to the world economy and rich in natural resources and export-orientated regions as well as the biggest cities with fast growing tertiary sector, and the other ones – so-called “closed” regions, linked with domestic economy, they suffered the most and constitute about 70% of the total number of the RF subjects, and 2/3 of the overall population reside there.

Soviet mechanisms to level regional incomes (though the incomes were very low) were though expensive, but rather effective. Under critical situation in economy there happened either the considerable cut down in the volumes of redistribution of financial and budget resources to support the poorly developed and high priority regions, or such mechanisms were completely cancelled. Thus, in the 1990s territorial disproportions in economic development grew, resulting in increase in regional differences in income and poverty levels. Regional disproportions are extremely high: gross regional product<sup>27</sup> (GRP) of the Tyumen region is about 13 times higher than the one of the Ingush Republic. The average index for the five leading regions is 5,5 times higher than per capita GRP of the five outsider regions.

The above described scale of regional disproportions prove that In Russia it is obviously insufficient to work out only the general federal strategy on poverty reduction, for there exist huge differences in conditions and factors of social and economic development all over the country. Measures, efficient in some regions, might be insufficient or inefficient for the others.

#### **1.4. Gender Aspects of Poverty**

Feminization of poverty – that is presently underway in Russia – becomes even more obvious from classification of household types with elevated poverty risks. In 1980s-1990s this tendency is on the rise all over the world and stems out of the increasing number of divorces, that have become more and more frequent with the last 25 years and leave mothers and children in a harder economic situation. Besides the number of one-parent families grew as out-of-wedlock birth are on the rise as well.

Being different from the Western countries, feminization of poverty in Russia roots in both the worsening material status of single-mother families and elevated poverty risks for separately living women of senior age.<sup>28</sup>

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<sup>27</sup> GRP is adjusted for the subsistence minimum in the region according to the methodics, used in the Russian reports on the development of the human potential of the UN Development Program.

<sup>28</sup> Feminization of Poverty in Russia, World Bank Report, M., 2000.

Market niches occupied by women in the labour market become another factor adding up to feminization of poverty. It is well-known that models of social mobility differ for men and women. Social mobility for men is characterized by stable professional rising, while women less often than men achieve a rising career upon entering the labour market. This holds true for all women, even those who do not have to care for children.

Many researches suppose that there exists a gender discrimination at the labour market. It happens through many ways, including segregation, that badly influences women's career. It limits professional growth as well as the amount of wages and is of negative impact on the quality of women's professional life.

Career differences for men and women. During many decades the state made sure women had been actively involved in the economy. As a result by the late 1980s the employment level for women was practically the same as for men: 90% of women of active age were either working or studying. Thus, ways of living and social goals were profoundly modified for several generations of women. The equal access to education made it possible for women to reach and to surpass men in this field. According to the 1989 population census, 46% of working women had higher or professional school education, while for men this figure was only 34%. The gap was approximately the same in the mid-1990s.<sup>29</sup>

Despite that in a pre-reform period social mobility dynamics was less favourable for women than for men. The general mobility balance, calculated as the difference between the positive and negative mobility meanings, amounted to +53,3% for men and only +18% for women.<sup>30</sup> This was caused by the fact that the majority of feminine careers are flat<sup>31</sup>, and that a professional status of women more often tends to go down as compared with men.

The positive dynamics of social mobility was traditionally related to the worker's age: both for men and women it is age-positive. However, for the women the initial cycle of professional career is much harder for it falls at the childbearing period. In Russia this happens at a much younger age than in Western European countries. According to the demographers, at the period 1965-1991 the average age of mother delivering her first child fell from 24,8 to 22,9, and this is approximately the same at present (for example, in France mothers of firstborns are in average 27,9 years old).<sup>32</sup> These figures indicate that for the majority of women in Russia the period of professional knowledge and skills acquisition falls to the maternity period and this can not but influence the career.

Social shifts were substantially redirected by changes in economy functioning of the recent decade. Age and related to it period of years-in-service is no longer a factor that determines positive social mobility. The mobility index for men went down from +53,5% to +3,3%, and for women – from +18% to – 6,6%. Thus, presently, despite a more favourable situation (perspectives) for men as compared with women from the professional point of view, the

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<sup>29</sup> Women and Men in Russia. Goskomstat of Russia, 1998, p.38

<sup>30</sup> Prokophieva L., Festy P., Muracheva O. (2000) Professional Career for Men and Women. Economy Issues, No 3, p.74-84. (Table 13).

<sup>31</sup> To analyze the extent and direction of social and professional mobility there was employed the index "the professional career type" that is built by dynamics of education level and qualifications of men and women as the career goes on, as well as by position shifts and periods of unemployment. There were classified 4 types of professional careers: descending, flat, faintly growing and ascending.

<sup>32</sup> Population of Russia. 1993, M., TzDECh, 1993, p.23. Population of Russia. 1997. M., TzDECh, 1998, p.53

decline of this index within last decade looks more considerable due to the much higher positions and better rise in the past. Women had lost less, but today the index of their social mobility is of negative meaning, that is career dives-down are more frequent than career growth.

Unequal opportunities for men and women at labour market. The data on the employment of population of active age indicate that during the years of reforms the opportunities to apply economic activity of population had become more scarce (Appendix 1, Table 1.1.14). This translates – when all other circumstances are equal - in growing competition at labour market. Under these conditions both men and women join the category of unemployed or stop being economically active. Meanwhile, if the men are more prone to become unemployed, women more often tend to quit the field of economic activity.

From one side this transition, can be connected with growing incomes of other family members and the general strain on women is less upon the job is quitted. Women themselves often view this transition as a positive one for it does not result in substantial lowering of a family well-being. However, under the growing competition at labour market the alternative approaches of housekeeping are emerging as well.

When the economy is growing housekeeping is opposed to the professional employment adequate to a woman's qualifications. When the economy is down housekeeping can be alternated with search for adequate job, but the chances to find the job are low and the employment is unstable, of low qualifications and poorly paid for. Under such conditions the switch to housekeeping most often leads to substantial decline in living standards.

The data of the research of the late 1980s,<sup>33</sup> just before the large-scale changes in economy, drives one to the conclusion that at that period the first group of factors dominated (husband's high income allowed the wife to quit the job upon the delivery of a child). As the economic crisis emerged the main reason for women to switch to housekeeping was a growing competition at labour market and little hope to find a job. As it was shown above, by adding up to the dependant strain on the working members of the family, housewives invite poverty even to the families considered safe from the demographic point of view. Though being a kind of adjustment to the current conditions of labour market, forced departure from the labour market is rooted in the limited activity choice for women and obstructs decent living standards.

Despite the fact the majority of the unemployed are men, the peculiarities of feminine unemployment translate into harder chances for women to find a job. It is reflected in the different duration of the average job-searching time for men and women and by the number of men and women who are seeking for jobs for not less than a year: 46% and 55% correspondingly (Appendix 1, Table 1.1.15).

Unequal job payments for men and women. One of the factors of feminine poverty is the unequal wages for women as compared with the ones of the working men. The gap between the average wages of men and women has been gradually increasing in recent years. Thus, if in the 80s the feminine wages amounted to 70% of the one for men, nowadays, according to the VTZIOM<sup>34</sup> data, average feminine wages equal only to half of the one for men.<sup>35</sup> This

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<sup>33</sup> Social and Economic Research of Well-Being, Ways and Standards of Living of the City Residents ("Taganrog-3" Project). M., ISEPPD RAN, 1992.

<sup>34</sup> All Russian Centre for Public Opinion Studies

figure is a bit bigger than official data of the State Committee on Statistics on the wage differences. According to the latter, the pre-reform ratio is still the same (Appendix 1, Table 1.1.17). However, VTZIOM data provides the differences on sum total wages earned at the main and additional jobs, so there are no contradictions.

There are a lot of factors to cause such differences. Most of them involve indirect discrimination of women, for example the specific structural characteristics of industries, skills and qualifications of employed men and women as combined with the traditional differentiation of average wages throughout industries and occupations.

World tendencies indicate that feminine employment is mostly concentrated in less profitable fields. The analysis of the feminization of an industry and the level of wages in the Russian economy confirms this conclusion. There is a clear-cut tendency for lower wages in the industries mainly serviced by women. The 1/3 of employed women work at the fields financed from a state-budget: healthcare, education, culture. Only 9% of working men are employed in these spheres. The wages of women employed in these fields, according to the 1998 data, amount only to 57-63% of average wages in the country and does not provide the consumption at the subsistence minimum level even for themselves (let alone dependants). Presently women are being forced out from such just recently feminine industries, as banking and insurance - for under the market conditions they became the fields with high salaries. At the period since 1940 to 1993 in Russia the index of industry segregation has risen twice (from 17,28 up to 34,52).<sup>36</sup>

Besides the industrial wage differentiation there exist the differences in wages for men and women employed in the same industry, and it concerns not only the overall wages, but hourly wages as well. This is a more exact indicator of wages differences for the general level of wages includes the differences in working time.

According to the survey on the wages of the workers of particular occupations and positions, carried out by the State Committee on Statistics, only in one of the industries surveyed (metal-refining industry) the average hourly wages of women were higher than the one of men. In the rest 19 industries women are left behind and the biggest gap amounted to 2,8 times (coal-extracting enterprises), and the minimal one was only 2% - in the educational sphere. It is worth noting that among the industries with lower hourly wages for women there are many with prevailing feminine employment, such as textile, sewing, shoe-making, communications and healthcare (the gap is 38 points).<sup>37</sup>

There exists the problem of different wages for men and women employed in the same industry. Unfortunately the lack of data on qualifications of men and women of the occupations surveyed does not allow to draw clear-cut conclusions on the causes of gender differences of wages, however the indirect data indicate that this negative trend emerged due to lower professional qualifications of women. The factor of direct discrimination can not be ruled out either.

The main cause for feminization of low income employment roots in the objective specifications of feminine competitiveness connected with reproduction and double engagement of women. This is the very reason why in the majority of families women are

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<sup>35</sup> Feminization of Poverty in Russia, World Bank Report, M., 2000.

<sup>36</sup> Roschin S.Y. Employment of Women in the Transitory Economy of Russia. M., 1996, TEIS.; Baskakova M.E. Equal Opportunities and Non-Gender Stereotypes at the Labour Market. M., 1998, MtsGI.

<sup>37</sup> Feminization of Poverty in Russia. p.78.

“secondary” working providers and men are “the primary” ones. These gender differences are illustrated in statistical lines showing the workers’ wages distribution: women occupy positions in the left – low paid – distribution wing, while men – in the right – highly paid – wing.

The analysis on employers’ preferences clearly shows their unwillingness to hire women. The polls, made by Center for Labour market Research, indicated that more than a half of them consider that family related strain lowers the value of women as a working force. Due to their opinion, it is connected primarily with frequent absence from the job (60%) and low working efficiency (22%) as well as with low interest in the job (12%) and low intellectual level (2%). Besides when job competition is high the employers prefer the workers that are ready for greater work-load, urgent changes of working schedule and late hours. The latter is less acceptable for women as compared with men, however in other issues (the level of wages, the duration of paid leave) women may be more agreeable than men.

Thus, women are under unfavourable conditions to build a career mostly because of the priority differences at the labour market that stem out of different functional family roles. As a result, industrial and professional niches that call for less efforts, are less promising for career growth are, as a result, less paid. And they are the very ones to be occupied by women.

The employers’ preferences, based on both objective differences in the quality of masculine and feminine working capacities and on prejudices as well also diminish the competitiveness of women. Such situation can’t but influence the living standards of families with women as main breadwinners, that is single-mothers’ families.

### **1.5. Policy to Counteract Poverty Aggravating Factors**

The key, poverty-aggravating social and economic processes - as provided by the above-rendered analysis of the social and demographic composition of the population of the poor and of the factors aggravating poverty – are as follows:

1. Limited access of the population of the poor to free services that results in social exclusion and lower living standards.
2. Growing number of the unemployed population of the active age.
3. The already emerged system of wages, that brought about an unprecedented number of workers with wages below the subsistence minimum.
4. Flaws in labour and social legislation, that limit the access of the poor to the resources.
5. The system of social protection is inadequate to settle the problems arising due to emerging labour relations. Such a system limits the access of the poor to social transfers.
6. High level of regional social and economic disproportions, that results in locally bound poverty.

The combination of the above-listed factors brought about the situation when 1/3 of the Russian population lives in poverty, while the poverty risk for the traditional categories of the poor 1.5-2 times exceeds the national level. Meanwhile, “the new poor” constitute the largest group of the population of the poor. Thus, poverty reduction strategy is to be effective only in case it is based on the very two directions:

- To create conditions for the working population to be able to earn enough to escape poverty;
- To set the effective system to support the socially vulnerable population groups (the senior, the disabled and the handicapped, families with high dependant strain, families in extreme life situations – refugees, etc.).

## **2. Poverty and Overall Health of Population**

Overall population health is one of the major indicators of life quality. It determines the degree of social development and prosperity, as well as compliance to civilization norms. As it was indicated by cross-country comparisons, major national health parameters, - and life expectancy first of all – are closely interconnected with the amount of national per capita income. There are numerous direct and feedback connections between health and wellbeing. High living standards can be considered to be one of major factors contributing to good health, while only a healthy population is ready for intensive labour, studies and achievement of material well being.

### **2.1. General Survey of Overall Health of the Population of Russia**

Official statistics of recent decade reflect a catastrophic health decline among the Russian population. Sick rate increased for practically all major groups of diseases. The situation is especially serious for the nosology forms of social etiology: tuberculosis sick rate has sprung up to an epidemic (it grew 70% in 5 recent years), the number of infected with Hepatitis B and C increases 20% a year; AIDS has become a social catastrophe (1 million of HIV-infected are expected in 2002); substance abuse is on the rise (especially among children, young people and women).

Unfavourable dynamics is seen for the feminine reproduction (1300-1500 cases of chronic pathology for 10.000 of women), only 1/8 of women can be classified as healthy at the onset of pregnancy.

Unbalanced and insufficient nutrition causes anemia in a large number of pregnant women (its rate grew 3,4 times for 10 years), only 6 out of 100 pregnant women get the sufficient energy and nutrient provision. The lack of folic acid, for example, results in a higher risk of birth defects, one can see this trend on the rise in Russia nowadays.

Poor maternity health predisposes the low health of the newborns. As compared with 1990, the number of the sick-born has increased 2.8 times and now 1/3 of newborns are delivered already sick. Thus, while 70% of newborns are generally healthy, only 10-12% of children retain their health by primary school, only 8% stay healthy through the secondary school and only 5% of school children are still healthy by the end of school years. Half of school children have some chronic diseases, 79% suffer from neuropsychic disorders, mainly, of bordering etiology.

While the general sick rate is increasing, it also results in a growing percentage of disabled and handicapped, especially children. In 1999 there were more than 10 million of the disabled and handicapped in Russia, among them 0,5 million are children.

Overall health decline, being aggravated by hard labour conditions for the major part of workers, unavoidably results in a higher death rate (in 2000 – 15,3 per population 1000). The percentage of those deceased while being of active age, is growing (in 2000 – 29% of the total number of the deceased).

Demographic processes in Russia are characterized by low life expectancy (66 years). For men it is 58,9 years. High rate of infant death is also an indicator of poor national health

(16,9% in 1999) along with increased rate of masculine deaths (in 1999 the general death index for men was 16,9%, for women – 13,3%), mainly due to accidents and intoxications.

The serious situation with poor national health in Russia is confirmed through comparisons of certain health parameters with the corresponding indexes for the Western European countries, where men live for 10-15 years and women – for 6-8 years longer; and infant death rate is 4-5 times lower.

## **2.2. What are the Links between Poverty and Health?**

The links between poverty and health are seen at macro- and micro-levels. In the first case, GDP is the main indicator to reflect material provision of population, while life expectancy serves as a means of populational estimation of national health. These two indexes are closely interconnected as shown by cross-country comparisons of human potential development index (IHPD). However, if one is to reveal the above-mentioned links within the country, one should turn to a micro-level.

It is harder to measure interconnections between well-being and health at a micro-level, for income provision is characterized by higher mobility, while individual health is determined by a number of factors.

Meanwhile, there is special social and economic research done to aid to reveal and to measure the interconnection between the level of personal health and material well-being of an individual (family).<sup>38</sup> In such research a self-rating (from 1 to 5 points, where 1 stands for “a very poor” and 5 – for “excellent”)<sup>39</sup> is employed to measure individual health. Besides, the following indexes are considered as well: absence or presence of chronic diseases, annual number of days of feeling unwell (sick), how frequent one attends medical institutions, as well as average money expenses on medicines and medical services. In these cases, to estimate material well-being of the respondents there were used the self-estimation of material provision, per capita household incomes and the degree of satisfaction of main needs of the family, as well as some specific poverty criteria.

Comments of the ILO experts

According to the research of the World Health Organization, health is to one half determined by the life conditions and style, for one-fifth – by the environmental conditions, to the same extent – by genetic makeup and only for 10% - by the healthcare services. the ILO experts have made an attempt to reveal the meanings of the 50% -influence of life conditions and style.

Two groups of factors were singled out: the ones pertaining to living standards (the nature of labour, housing and everyday conditions and peculiarities, the income level and nutrition,

<sup>38</sup> At the period from 1981 to 1998 a series of such research was carried out by the Institute of Social and Economic Problems of the Population of the Russian Academy of Sciences (ISEPP of the RAS) in the cities of Taganrog (1981, 1989, 1994, 1998), Moscow (1997), Saint-Petersburg (1997), in the villages of the Saratov and Pskov regions (1997), in the villages of the Tver region (1993). Within the frame of these surveys the interconnection between the individual health potential and certain parameters of living standards and life styles was studied.

<sup>39</sup> Detailed research on the interconnection between subjective health estimation and objective health indications were headed by ISEPP director N.M.Rimashevskaya. The data was obtained through studies of a history of disease and indicates close interconnection between objective and subjective health estimations.

transportation strain). The second group of factors included individual life style, particular behavior, starting childhood (and it may be either vital, or pathogenic, that is marked by health waste). When the health data is paired to the material provision indexes (as obtained by ISEPP research), the following pattern emerges (see Appendix 2, tables 2.1-2.3): individuals with better material provision enjoy better health. The “rich” and “poor” groups substantially differ in the percentage of people with numerous ailments: among the “poor” their number is 3 times bigger.

According to the 1998 survey carried out in the city of Taganrog 68% of those with good and excellent subjective estimations of material provision enjoy good and excellent health (thus, a majority), and only 5% suffer from poor health (the apparent minority). On the contrary, only 30% of those with low estimations of material provision reported individual health as good, while 23% of this category estimated it as poor.

The analogous tendency is seen as for objective characteristics of material provision. For the respondents with incomes below the subsistence minimum the average rate of subjective health estimation was 3.2; for those with incomes at the amount of 2-3 subsistence minimums – 3.5, while for the respondents with the incomes higher than the level of 3 subsistence minimums this index was 3.8 points. The same trends are reflected when the respondents are divided according to the absence or presence of chronic ailments and into groups of various material provision.

In Saint-Petersburg (1997) the members of families with incomes below the subsistence minimum reported the average health rate as 2,8 points, while 33% of them estimated individual health as poor. Respondents with incomes at the level of 2-3 of subsistence minimums estimated their health at the rate of 3,2 points, while the percentage of respondents with poor health was twice smaller – only 16%. Finally, those with incomes higher than 3 of subsistence minimums reported their health rate of 3.5 points, and the percentage of the “sick” was even smaller – 6,5%.

Rimashevskaya N.M., Director of the ISEPP of the Russian Academy of Sciences.  
The Results of Population Health Survey.

At birth, all newborns are divided into 3 groups according to their health indications. Group I is represented by generally healthy newborns, group II – by newborns with potential risk to develop a chronic disease and group III – newborns with heavy birth defects or disorders developed at perinatal period.

Special research of health quality of future generations that was carried out in a real-time format and was started at the moment of birth, indicates that already at this point the newborns of the groups II and III much more tend to come from poorly provided families. Thus, there are 2,6 times more women with “excellent” health in the families with relatively good material status, that is with money enough not to limit essential needs - as compared with the families that have to limit even the groceries.<sup>40</sup> Thus, the condition of maternity health constitutes the major link between the living standards of a family, a poor one in particular, with the health of a future generation.

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<sup>40</sup> Data of the survey carried out in Saint-Petersburg in 1997.

A low material well-being translates into a number of factors, that are of a negative health influence. Unbalanced and poorly structured nutrition is a No 1 here.

In Russia in 1990s the traditional pattern of money expenses for food was disrupted. The money food expenses in the families of poor are substantially below the norms of a minimal consumer basket: with the norm being at the level of 68,3%,<sup>41</sup> the families of poor spent only 51-52% of their money incomes. Such a situation can be explained by two factors.

In the first case, there exist expenses to pay for more important needs, than groceries. Secondly, population has additional sources to obtain food products. Both factors are present, as it is indicated by analysis. When total resources a family possesses – including the food products from Individual Subsidiary Farms – are taken into consideration (along with money incomes) the percentage of food expenses of the families of poor is estimated as 68-70%.

Under critical economic conditions the products of the individual subsidiary farms have become a substantial household resource to satisfy nutritional needs. Naturally attained food products amount to 23-25% out of the total expenses for food in the families of the poor. And in the rural areas, where poverty level is 1,5 higher, the naturally attained food products constitute 60% of total food expenses.

At the same time, the families of poor have to strictly limit food expenses in order to pay for medicines, housing and communal payments, the cost of which since 1995 grows faster than the cost of nutrition. Thus, the 10% of the poorest families suffer insufficient consumption of all aggregated groups of food products (see Appendix 2, table 2.4.). As for the second decile group, only the meat and sugar consumption only is up to the standard. Up to the standard consumption of such food groups as dairy food, vegetables, fruits and oil is observed only in the families with incomes higher than the subsistence minimum. This results in the situation when 10% of the poorest of the Russian families are seriously deprived of consuming the needed calorie amount.

The research of the Nutrition Institute of the Russian Academy of Medical Sciences indicates that the facts of undernourishment in this income group are confirmed by weigh and height parameters.<sup>42</sup> The rest categories of the poor families are characterized by unbalanced nutrition. The insufficient consumption of proteins is the most acute issue here.

Protein deficiency is extremely dangerous for children, for the mental development is slowed down and physic disorders emerge. The nutrition ration of many families is extremely poor in vitamins and minerals. As indicated by the research carried out by the Institute of Nutrition of the Russian Academy of Medical Sciences through various regions of the country, pregnant and lactating women are often deficient in ascorbic acid (70-80%), lack of vitamins of B group and folic acid (60-80%) as well as of beta carotene (40-60%).<sup>43</sup>

As for the life styles of low-income families, numerous and unresolved vital problems overshadow healthcare and it becomes a matter of concern only when health has been

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<sup>41</sup> Here: the subsistence minimum of 1992 is meant.

<sup>42</sup> “Nutrition in the Families of Poor” Report, ordered by World Bank and prepared by the Institute of Nutrition of the Russian Academy of Medical Sciences. June, 2000.

<sup>43</sup> “Nutrition in the Families of the Poor” Report, ordered by World Bank and prepared by the Institute of Nutrition of the Russian Academy of Medical Sciences. June, 2000.

profoundly damaged. It is worth noting that for the majority of Russian families medicine and healthcare are of a “firefighter brigade” function, that is coming into action only upon an onset of a disaster.

One should also underline that health estimation by the “rich” and “the poor” is getting more and more different. Thus, in 1981 difference in points in the estimations of individual health potential drawn by “the rich” and “the poor” was 0,7, in 1998 it was twice bigger – 1,4.

As it follows from the above said, the population with lowest incomes suffer from the poorest health, they are the very population category to be in need of proper medical services. According to the Constitution of the Russian Federation, all the citizens have the right for free medical treatment. The principle of equal access and of free healthcare was for a long time a state policy priority, while its actual implementation (along with all drawbacks) was and is considered by the majority of population as “social achievement” and the most powerful confirmation of social justice. However, the current situation in healthcare services is characterized by poor balance between state expenditures and guarantees of free medical services.

### **2.3. Is Healthcare Really Free in Russia?**

Sources of Finance. In 1988 the Government adopted the Federal Program of State Guarantees of Free Medical Services Provision. The corresponding Programs were adopted by the majority of the Russian Federation Subjects.

However, there emerged – practically in all territories - a sharp discrepancy between the volumes of medical services to be rendered and the amounts of corresponding expenditures allocated. The deficit of budget resources amounted – in various territories – from 20% to 60%, while in the average 40% of means were lacking to cover proper functioning of the medical institutions.

The system of compulsory medical insurance - viewed by the heads of the industry as the means to boost the expenditures on healthcare – was introduced, but the gained profit practically substitutes the shrinking amounts of state expenditures. The budgets of many regions do not make medical insurance payments for non-working population groups (pensioners, children, disabled and handicapped, those not capable for labour and unemployed).

Non-working people constitute half of the Russian population, however, they, as a rule, tend to attend doctors more frequently than average. Thus, an insurance payment for every working person is to cover for two and insured medical services are only half-free, one should pay for the second half.

Free medical services are getting more and more illusive, and medical charges – legal, semi-legal and illegal – are becoming more and more widespread. A consumer budget of majority of families, of low-income families in particular, can not bear an additional strain: medical services can be covered only at the expense of other, no less vital, needs.

At the same time medical services are of low quality for there is a lack in medical space, medicines, equipment, out-of-date treatment techniques are applied. All these factors hinder the introduction of medical services to be paid for. It is worth noting that nowadays the elite

medical institutions, based, as a rule, in the leading medical centers are to a much greater extent available for only a few.

In fact nowadays in Russia there has emerged a system of mixed-financing of healthcare. It has three sources:

- Consolidated state budget;
- Fund of the Compulsory Medical Insurance;
- Citizen and households.

Thus, we may say, and as it follows from the above-said, free medical services still exist in Russia. However, they are very heterogeneous. There exist free medical services for the higher state officials: these are medical institutions with updated equipment, all the necessary medication available, with highly professional and attentive doctors, patients are excellently accommodated, cared and provided for.

The maintenance of such high quality medicine lays a substantial strain on the budget. In the Federal Budget of 1998 the share of the Ministry for Healthcare constituted only 66,5% for the expenditures on the “Healthcare” entry. The rest of the budget was distributed as follows: the share of the Administrative Service of the President of the Russian Federation, including the expenditures on medical center, amounted to 10,4%, the share of other federate authorities and institutions – 23,1%. There are no grounds to expect these figures to have changed.

Things are quite different for the majority of other institutions rendering free healthcare services (these are municipal out-patient polyclinics, as well as regional, district, city and rural in-patient institutions and medical stations).

The industry suffers from low salaries for doctors and nurses (in 2000 the average wages in this industry amounted only to 61% of the average national wages and to 54% of wages in manufacture). There is an acute need in personnel, especially of certain specialists, and not only in rural areas, but in the cities as well. Outflow of the industry is seen practically everywhere; young professionals – right upon graduation – switch for more profitable occupations or head for commercial medicine. Municipal out-patient polyclinics are serviced by personnel of close to retirement age or already retired. The lack of specialists causes lines of patients, waiting to see the doctor for hours, patients have to come to the polyclinic long before it opens, tension is common between doctors and patients.

There are serious problems with medical equipment, materials for laboratory tests and medicines. As for the in-patient institutions there is no secret that the patients bring about their own syringes, medications, bandages and sometimes - even linen. Special research<sup>44</sup> indicates that 14% of hospitalized patients paid for their stay. Besides, 12% of them paid for “medicines, syringes and bandages”. Post-surgery care and routine in-hospital patient care are less than satisfactory.

The majority of population face difficulties to obtain a really free medical assistance of good quality. 39% of the surveyed think that the opportunities to obtain medical assistance have

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<sup>44</sup> Household survey in the city of Taganrog (1998).

been cut down, for 34% things are the same, and 14% (mostly the respondents with high incomes), think that the opportunities have become better.<sup>45</sup>

One can still obtain free medical services, but it takes extremely big efforts. However, population groups with the lowest incomes have to turn to such kind of medical assistance. Meanwhile it is much easier to get many types of medical services if one is ready to pay – officially or not.

Medical charges, including spontaneous ones, are making their way to any of the stages of medical treatment. According to the Survey carried out by ISEPP of the Russian Academy of Science in the city of Taganrog in 1998, 22% of the respondents, while at a certain time being patients of the district polyclinics, reported that they had to pay for a certain part of services. The most common of paid services of residential polyclinics are as follows: diagnostic tests with the use of medical equipment, the services of a specialist, as well as testing, - that is practically all diagnostic services. Paid medical services are also a part of in-patient stay.

In 1998 only 8% of all respondents, who happened to be in-patients, reported that their treatment was completely free, 28% considered treatment only “formally free” for they paid for a number of services by presents or money directly to the medical personnel. 60% of patients bore expenses on medicines, medicines, linen, bandages, etc. 3,5% of patients officially reported the paid hospital services.

Within the year 25% of all hospital patients paid pre-hospital services (including those who paid for “free institutions”). 20% of the surveyed indicated the amount they spent within the year to cover medical services. More than 90% of in-patients reported that they somehow paid for the hospital stay.

Rimashevskaya N.M., Director of the ISEPP of the Russian Academy of Sciences.  
The Results of Population Health Survey. 1998, the city of Taganrog.

According to the survey carried out in Taganrog in 1981, less than 2% of population paid for medical services, later in 1994 – a bit more than 10%, while in 1998 – 25%, thus it becomes obvious how far the paid services in this sphere have spread.

It is quite clear why the amount of total expenses to cover medical treatment is of a pure estimation. The following are some calculation on the cost of medical services. In 1998 a special survey was carried to study in detail the issues of paid services.<sup>46</sup> The data of this survey indicate that the existing system of medical services in Russia has lost – to a great extent – its free nature for the users.

In 1997 the share of state expenditures amounted to 45% of the total volume of expenses on medical services. At the same time 39% of the expenses were covered by household payments, including the ones for private medical insurance and “shadow” payments. 16% were borne by the Fund of the Compulsory Medical Insurance, payments to which are done by the employer and are by essence a part of workers’ wages.

<sup>45</sup> Household survey in the city of Taganrog (1998).

<sup>46</sup> The survey of the Institute of Social Studies of the Russian Academy of State Service together with the Boston University.

Let's try to illustrate the distribution of expenses on healthcare among the certain population groups, including the ones of the rich and the poor. This is possible through the analysis of incomes, expenses and household consumption drawn according to the data of 1999 random household budget survey.

This data indicates that the expenses on medical services of population groups with the lowest incomes (the first three deciles) are 4,6%, while the expenses of the most well-to-do population groups (the last three deciles) amount to 67,5%. As for the medicine and the medical goods, the expenses of the first three groups were 13,5% of total sum, and the share of the last three groups – 51,5%. The more striking polarization of conditions, quality, scale and nature of medical services rendered to population - independently from the sources of finance - is seen though the comparison in the shares of the total expense volume paid by the population of the first decile group (the poor) and of the last (the rich).

According to the data of 1998, the families of the first category spent only 1%, and the families of the tenth category – 46,6%. In case one starts analyzing the expenses on medical treatments in resorts and sanatoriums, she can easily identify the same pattern: the 10% of the poorest population supply only 0,2% of the total expenses for resort and sanatorium treatment. The differences in the amounts paid for medical services are apparently deeper than the general difference in the final consumption. The rich spend a lot more for health maintenance than the poor.

In case one turns to the expense structure indexes for every 10% income group, it is seen, that the sums paid by the poor for the medical services and goods constitute a bigger part of their incomes: 4,4% as compared with 3,7% (see Appendix 2, table 2.5.) – and that is only because their incomes are very small. Here we mean the compulsory spendings, actually to cover for vital needs, for the poor had to cut down on many things. They mainly pay for medicines (4,2% of the total medical expenses of the poor as compared with 2,9% for the rich), and much less is spent for paid medical services (0,2% for the poor as compared with 0,8% for the rich).

The lack of financial resources makes a lot of Russian people cancel prescribed medicines, medical procedures or treatment (see Appendix 2, table 2.6.). The families of the poor tend to do this much more frequently.

Thus, the comprehensive analysis of the data obtained through a micro-level research (families and households) indicates, that poverty, the low level of material provision is a powerful factor contributing to the decline of population health, thus:

Those with low incomes tend to have a negative “social inheritance”, for the poor produce the poor as the sick produce the sick.

The conditions of poverty have a cumulative (comprises a number of factors) effect on health, weaken health potential and immune system, cause diseases.

Poverty makes it hard for the low-income population groups to overcome diseases, even with medical assistance provided, while free medical services are extremely limited.

The low-income population groups, half of which are children – find themselves in a vicious circle of intensive health decline. The task of the poverty alleviation strategy is to break such

a circle. It is worth noting, that the danger of the current situation is aggravated by the fact that sick mothers give birth to sick kids, and they – upon embarking the fertile age – reproduce a sick generation. The society is getting trapped in a very dangerous “social funnel”, that entangles a growing part of population.

As it has been already mentioned, the population groups with the lowest incomes have the lowest health potential. And these are the very population groups of the Russian citizens to have the most problems to obtain a qualified medical assistance and medical goods. The absence of real guarantees for the population groups with the lowest incomes to obtain medical assistance result in the situation when a substantial number of citizens are excluded from a healthcare system.

The process of population differentiation and polarization according to the volume and quality of medical services aggravates sharp social stratification, is of destabilizing social effect and is on the rise.

#### **2.4. Steps to Promote Good Health for the Poor**

In the context considered, the poverty reduction strategy is to include both long-term as well as urgent and imperative steps.

Both groups of strategic and tactic measures share the same three priorities. The first is to reduce the number of the poor; the second is to promote health potential of the least provided and the third – to reform the healthcare system in order to make it more effective, especially for the medically indigent groups of population.

The key link in the system of these priorities is the level of official wages, including the ones of medical workers. From one hand, a wage rise is to reduce the number of the low-income population and, at the other hand – is to lay grounds to reform and to improve the services of the medical institutions. These transformations are obviously to promote the overall health of the population.

Our analysis concludes that market reforms introduced to social sphere that renders free services and is financially subsidized hinders the access of the poor even to the minimal social services. This is the very point for us to draw a suggestion that an independent expertise on the discrimination of the population groups of the poor is a part and a parcel of any reforms of the social sphere. Such a conclusion concerns not only the medical sphere, but the reforms of the system of privileges, housing and communal services, as well as education.

### **3. Labour Market Processes to Have Triggered Deeper and Wider Poverty**

#### **3.1. Unemployment and Its Role in Upscaling Poverty**

All through the 1990s Russia faced a steadily growing unemployment, that was spreading over new regions and social groups. While up to the mid-90s the official data of the State Committee of Statistics indicated a low – according to the international standards - unemployment growth, now Russia is classified as a country with high unemployment rate. Recent positive shifts in the Russian economy, a certain increase in the volume of manufacture and employment somehow “enlivened” social and labour relations, but up to now have not brought about stable positive changes in the unemployment dynamics.

According to the data of the State Committee of Statistics, at the period from 1992 to 2000 the total number of the unemployed has increased nearly three times and in February, 2000 it reached 8,6 million people. Unemployment level – as calculated according to THE ILO method - has increased at the same period from 5,2 to 12,4% of the economically active population. As it was mentioned above, most frequently poverty knocks at the door of a family if a non-working adult member is searching for a job.

##### ***3.1.1. Peculiarities of Unemployment in Russia***

**Regional differences.** The problem appears less acute provided unemployment is analyzed by average national indexes. A more than ten times gap of regional and interregional differences becomes smothered (for example, the unemployment level varies from 3,8% in Moscow up to 32,0% in the Republic of Ingushi). Meanwhile, there is a strong tendency for regional differences to grow in sync with the general unemployment rise. In 1993 the unemployment level did not exceed 7% in 60 of Russian regions, in November 2000 85 of the regions surpassed this index. By the late 1998 the unemployment rate was higher than 13% in 23 of the regions, and amounted to 20% in the 14 of them. Thus, in the number of Russian regions the unemployment rate is twice higher than the average in the Western Europe.

**Locally Bound Unemployment.** Regional unemployment differences are aggravated by interregional heterogeneity of the labor market. In the majority of Russian regions – excluding Moscow and S.-Petersburg, - there are sites of local unemployment. Interregional unemployment rates not infrequently differ ten times. Unemployment is rigidly bound to certain locations and it is extremely hard to deal away without external intervention. Many of locations with critical unemployment rate are missed by the state policy to alleviate unemployment for the real situation is distorted in case the focus is laid on the indexes of registered unemployment.

The factors to cause locally bound unemployment are as follows: 1) mono industrial profile of many cities and districts 2) low territory mobility of the population limited by high transportation and housing expenses 3) differences in regional authorities' approach to implement the economic reforms 4) the state policy that is more of a palliative nature – in order to alleviate tension, - at the expense of programs to encourage migration.

**Lingering Unemployment.** The experience of many countries, that used to face the phenomena of lingering unemployment, indicates that a sky-rocketing - under critical economic conditions – rate of persistently unemployed tends to only slowly go down as the economic situation gets better. A substantial number of persistently unemployed are to become a permanent burden to the system of social provision. Thus, poverty reduction strategy is to include, along with the task to reduce general unemployment rate, priority measures to reduce the number of persistently unemployed.

According to the data of the State Committee of Statistics of the Russian Federation, at the period from 1994 to November 2000 the average job-searching time (open unemployment) has increased from 6,7 to 9,1 months. Meanwhile, the group of the unemployed to be in job-search for more than a year, became more numerous through the 1990s – from 18,2% in 1993 up to 40,3% in 1998 and up to 42,3% - in 2000. Presently, those persistently unemployed constitute the majority of this category.

**Hidden Employment and Unemployment are on the Rise.** Latent processes are developing in employment and unemployment fields for the real wages are cut down, there are flaws in Wage Funds taxation, the system of social support to the unemployed is in a critical condition, the employers are impotent and reluctant to fulfill their commitments to the laid off workers. The employers are also encouraged by a passive reaction of courts in case the labour legislation is violated, along with flaws in existing labour legislation itself.

According to the data of statistical reports on the big and mid-size enterprises, the maximum percentage of workers, forced out to administrative leaves within a year, was registered in 1996 and amounted to 16% of an average total number of the employed, but later this practice diminished. In 1998 the percentage of such workers was only 11%, and in 1999 – 8% of average total number of the employed.

Despite the fact that administratively forced upon leaves were of less frequency within the mentioned period, the average duration of an administrative leave per one worker remained practically the same. While in 1996 it amounted to 318 hours, in 1999 – to 311 hours.<sup>47</sup> At the same time, according to the 1999 data of the State Committee of Statistics, the percentage of workers to whom no money compensation was paid amounted – in the average – to 48%.<sup>48</sup> The forced administrative leaves were mostly practiced in industrial manufacture and construction industries, the number of workers sent to administrative leaves in 1999 was correspondingly 18% and 16% of the listed number of the employed (average in the economy – 8%).<sup>49</sup>

According to the data of the State Committee of Statistics, through the second half of 1990s the percentage of the employed part-time by the order of the administration, varies from 4,1% in 1995 up to 10,1% in 1998. Later a slow decrease was observed. Thus, in 1999 it was 6,5% of the listed number of the employed.<sup>50</sup>

Informational material prepared by the experts of the Center for Labour Market Research of the Institute of the Economy of the Russian Academy of Sciences (CLMR)

<sup>47</sup> Labour and Employment in Russia. 1999, M., p.219. СЭПР, January, 2000. M., 2000, p.1999. The duration of an administrative leave is estimated per a worker sent to such a leave.

<sup>48</sup> СЭПР. January 2000. M., 2000, p.200.

<sup>49</sup> СЭПР. January 2000. M., pp.199-200. In 1998 the percentage of workers of manufacture industries and construction industry who had been sent to administrative leaves , amounted correspondingly to 27% and 21%.

<sup>50</sup> Labour and Employment in Russia. 1999, M., p.219. СЭПР. January 2000. M., 2000, p.198.

There are the following categories of hidden unemployed in Russia nowadays:

- Those being forced out to administration leaves or part-time employment;
- Those working, but not receiving wages;
- Those underemployed due to temporal or relatively permanent absence of a job (for example, the manufacture was halted, but administrative leave had not been imposed and working-hours had not been cut down);
- Those employed at the jobs, that do not require the qualifications and experience the workers possess, while the latter are eager to get the employment up to their qualifications;
- Those out of job, but searching for it and ready to start working. They had casual earnings within the control week;
- Those out of job, but eager to work and ready to start working. They ceased active job-search (so-called “disillusioned unemployed”).

According to estimations, made by THE ILO experts, hidden unemployment in Russia is of much greater scale than the explicit one. The smothered dynamics of the explicit unemployment in Russia is to a great extent caused by the wide spread of the above-listed forms of the hidden unemployment. They are hard to be disclosed by a standard set of indexes and to be registered statistically. Some of these forms are the consequences of the administrative command system, the others emerged due to the market reforms and - being essential to a market economy - acquired – under critical economic conditions – enormous range.

The range of *excessive employment* – estimated through expertise questioning of the directors of enterprises – is one of the major indicators of hidden underemployment. According to a number of independent research,<sup>51</sup> in the 90s 60-70% of industrial enterprises maintained excessive employment. Thus, in 1996-1997 the excessive labour (employment) was estimated – in the average – at the level of 25%-45% of the total number of employed.

According to the research made by the Center for Labour Market Research, in 2000 the percentage of enterprises with excessive number of workers was 36,5% of the total number of enterprises surveyed, while the summed (gross) percentage of the excessive workers at them was 24,3% of the total number of the employed at those enterprises.<sup>52</sup> Meanwhile, one should understand that this indicator reflects both explicit and hidden underemployment.

The widely spread opinion rates excessive workers as the ballast employment, not being rid of either because the administration is soft-hearted or in order to avoid compensation expenses or other commitments to the workers. But it is not confirmed by the data gained through Center for Labour Market Research surveys. About 2/3 of the directors of the enterprises with excessive number of employed were not planning to downsize the excessive workers. There are two main reasons cited: plans to expand manufacture and the necessity to preserve a team. Let's explain what is meant here. Directors have a practical interest in

<sup>51</sup> The survey on the industrial labour market flexibility made by Center for Labour Market Research of the Institute of Economy of the Russian Academy of Sciences, the survey made by the Russian Economic Barometer

<sup>52</sup> For excessive employment dynamics developed through surveys made by the Center for Labour Market Research see Appendix, table 3.

maintaining a certain number of employed for then the enterprise is preserved as a meaningful industrial player. The chances to lobby the interests of the particular enterprise are determined by its size. Thus, directors are keen to maintain a certain number of the employed.<sup>53</sup>

Comments made by the experts of the Center for Labour Market Research of the Russian Academy of Sciences.

As we see, hidden unemployment is of a double effect on the employment issue. First of all, it determines low wages due to underemployment or lack of employment – when a worker is sent to an unpaid administrative leave. Secondly, it is pregnant with explicit unemployment.

*Certain categories of workers* are tolerant about underemployment and low wages for they fear to lose a job and social coverage that is sometimes provided by enterprises. However, this holds true only for some categories of employed, those of comparatively low mobility and more vulnerable at the labour market. Other workers either look for and find an appropriate job or, and this happens more frequently, look for and find additional sources of income (through employment or property).

The most vulnerable categories at the labour market are as follows: young people, entering the market (those having or without special education); the disabled and the handicapped; those not having any profession and under the age of 29; mothers with many children and single mothers; retired military men and members of their families; single parents with children under 14 years of age; refugees and forced migrants, etc. Many of the above-listed categories are not related to hidden unemployment, while others can not be downsized as provided by the Labour Code.

A *group vulnerable for poverty risk* due to hidden unemployment is comprised by those workers who, being underemployed, can not or consider it hard to earn additional means and in case a job is lost have problems to find an appropriate one. This category is represented, along with the disabled and the handicapped, by single mothers or single parents, by workers of close to retirement age; low-qualified workers; women, exclusive specialists of depressed and low competitive industries; by those employed in depressed industries of the regions with mono-specialization.

The 1990s are also noted for **the relatively tightening labour market conditions for the most productive part of labour force**. Both the absolute number of unemployed and unemployment rate itself maximally grew for the age group of the most labour-productive and active years (25-49 y.o.). 64,1% of the total number of the unemployed are represented by this age group. It is natural - for this is the very group with the highest economic activity level, and the slowest – as compared with other groups – rate for the unemployment to go down. Meanwhile, in 1993-2000 the number of economically non-active population at the age 25-49 y.o. grew more than twice, as compared with a bit higher than 30% average increase of economically non-active population across all the age groups (15-72 y.o.).

**The unemployment level is high for the young people** at the age of 20-24 y.o. For the age group under 20 the unemployment was at the rate of 35,1% in November 2000 and 16,6% for

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<sup>53</sup> Here quantitative parameters are hard to outline for the optimal size of an enterprise is determined by a number of factors, such as: the number of employed at the period of time, preceding the reforms, along with the level of market development for a certain industry and sub-industry, as well as priorities of the administration and owners of the enterprise.

the age group of 20-24 y.o. The absolute number of the unemployed in the both age groups more than doubled as compared with 1992. This index is lower for the bordering age groups. It is of extremely strategic importance to adjust the unemployed young people to labour market conditions for this is the very age group of those initially entering the labour market. The long-term consequences of current processes are more than hazardous for preserving and developing the labour potential of the country.

**Gender and unemployment.** There are a number of indications that presently women occupy weaker positions at the labour market. First of all, there are more regions where rate of feminine unemployment exceeds the one for men: in 1977 there were 19 of such regions, 25 – in 1998 and 33 - in 2000. Secondly, the average duration of the period of being unemployed becomes longer by itself and as compared with the such period for men as well.

While in 1998 the average period of being unemployed was 0,4 month longer that the one for men, by the end of 2000 it was longer for 1,1 month, that is a 2,5 times increase. In November 2000 the percentage of those searching for a job for more than a year was 47,1% for women (42,7% - in 1998), and 38,3% for men (39,4% - in 1998). Thirdly, women more than men fear to lose a job (32% of women and 28% of men reported the soon possibility to lose a job) and are pessimistic about getting a new one (12% of women and 25% of men reported that should a job be lost they would easily find an adequate one).

It is reasonable to suppose that fear to lose a job, and particularly, not to find a new one, at least to some extent adequate to the aspirations and a labour potential of a worker, is one of the key factors to limit labour mobility of women.

### ***3.1.2. General and Registered Unemployment***

The discrepancy between the rate of general and registered unemployment is particular typical for the emerging labour market in Russia. This issue is of a great importance and should be taken into consideration by the strategy on poverty reduction among the working population. This strategy is to be yet developed, thus, we are to attend it closely.

Despite the fact that various forms to register unemployment are formally acknowledged in Russia, the rate of registered, or so-called official unemployment serves as the practical criteria to estimate labour market conditions, to reveal regions in crisis, to develop employment policy and to adjust the unemployed population to labour market conditions.<sup>54</sup>

Being recently developed, the state programs to encourage employment, including the Program for the period of 2002-2005, are based on the very index of registered unemployment. Thus, this market sector, being attended by state authorities, turns out to be dragged out of the comprehensive context of social and economic relations in the labour sphere, and this is totally unacceptable.

As a result, there emerges a stable opinion in political and international circles that despite more than the 50% industrial decline, in the current decade Russia managed to preserve a low

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<sup>54</sup> Up to recent time the data of state reports on registered unemployed and non-engaged in labour population has been the only accurately obtained and regularly available source of information on unemployment trends in Russia. Random population surveys on employment issues that revealed actual unemployment rate and were done and are presently treated only as an additional source of information.

– as compared with not only former socialist states, but many developed countries as well – unemployment rate.

The rate of the registered unemployment, being applied as the primary indicator, promotes the following aims:

- To support a public opinion notion that reforms are of low cost – in order to prevent social explosions and, secondly, to have an opportunity to separately pursue economic and social reforms;
- Not to acknowledge unemployment as a national, calling for state intervention problem – in order to avoid big financial expenditures to reorganize the already established support system to the unemployed, let alone to avoid reforms of the system of social protection.

Such an approach suppresses the problem and postpones the hard and expensive measures until later periods. As we have already noted, the rehabilitation of persistently unemployed – and by the present time they have already emerged as a major group of the unemployed – is an expensive and low-efficient program. Measures to prevent lingering unemployment are of better effect and are less expensive.

The index of registered unemployment mirrors only a curtailed sector of the Russian labour market. Throughout various periods of time it reflected from 1/3 to 1/7 of the total number of unemployed. On the contrary, the majority of countries employ the index of general unemployment to indicate not only the scale, but the emerging unemployment trends. This index is obtained through random labour force surveys. In this case non-working and searching for a job citizens of active age are qualified as unemployed.

The data of table 3.1. indicates that the rates of general and registered unemployment differ in developmental trends. By the early 2001 the discrepancy between these two indexes amounted to 7 times.

At least the following factors influence the rate of registered unemployment:

- general economic situation in the region: it determines chances to get employed;
- state policy towards the unemployed (legally established registration procedures and eligibility for benefits);
- efficiency and working style of territorial employment institutions;
- the particular provisions of labour legislation, on retirement issues especially;
- legislative initiatives of local and regional authorities.

**Table 3.1. The Dynamics of General and Registered Unemployment Rate in 1992-1999<sup>55</sup>**

By the end of the year	The number of the unemployed, due to the ILO methodology, mln.	The unemployment level, due to the ILO methodology, %	The number of the registered unemployed, mln	The level of registered unemployment, %	The percentage of the registered unemployed out of the total number of the unemployed, %
1992	3,6	4,7	0,6	0,1	16,7
1993	4,2	5,5	0,8	1,1	19,0
1994	5,5	7,4	1,6	2,0	29,1
1995	6,4	7,8	2,3	2,5	35,9
1996	6,8	9,3	2,6	2,9	38,2
1997	8,1	11,8	2,0	2,2	24,5
1998	8,9	13,3	1,9	2,5	21,3
1999	9,1	13,3	1,3	1,7	14,3
2000	7,0	10,0	1,0	1,4	14,3

The above-mentioned factors substantially influence both a drive of the unemployed to get registered and objective opportunities for the non-working to obtain the unemployed status, thus encouraging or reducing the percentage of the unemployed granted the official status.

Since 1996 all the above-drawn factors have been of stable influence to diminish the rate of the registered unemployment as compared with its actual scale. The unemployed are less motivated to get registered for the Employment Fund lacks financial means and there are problems with benefit payments, while the programs of active support are cut down. Simultaneously there have been introduced more strict registration procedures, regional authorities initiate – despite the acting Federal legislation - additional obstructions for the non-working to obtain official status of the unemployed. As a result, the total number of those applying to the Employment Service decreases as well as the percentage of those with the status of unemployed. In other words, the status of the unemployed is more seldom to be granted. While in 1995 81,9% of those non-working and job-searching who applied to the Employment Service were granted the status of the “unemployed”, in 2000 – there were only 60,3% of them.

The above-listed factors allow for a conclusion that data on the registered unemployment indicate neither the actual unemployment scale nor the trends of its future development. The unemployment parameters, disclosed by labour force surveys, do not exactly mirror the actual situation.

However, specific distortions typical for the indicator of the general unemployment are comparatively stable and to a less extent are prone to changes caused by short-lived factors. In other words, obtained through such surveys, the index of general unemployment is much harder to be manipulated with. Thus, in Russia the general unemployment index is of greater priority to reflect both the unemployment scale and the trends of its future development.

<sup>55</sup> The table is drawn according to the data of the State Committee of Statistics and Statistic Bulletin of the Ministry of Labour and Federal Employment Service for the corresponding years.

### ***3.1.3. Unemployment Benefits and Their Role in the System of the Social Protection of the Unemployed***

In Russia the unemployment benefits were introduced to the practice of social support of population in the period of reforms, for the planned economy did not allow for unemployment as an economic reality. The unemployment benefit mainly targets to support citizens who lost a job and failed to find a new one. Being a new form of economic relations, the system of unemployment benefits evolved through developmental shortcomings, while opting for balance between support to the unemployed and fighting the “relaxed” attitudes of the non-working population. The analysis of the functioning of this system in Russia, made by the ILO experts, indicates that the mostly pursued priority is forcing out “relaxed” attitudes, but not the support the unemployed by paying benefits.

- In 1995-1998 the percentage of unemployment benefit recipients grew 22% in the regions with an unemployment rate beyond 7%; for 13% - in the regions with the unemployment rate of 4-7% and for 10%- in the regions with the level of registered unemployment below 3%. More than half of the registered unemployed received a minimal unemployment benefit through the second half of the 1990s.
- While in 1993 the unemployment benefit amounted to 26,9% of the subsistence minimum (SM), already in 1999 it was only 8,3% of the SM and 3,5% of average amount of per capita incomes (Appendix 3, table 3.1.).
- On the average in Russia about half of the registered unemployed receive minimal unemployment benefit and in a number of Russian Federation Subjects the number of the unemployment benefit recipients is close to the total number of the registered unemployed.
- At the period from 1993 to 1999 the average payments<sup>56</sup> to the unemployed ranged from 28 to 68% of the SM amount. The maximal payments were done in 1998 (mostly the payments of the overdue benefits) and sharply decreased (down to 40%) in 1999, upon the adoption of the amendments to the Law “On the Employment of the Population in the Russian Federation” - for the system of payments and the amount of unemployment benefits were substantially changed (Appendix 3, table 3.2.).
- Before the amendments to the Law “On the Employment of the Population in the Russian Federation” were introduced, the general ratio between the average payments per an unemployed and the average wages in the Russian Federation was an average 32,1% (Appendix 3, table 3.2.), but differed greatly throughout the regions.

Thus, in the Koryak Autonomous District the unemployment benefit amounted to 9,6% of an averages wages, while in the Komi Republic – 12,9% (minimal meanings), in the Sakha Republic (Yakutia) – 63,9% (maximal meaning). Upon the introduction of the amendments to this law in July 1999, the ratio between the amount of the average wages and paid benefits

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<sup>56</sup> Besides the unemployment benefit the average payments also include the following: allowances for the dependants; coverage of temporarily work disability; payments of the district allowances for the residents of the regions granted the same special status as the Northern Territories (there are 30 of such regions); payments of the overdue benefits

per an unemployed decreased to general 25,5% throughout the Russian Federation. The minimal meaning became even smaller – 9,3% in the Koryak Autonomous District, and the maximal one was reduced to 50% (the Republic of Sakha (Yakutia)).

- As it is indicated by the analysis, the status of the employed is far beyond the one of the unemployed as for the amount of compensation payments received and by the share in the family budget. The ratio between average payments per an unemployed and the averages wages, as well as to average income level indicate that even a “raised” benefit (that was paid prior to the introduction of the amendments to the law on the employment) can not support “relaxed” attitudes. Thus, a reduction of the unemployment benefit amount does not pursue the task to discourage a “relaxed” attitude of the unemployed, but reflects a situation when financial resources allocated for unemployment benefits payments are inadequate to the scale and depth of the problems emerged in the labour sphere.

- in 1999 in more than half of the Russian regions (48 out of 89) the unemployment benefits amounted to 30% of the average wages (in 1998 – in 33 out of 89 regions);

- the number of regions where unemployment benefits amounted to less than 20% of the average wages increased 3 times (from 6 in 1988 up to 18 in 1999);

- the number of regions with unemployment benefits exceeding 50% of the amount of the average wages has become smaller: from 5 in 1998 to 1 in 1999 (the Republic of Sakha)

Calculations by THE ILO expert T.Chetverina

Thus, current amounts of unemployment benefits fail its main function, that is to support living standards of the unemployed (here we mean economically active citizens of active age) at the socially acceptable level in order to allow them to focus on active job-search.

### ***3.1.4. Unemployment for the Young***

Unemployment is high – as for its level and scale – among the young people, thus being one of the major factors of objective and substantial decline in the living standards of the young, aggravate to expanding substance abuse, criminal behavior and suicide of the young people.

Presently a number of social, economic and demographic factors determine the vulnerable positions of the young people at the labour market. They are as follows:

- Substantial reduction of working places due to manufacture decline.
- The chances of young people to find a job are sharply cut down by the rising competition for working places<sup>57</sup>. Here the most vulnerable are the teenagers – they often have, but a secondary school certificate at the time of initial labour market entrance.

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<sup>57</sup> According to the survey “On Measures to Rise the Competitiveness of Hired Workers at the Labour Market” carried out by the Center for Labour Market Research of the Russian Academy of Sciences in November, 1999, the main reason for young people’s failure to get a job is the “rejection by the employers” (33%), but not a “low wages” reason (9,8%). The employer’s rejection was due to the worker’s age, inadequate occupation, low qualifications and, the mostly common reason – the absence of work experience.

- Teenagers without any professional education initially enter a labour market at a younger age for the incomes of their families are not sufficient to support a dependant – a professional school or a college student.
- High risk of being employed at the “shadow” sector of the economy in order to obtain better earnings for unqualified labour, accompanied by lack of understanding of the importance of retirement, social and medical benefits.
- The absence of up-to-date career guidance system in schools, of professional training and retraining programs on the working places and in the employment offices also reduces the initial employment opportunities and competitiveness of young people, both initially entering the labour market and those with some work experience.
- The existing privileges and the Labour Code provisions for the employment conditions and working hours are often of counterproductive effect. Those very norms decrease the chances – for this age group - to get hired, in the private sector in particular. The above-mentioned provisions are to a more extent observed in the state (financed from the state budget) sector of the economy.
- High birth rate of the 70s and the 80s brought higher number of young people entering the labour market, thus causing a tighter social and demographic situation at the junior labour market.

#### Sources of Living for the Families with the Unemployed Young People

In general, families with a registered unemployed young member have a low income and face great material hardships. “Support of the relatives” is the main source of living of the families with members at the age under 25 years old and registered as unemployed by the employment services. The second source of living is constituted by the “irregular earnings by family members and by the unemployed himself” , while the third is “the wages of other family members”. Unemployment benefit occupies only the fourth place in this list, thus being an indicator of its low significance in the family budget.

The older is the unemployed the more weighty his benefit becomes within the family budget: while for the unemployed under 24 years old it amounts only to 19%, for those of 25-29 years old it constitutes 34,6% of the family budget. It is explained by the fact that parental assistance is more likely to be withdrawn from the young people of older age categories. Thus, their incomes are lower and, the unemployment benefit emerges as a more substantial resource.

Calculations by T.Chadova, the Center for Labour Market Research of the Russian Academy of Sciences, 2000

#### ***3.1.5. Priorities of the Labour Market Policy***

The optimal employment and the reduction of both natural and actual levels of unemployment are generally and necessarily predetermined by the growth of economy – for it generates new working places. Should such conditions fail to be provided any policy to reduce unemployment level and to promote employment is doomed, while concrete steps to adjust the unemployed to the labour market would be of low efficiency and could be of a solely palliative nature. In Russia rational productive employment has been yet impossible to

achieve, for in general social policy is still separated from the whole body of economic issues and in the absence of an effective perspective program of the economy restructuring.

Meanwhile under present conditions the economy growth by itself is not to automatically translate into unemployment reduction. Moreover, at the first stages of such a process there is a possibility for the further unemployment growth. It can be caused by the following:

- Release processes are to be more active due to increasing labour efficiency and growing tendency to get rid of excessive labour that presently constitutes – according to the estimations by the ILO experts – up to 35% of the employed;
- Structural discrepancy is to emerge between the newly created working places - from one side, and qualification and demographic characteristics of the unemployed - from the other side;
- The regions (districts) to generate the demand for labour force and the regions where the non-engaged labour force is concentrated are not to comply in territories;
- Low opportunities for the persistently unemployed to get adjusted to labour market for they have already lost their qualifications, a habit to work on a regular basis and, as a result, competitiveness.

Thus, from one side, the growth of economy, even accompanied by expanding employment, does not automatically translate into the reduction of unemployment. From the other side, labour market policy is not to be narrowed exclusively to the assistance to the unemployed, even more to the assistance only to those of them registered by the employment services. In case such an approach is pursued, the control over the emerging labour market processes is to be lost.

Employment policy has been for a long time outlined and treated – in world science and practice - as a tool to implement and to develop the labour potential of population. Thus, measures to aid the unemployed are an essential part of a wider context.

In order to shape in Russia an effective – at least to a some extent - policy to counteract unemployment for the following is to be pursued:

- To move towards economic stabilization;
- To move beyond the policy of “coping with hard situations” - to a strategic planing and managed restructuring of the economy;
- To acknowledge unemployment as a national problem and to base state policy at labour market on the index of general unemployment, calculated according to the methodology of the International Labour Organization (and not on the index of registered unemployment based on the data provided by the Employment Service).

The task to regulate labour market in order to curb unemployment comprises a number of components, and only a few of them can work separately. The majority of such components are to be efficient only in case they are combined. Such components are as follows:

- Other than investment factors of the economy growth are to be maximally activated in order to generate new working places;

- An effective mechanism to finance active and passive programs is to be developed. It will be useful to revive the Employment Fund, but the principles of its formation and distribution are to be profoundly revised.
- The Employment Services are to be made more effective. The work methods of proven practical long-term efficiency are to be activated. This means, from one side, to redirect the unemployed for an independent job-search (“all is in your hands” attitude) and to direct all the experts of the employment services to assist the unemployed in their individual job-search. From the other side, - to improve the working procedures and to change the ways the work is organized at the very Employment Service itself, to shift the emphasis from the passive procedures (to register and to reregister the unemployed) to the active services, such as professional counseling, career guidance and psychological help;
- Addressed regional policy at the labour market (to create specific programs to counteract unemployment in the regions with elevated tension at the labour market) is to be pursued;
- Labour Legislation: Labour Code and the Law on the Employment of the Population in the Russian Federation – are to be reformed;
- Effective passive policy is to be shaped. That is the effective system of material support to the unemployed is to be introduced and is to be adequate to the relevant stage of the market reforms. Insurance against unemployment may become a basis for such a policy.

In Russia since 1991 and up to now there exist a double criteria system of unemployment benefits. From one side it is partly alike to the system of insurance against unemployment - for the amount of the benefit paid is determined by the amount of the wages paid and by the period of paid employment. However, in practice the principle of social aid is a dominant one: for any citizen of a active age and applying to the employment service has the right for a minimal unemployment benefit, independently from his previous employment or lack of it, from family income, etc.

Comments by THE ILO expert T.Chetverina

Socially responsible restructuring of enterprises emerges – under the conditions of transitory economy - as the key element of the poverty reduction strategy. Enterprise restructuring is one of the critical issues for the countries with transitory economy, for the planned economy ended up with enterprises with rigid, vertically integrated system of administration. Such enterprises are not capable to adjust to swiftly changing economic conditions. The situation gets harder for restructuring is a must for all the enterprises, even for the most successful just yesterday. Meanwhile, the needed changes are unspeakably more complex, risky and are much more profound than those practiced in the developed countries.

The majority of the researchers attend economic or organizational issues of restructuring. The much smaller number of researchers analyze exclusively the social consequences of enterprise restructuring. These two groups do not cooperate and do not share any understanding for each tends to declare absolute the priorities they adhere. Revenue generation is the key point for the former, while the latter value preservation of the quality of labour life and employment level.

The International Labour Organization has developed a special program on socially responsible restructuring of enterprises. The program comprises the development the restructuring methodology, as well as research to be made and socially responsible approach to industrial enterprises restructuring to be applied.

The ILO approach is to result into a smaller number of contradictions between economic and social priorities of organizational reforms. Meanwhile, the ILO adheres to the principle that “Restructuring is not to be socially responsible unless it is economically effective”. Another principle recognized by the ILO stipulates that “The Restructuring is impossible to be fully effective unless interests of various social groups involved and to a certain extent to experience the consequences of the reforms are to be properly considered.

The ILO methodology emphasizes the necessity to define the social impact of business in the globalized world. The responsibility of business to the society, as it was traditionally interpreted through revenue generation and wealth increase turns out to be too narrow or even dangerous in the times when business has emerged as the most powerful institution.

Types and main directions of enterprise restructuring were outlined through the research on socially responsible restructuring.

The ILO methodology specially emphasizes – as restructuring technologies are considered – the “organizational slimming”, which is unavoidably accompanied by unemployment. A clear-cut distinction is drawn between “organizational slimming” due to singling out of certain structural departments and the one due to the sharp layoffs of workers - not accompanied by any significant restructuring. The second approach is very common and became the synonym for restructuring. The hastened “slimming” of an enterprise usually ends up in failed hopes.

As it is indicated by the analysis of other countries’ experience, the main models to release work force are as follows: the American system with two hours’ notification to sweep off the working place, then goes highly formal French system of work force release with obligatory introduction of alternative working places or personnel retraining. The Japanese system formally allows massive layoffs while it is still under the influence of “life-long hiring” traditions.

It is hard to estimate economic or social effectiveness of one or another system. National peculiarities, the stage of economic cycle, mobility of population and a number of other factors make it hard to directly apply ready-made decisions and experience of other countries. Still these are the factors to be remembered when national concept of economic reforms is being shaped.

In the post-Soviet countries privatization is the issue impossible to ignore when restructuring enterprises. A bunch of questions is to be answered, and the particular moment to restructure an enterprise – prior of after the privatization - is one of them. The experience of a number of countries speaks in favour of “restructuring prior to privatization” formula. Such an approach lets not only to increase commercial value of the privatized objects, but to ensure their better adjustment to new economic conditions.

Authorities are to play an important part to shape social inclinations of restructuring. The authorities are to stay neutral, however, they are to preserve the right to step in - in case a

labour conflict is an extraordinary one. Unfortunately it becomes possible only in the countries with already shaped effective structure of workers' and employers' associations. In the absence of such a structure the government unavoidably gets involved in settling endless conflicts between potential social partners. Thus, development and strengthening of workers' and employers' associations emerges as a priority task for the state institutions.

The success of enterprise restructuring technologies is determined by the effective distribution of functions between the government, workers' associations and employers' associations. The ILO methodology provides a guiding scheme for corresponding legislative acts and plans of regional development to be yet worked out as well as three-party decision-making bodies to be established.

By Alexander Luzin,  
Coordinator,  
“Socially Responsible Restructuring of the Enterprises” Program,  
the International Labour Organization, Geneva

## **3.2. Wages and Poverty Reduction**

### ***3.2.1. Main parameters of wage level and differentiation***

Wages remain the main income source for the population of Russia (see table 3.2.1.). Low wages is one of the reasons for more than double decline in the average level of real incomes. In 2000 the real accrued wages fell to 32% as compared with the level of 1990. The share of the Wage Fund within the GNP fell from 44,1% in 1990 to 20,6% in 1999.<sup>58</sup>

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<sup>58</sup> The Report of the Government of the Russian Federation “On the Gradual Rise of the Amount of Minimal Wages”.

**Table 3.2.1. The Structure of Money Incomes of the Population of Russia**

Years	Money Incomes	Including <sup>ле</sup>				
		Wages	Entrepreneurial Revenues	Social Transfers	Property Revenues	Other incomes
Income structure as corrected due to estimation of hidden wages <sup>59</sup>						
1990	100	76.4	3.7	14.7	2.5	2.7
1995	100	62.8	16.4	13.1	6.5	1.2
1996	100	65.9	13.6	14.0	5.4	1.1
1997	100	65.7	13.0	15.0	5.7	0.6
1998	100	64.9	14.2	13.6	5.5	1.8
1999	100	65.0	13.2	13.7	7.2	0.9
Income structure, estimation of hidden wages is not considered <sup>60</sup>						
1998	100	37.8	14.2	13.6	5.5	28.9
1999	100	36.3	13.2	13.7	7.2	29.6

Minimal Wages. The first years of the reforms witnessed a decline of the amount of minimal wages much below the subsistence minimum amount for the active population. In 1992 it was equal to 33% of the subsistence minimum of the active population, by 1995 it fell to 14%, then it grew a bit (Appendix 3.2., Table 3.2.4.). Since 1998 the wages amount tend to decline as compared with the subsistence minimum amount. In 1999 it was down to 8%<sup>61</sup>. All this resulted in the situation, when more than 60% of those working in agriculture, healthcare, education and culture, received the wages below the subsistence minimum amount (Appendix 3.2, Table 3.2.1.). In the first quarter of 2001 the minimum wage was equal to 200 roubles or 12% of the subsistence minimum of the active population.

The ratio between the average wages and the subsistence minimum. Up to 1999 the average accrued wages tended to move towards the subsistence minimum amount. While in 1992 the average wages equaled to 320% of national average subsistence minimum amount (Appendix 3.2, Table 3.2.4), in 1999 such a ratio was 174%. In March, 2000 the ratio was about 200% of the subsistence minimum amount for the active population.

The ratio between the real minimal wages and average wages. In Russia distributional relations on wages are rather specific for there is a great difference between real minimal wages and average wages<sup>62</sup>. Thus, in March, 2001 the real minimal wages within the economy in general equaled to 6,7% of the amount of average wages (Appendix 3.2., Table 3.2.2). The higher is the level of average wages, the greater is the difference between the minimal and the average wages. In gas industry (natural gas extracting and refining), that is

<sup>59</sup> Social Situation and Living Standards in Russia, Collected Statistics/ Goskomstat of Russia - M., 2000. – p.113

<sup>60</sup> Social Situation and Living Standards in Russia, Collected Statistics/ Goskomstat of Russia - M., 2000. – p.125

<sup>61</sup> Social Situation and Living Standards in Russia, Collected Statistics/ Goskomstat of Russia - M., 2000. – p.227.

<sup>62</sup> In this case, we mean not the minimal wage index, but the real minimal wages, that is higher than minimal wages. Thus, in March, 2001 the minimal wages equaled to 100 roubles, while the real minimal wages – to 199 roubles.

characterized by high wages, the ratio between the minimal and average for the industry wages was 0,8%, while for agriculture with its lowest wages such a ratio amounted to 20,8%.

Hidden Wages. Informal wages are widely practiced under the conditions of transitory economy. Even at the officially registered enterprises, 20% of the workers receive wages, higher than those formally determined by the terms of the labour contract. The wage-drift varied from 2 to 20 times.<sup>63</sup> Informal wages is mostly the means to avoid high social taxes, which are calculated due to the size of Wage Fund. According to the lowest estimations,<sup>64</sup> 12-15% of the working time is paid by “shadow wages”, thus the wages are – in average - 13% higher.<sup>65</sup> From 25% (as estimated by the Goskomstat) to 50% (as estimated by the Interior Ministry) of the Wage Fund Amount emerges within the shadow economy.

Thus, the Goskomstat publishes two estimations of the structure of the money incomes of population: with and without re-estimation, corrected as shadow Wage Fund is taken into account. As it is illustrated by the data of Table 3.2.1, the share of wages within the income sum total rises twice - as we consider the income structure, with shadow Wage Fund considered.

Differentiation of Wages. The unprecedented rise in wage differentiation was brought about by the reforms of distributional relations. For the period from 1991 to 1999 the level of wage differentiation increased 4 times (Table 3.2.2.). The data of March, 2001 (Appendix 3.2, Table 3.2.2.) allow to suppose that the wage differentiation is growing.

**Table 3.2.2. Level of Income and Wage Differentiation** <sup>66</sup>

Differentiation Parameters	Years					
	1991	1994	1995	1996	1997	1999
Fund coefficient of wage differentiation	7.8	23.4	26.4	24.0	25.0	32.1
Ginni coefficient for wages	0.317	0.439	0.454	0.445	0.447	0.480
Fund coefficient of income differentiation	4.5	15.1	13.5	13.0	13.8	13.9

Increasing wage differentiation was to a great extent due to the fact that, being a priority in the Soviet period, the principle to restrain wages was no longer observed. In this connection, we emphasize the sharp wage differentiation that followed the financial crisis of August, 1998, when the restraining mechanism had been already compensated.

<sup>63</sup> Ibid, p.124.

<sup>64</sup> L.Kosalce. In between the Chaos and Social Order. The Shadow Economy. Pro et Contra Journal. Volume 4, No 1, p.41.

<sup>65</sup> Ibid.

<sup>66</sup> Calculated by the ILO experts by the following sources:

1. Social Situation and Living Standards in Russia, Collected Statistics/ Goskomstat of Russia/ - M., 2000. – 502 p.
2. Social Situation and Living Standards in Russia, Collected Statistics/ Goskomstat of Russia/ - M., 1997. – 372 p.

The wage differentiation is to be considered positive only in case it promotes labour productivity and consequently brings the growth of economy. Meanwhile, in Russia the growing wage differentiation did not result in the economy growth. The rise that took place after the financial crisis of August, 1998, is hardly due to increasing labour productivity. Thus, the cumulative effect of growing labour productivity is not to be treated as the successful outcome of the reforms. On the contrary, such differentiation level does not create economic perspectives for the middle class to emerge.

Wage differentiation across the industries. Wage differentiation is built by uneven wages within an industry as well as intersectorial differences. The highest salaries are typical for fuel and power industries, non-ferrous metallurgy, finance, credit and insurance fields. Minimal wages are in agriculture and budget sectors (Appendix 3.2, Table 2). In 1999 the average wages in the gas-extracting and processing industry (the maximal level for Russia) was 11.3 times higher the average wages in agriculture (the minimal level for Russia). In March, 2001 the ratio amounted to 25 times.<sup>67</sup>

The wage differentiation is higher within an industry. Presently the highest level of differentiation exists in banking,<sup>68</sup> in 1999 the salaries of the 10% of the best paid workers were 40 times higher than the ones of the 10% of the least paid workers (Appendix 3.2, Table 3). High wage differentiation is typical for some industries with low wages as well: in agriculture fund coefficient of wage differentiation amounted to 32 times, while in culture and arts – to 29 times. Electric power industry, being an industry with high level of average wages, is noted for the lowest wage differentiation in 1999. The fund coefficient for this industry was 9 times in 1999.

### **3.2.2. Wages and Poverty**

There are three main factors for negative wage shifts to aggravate poverty expansion:

1. Mechanisms to protect wages from inflation are - due to certain reasons – totally absent while being formally declared by law.
2. The opportunities of the workers to increase official wages through better labour have been sharply cut down.

Wages emerging in informal sector of the economy are on the rise.

#### **Why are the mechanisms to protect wages from inflation absent in Russia?**

It is widely known that inflation is somehow inherent to the nature of contemporary market economy. Prices are rising all over the world. All other factors being the same, rising prices are to lead to decrease of real wages. However, real wages are not impaired, especially the ones of the low-paid workers.

At the initial stage of reforms there were adopted no real measures to introduce wages indexation: consumer demand decline was beneficial for many of the Russian elites that had

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<sup>67</sup> Here the differentiation is estimated due to a monthly data. Differentiation calculated for an annual period is usually lower, but not twice – as in our case here.

<sup>68</sup> Unfortunately, gas-industry is not singled out in the Goskomstat data on the differentiation within an industry. This industry is probably to present a high level of wage differentiation within an industry.

access to decision making. The year of 1992 witnessed a 16-times price rise, thus in 1993 the issue of savings of population was easily settled. Population savings of the socialist period were a voluntary money lending to the state. It was no secret, that borrowed from population money was merely a debt probably to be paid off some day. This was “paper money”, not secured by any real means, as well as an inflation shelter - to be removed some day through the very price rise. Liberalization of prices granted freedom to enterprises, and at the same time took care of this problem – the state became in fact debt-free.

New factors emerged within succeeding years. Enterprise teams and owners of the privatized enterprises had been given free hand and could not accept the system of prices inherited from the socialist period for it provided sharp differentiation in rate of return. Prices for extracting industries production were relatively low as well for the one of agriculture, transportation and power energy industries. Light and food industries, machinery building enjoyed higher returns. Thus, surplus product generated by national economy landed at the industries with high rate of return and missed the industries with low profit-yield.

It was at the very moment that there emerged a suggestion that domestic prices for oil, gas, coal, electric power, transportation, etc. should be risen up to the world standards. This principle was actively implemented, being a starter and generator of rising prices on all types of products. Thus, rising prices were used by entrepreneurs to settle the issue of surplus product redistribution. Privatization of surplus product practically took place prior to privatization of property and was actively pursued as the latter was under way. Redistribution of surplus product would have been slowed down should price-rise motivated indexation of wages be introduced.

In the majority of countries with developed economy price-rise is accompanied by the real wages and real income rise. It means that in such countries money wages grow faster than prices. For example, in Japan for the period of more than 50 post war years, including the occupation, there was not a single year when money wages grew slower than prices. In other countries there are certain periods when real wages rise slows down, but in general the tendency of accelerated growth of money wages as compared with rising prices is well-pronounced.

Attention is drawn to the fact that in many countries legal provisions on indexation stipulate a relatively low indexation threshold (as the prices rise for 0,2%; 0,4%; 0,6%). Indexation of such scale is easily borne by practically all entrepreneurs, while negative effects do not yet emerge and the issue of adequate balance between demand and supply is promptly settled under such indexation threshold provided.

Comments made by The ILO experts

The dynamics of nominal wages, price index for consumer goods and services and real wages are drawn in Appendix 3.3. Table 3.2.4.

Prices growing faster than wages constantly disturb a balance between current money supply and payment requirements for the job done. Thus, there emerge a problem of default payments. As it is indicated by analysis made by the ILO experts, default payments at the initial stage of reforms in Russia were caused not by manufacture of goods of no demand, but by short money supply due to rising prices. However, default payments – being generated by

objective factors – tend to linger and to expand: for if one does not pay wages – even due to objective reasons – others can follow the suit, referring to the same or any reason.

Thus, as it is indicated by the above rendered, at the initial stage of reforms there existed significant economic interests to block mechanisms of wage indexation. Finally the minimal wages dropped to such a low point that they were no longer perceived as a payment for the job done while the amount of tariff rates of the budget sector unified tariff scale (18 entries overall) – established by state – fell below the subsistence minimum amount. The majority of anti-indexation incentives are no longer relevant, but there have emerged other factors

Unofficial component of the wages was much encouraged by the absence of the mechanisms of official wage indexation. In case a worker performs a qualified and important job the employer paid and pays a sum greatly exceeding the wages officially exposed for taxation. The vector of this factor is quite differently directed. Currently should mechanisms of wage indexation be adopted the wage growth is to be generated by the legalization of informal component of wages as well.

**The opportunities to increase official wages through better labour have been sharply cut down.** Reforms in Russia were initiated upon the economy in critical condition. Consumer demand decline was accompanied – under the conditions of open economy - by low competitiveness of Russian goods and resulted in manufacture decline on an unprecedented for peacetime scale. Artificially high employment prevented social upheaval and provided population with the minimally possible resources to exist by job-earnings. In the years of reforms manufacture was cut down more than in half while the number of the employed in the economy dropped for a bit more than 20%. Thus, it turned to be 1,5 times harder to obtain wages - even the ones devaluated by consumer price rise.

The guarantees of accrued wages to be actually paid became much weaker, thus emerging as a negative factor of wage payment of the recent 10 years. A worker is involved in a completely unpredictable system. He may work better, but to be paid less, or vice versa. This situation is typical for enterprises of any type of ownership – from budget-sector enterprises to purely private ones. Such absence of guarantees is legally reflected in the Labour Code provisions on non-tariff, participation and similar forms of wages. Combined with virtual (state) guarantees of minimal wages, enterprises to a great extent have a free hand with the guaranteed amount of minimal wages.

The estimation system of worker's labour contribution also weakens guarantees of wage payments. The estimation criteria have become vague, often they are not connected with results of worker's labour and subjective. A worker becomes totally dependant on how well he gets along with the boss, while neither his actual qualifications and achievements are relevant, nor how different from others the results of his labour are.

Wages no longer motivate a worker to work better: for wages are of low level while guarantees on actual wages payments are absent.

**Secondary employment incomes.** Secondary employment was to a certain extent to compensate – as reforms were carried out - for the low level of wages. It is not infrequent that secondary employment provides the acceptable existence of the family. It is particular true for those basically employed in budget sector for their incomes may be compared with subsistence minimum amount.

As it is indicated by the official data of the State Committee of Statistics (Goskomstat), secondary employment is on the rise. Thus, according to the random survey on the employment programs carried out by the State Committee of Statistics, in March 1996 1,3% of the population at the age from 15 to 72 years old had a secondary employment, in October 1998 – 1,1%, in November, 1999 – 2,2%.<sup>69</sup> In May 2000 182 thousand people (16,1%) had additional jobs, the number is bigger as compared with the data of February, and amounted to 2,1%.

Bigger expansion of secondary employment is reflected by official administrative statistics that also mirrors some secondary employment (officially registered additional employment and employment through civil and legal contracts). Such forms of secondary employment accounted for about 4,5% of all the filled vacancies at big and middle-size enterprises.

Social and Economic Situation in Russia. January, 2000. – M., SCS, 2000, p.195.

Independent surveys indicate a larger – as compared with the Goskomstat data – scale of secondary employment. According, for example, to the VTZIOM surveys, from 11% to 17% of the already employed population are involved in secondary employment.

Public opinion monitoring, 1997, 1998.

As it is indicated by the analysis on economic behavior strategies of the population, and according to the Russian monitoring of economic situation and population health, innovative strategies of labour activity are available to a rather limited number of citizens:

- 6% of the respondents at the age older than 15 y.o. started a successful business;
- 5,4% (74% of the overall number of those with secondary employment) have a significant (self-estimated) income from additional employment;<sup>70</sup>
- 2,4% were successful in starting own business;
- 8,7% switched jobs and thus overcame poverty;
- 3,9% switched for a job at a private enterprise with high wages.

Meanwhile 10,8% of the surveyed turned to intense employment in the private subsidiary farm in order to overcome poverty. This can not be considered as innovative labour activity. More than 60%<sup>71</sup> of the surveyed were completely unable to do anything to leave behind poverty margin.

As we analyze incomes of those who managed to find an additional job, we observe the following pattern: 54% still had individual incomes below the subsistence minimum, while 63% had per capita incomes below the subsistence minimum.

Calculations made by I.I.Korchagina and D.O.Popova, ISEPP of the Russian

<sup>69</sup> In 1999 the higher number of those with secondary employment was to a great extent obtained due to the introduction of a modified questionnaire. Previously a respondent was asked whether he had an additional job within the surveyed week, later the question covered not only the week surveyed, but the month previous to the week of the survey.

<sup>70</sup> The given survey considers only a regular main and regular additional employment. In case occasional additional employment is considered, the number of those with simultaneous basic and additional jobs becomes bigger.

<sup>71</sup> An individual respondent may employ several strategies, thus in a given case the sum total of all the strategies of economic behavior does not equal to 100%. Some of the behavior strategies were not included in the analysis.

Meanwhile, one should keep in mind that methods to gather statistics on secondary employment are far from perfect, and we have grounds to suppose that scale of secondary employment expansion is considerably underestimated.

Secondary employment is defined in a number of ways and this to a great extent explains disagreement between the estimations on the scale of secondary employment. Presently, secondary employment is estimated as much smaller - according to the data provided by the State Committee on Statistics as compared with the VTZIOM data, mainly because working pensioners, working full-time students, working military men and the unemployed with occasional earnings are not taken into the account by the Goskomstat statistics. The period covered by the survey is of importance as well.

In November 2000 5% of the workers had regular additional jobs and 15% - had occasional additional earnings within a 6-months period.

Data of the Survey by ISEPP of the Russian Academy of Sciences, on All-Russian Selection.

While being one of the active models of adaptation to new economic realities, secondary employment is available to a limited number of workers. Most of the workers would have an additional employment, but they are limited either by health condition, or by restrained access to the secondary employment market. The work hours of paid job as well as housework (unpaid job) are of limiting nature as well, and only 15% of the workers do not search for the secondary employment for they have a sufficient income.

Workers employed at one job do not have additional employment due to the following reasons:<sup>72</sup>

- Existing income is sufficient – 15%;
- Working schedule does not allow for additional employment – 49%;
- Health or general capacities are limited – 23%;
- Housework consumes a lot of time and effort – 21%.
- Failure to find additional earnings within one's occupation – 14%;
- Failure to find any additional earnings – 18%.

Data of the Survey by ISEPP of the Russian Academy of Sciences, on All-Russian Selection

Secondary employment has become the most frequent of positive models to adapt to new economic conditions, but it is still regulated by legislative norms of the Soviet period and is limited by them (according to the Labour Code, the total number of jobs – combined – must

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<sup>72</sup> The respondents could mark several answers, thus the sum total exceeds 100%.

not exceed two while the second job can be part time only, etc.)<sup>73</sup> That is why at additional jobs or additional earnings labour relations and wage issues are just agreed on words.

Labour relations are agreed on words:

At main job – 3%

At the second job – 14%

At the third job – 29%

At occasional jobs – 52%.

Data of the Survey by ISEPP of the Russian Academy of Sciences, on All-Russian Selection

As it is indicated by official statistics,<sup>74</sup> manufacture holds the leading position – as distributed through economy sectors - in the structure of the employed population with secondary jobs – 18,6%, it is followed by education – 16,7%, trade and catering business – 14,8%, construction industry – 9,0%, healthcare – 8,8%. The most common fields of feminine additional employment are traditionally as follows: education – 25,3%, here percentage of women with secondary employment 2,8 times exceeds the corresponding percentage for men; trade and catering – 18,3%, healthcare and social provision – 13,4%. Masculine employment prevails in manufacture – 22,4% and in construction – 13,8%.

According to the Goskomstat data, the largest group of those with additional job is constituted – as classified by professional status<sup>75</sup> – by low-qualified workers. Their percentage of the total number of the employed at additional job amounted to 27,0% within the surveyed week (May, 2000). This group is closely followed by top professionals, their percentage amounts to 23,1%, 13,5% are represented by qualified workers of big and small industrial enterprises, construction industry, transport and communications, while specialists of middle level account for 10,9%. Insignificant difference of these indexes drives us to a conclusion that worker's professional status is hardly related to the need in additional earnings. We may suggest that the main incentive for additional employment is the low level of incomes that is practically to the same extent fail to satisfy both elite professionals and workers of low qualifications.

Thus, the secondary employment is widely spread, obtained through it incomes are significant for a family budget. However, additional employment is not always a way out to fight poverty, it is still regulated by out-of-date legal norms that encourage prevailing unofficial distributional and labour relations in this field.

**Unofficial wages.** In case wages do stimulate a worker for a better labour it happens only if wages are composed by official and unofficial components. Consequently, there emerges a following-up and expanding tendency to apply unofficial and law-violating relations, such as:

- Wages are coated by insurance payments (some time ago – in order to avoid taxes, presently – in order to conceal real payments received);

<sup>73</sup> Legislative norms that regulate secondary employment are provided in detail in Chapter on Legislation as well as its analysis.

<sup>74</sup> Industries of the economy are cited according to the All-Russian Classifier of the Industries of the Economy.

<sup>75</sup> As cited by All-Russian Classifier of Professions

- Wages are paid from “black cash reserves”;
- Earned money is assigned to some other people, later the money is returned to actual workers.

All the tricks are turning into an everyday practice of wage payments. Shadow wage payments presently amount up to 50% of the officially documented wage sums. Meanwhile, shadow payments, even being earned wages, can not be defined as such. They constitute a much different category.

Presently shadow employment and unofficial incomes grew into a real obstruction to economy growth. As it was noted above, in Russia at the initial stage of reforms huge potential unemployment was mostly substituted by moderate unemployment, while accompanied by enormous wage decline. Now it is hard to say whether it was a less evil or not.

As official wages diminish, tax burden on the wage fund gets unavoidably stronger, for state social commitments, paid from the allocations to wage fund, do not get smaller, but, on the contrary, are constantly growing. Thus, employers, emerging small and mid-size business first of all, reacted by concealing their profits from taxation.

Initially many considered unofficial wages as a positive factor, suggesting that a new middle class is emerging, and it *was* actually emerging. It is worth noting, that in the sector of small and mid-size enterprises, the outcome of tax avoidance was distributed among all the participants: owners, managers and workers. Practically all workers of such enterprises received and are still receiving unaccounted for wages.

We would also note, that the unofficial profit was often used by entrepreneurs to increase a working capital and investments. In such a case unaccounted for profit, being a common fact, facilitated cost reduction.

First manifestations of main negative consequences of shadow incomes came into play when big enterprises initiated the practice of the wage payments out of unaccounted profits. In such a case it is impossible to fairly distribute benefits gained through tax avoidance among all the participants for such a procedure supposes a small number of participants, opportunities to promptly close a company, etc. Thus, benefits gained through tax avoidance started being distributed among top management and immediate bureaucracy.

At big enterprises – unlike small and mid-size ones, - unaccounted for profits translate into direct loses. The main incentive to introduce tax avoidance schemes in such case is a private interest of top management. As a result, an opportunity to gain unofficial income emerged as a job-choice priority. Official wages are of no importance, for a working place provides only an access to the resources distributed outside the frames of official economy. Even economy growth is not to generate wage rise for the majority of workers unless institutional control over profit distribution at big enterprises is strengthened and top management opportunities in their shadow redistribution are limited.

Comments by THE ILO experts

The policy of “concealed” wages is not an exclusive, but an inherent component of general payment system of the economy. Thus, it is hard to legalize wages without all other financial

activity being legalized as well. Besides encouraging tax rates, there should be established a control over financial discipline. For the majority of the employers, introduction of higher minimal wages (up to the amount of subsistence minimum, for example) will mean not a sharp increase in wage expenditures, but a redistribution of concealed and legal wages. A smaller number of the “false poor” is to be an outcome.

To make wages more transparent it is important to encourage not only the interests of employers, but the ones of the worker. Any worker is to understand the importance to make social payments out of real wages, thus to seek an official income. This can be reached though personified social allocations only.

Presently, workers do not see the difference between “grey” and “white” wages. The majority of state guarantees (minimal wages, unemployment benefit, pensions) are extremely small and are not “guaranteed” against various “accidents” (for example, there does not exist an indexation mechanism to protect wages from inflation; regular payments are not guaranteed). Thus, workers agree to shadow earnings, and do not think about allocations to social fund, some means of which “might be of use” to them later.

**Wages at the enterprises of various types of ownership.** Private sector has emerged as an independent economy sector and this can be considered the most important outcome of institutional reforms of the recent decade in Russia. Thus, Russian labour market has been substantially transformed. Private sector is one of the main fast-growing sectors of the economy with increasing demand for labour force. The number of those employed at the privately owned enterprises had doubled at the period of 1990-1999 and amount to 44% of the total number of the employed in the economy.<sup>76</sup>

Despite the fact, that the majority of active population considers the switch for private sector to be a successful model to adjust to new economic conditions, wages in this economy sector, according to the Goskomstat data, are among the lowest and amounted to 1208 roubles in 1999. Just to compare:<sup>77</sup> wages at state enterprises amounted to 1584 roubles, at the enterprises of mixed Russian ownership – 2290; at the enterprises with foreign participation – 3871 roubles.

A low level of official wages is typical for private enterprises across practically all industries. For example, an average monthly accrued wages at the private enterprise in manufacture amounted to 94% of the wages at state enterprise; in agriculture – to 67%; in construction – to 75%, and in trade – to only 61%.

However, such data is not confirmed by the results of independent research. According to it, those employed in the private sector, earn much more than workers of traditional enterprises.<sup>78</sup> Higher wages is the very factor to attract workers to private sector.

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<sup>76</sup> This is 28,3 million workers in 1999 as compared with 9,4 million in 1990. Social Situation and Living Standards of the Population in Russia, M., 2000, p.67. Privately-owned enterprises differ from enterprises of the mixed forms of ownership as for state and foreign participation. Thus, a cooperative, all participants of which are the Russian citizens, is to be classified as a privately-owned body, while an open shareholding company with 99% of private shares and 1% of state shares is to be classified as an enterprise of mixed ownership without foreign participation.

<sup>77</sup> Social Situation and Living Standards of the Population in Russia, M., 2000, p.163.

<sup>78</sup> According to ISITO, wages in new private sector are 35% higher, than the ones at the traditional sector. S.Clarke, New Forms of Employment and Household Survival Strategies in Russia, UK, 1999, p.41. According to Center for the Labour Market Research of the Institute of the Economics of the Russian Academy of

According to the data of the 1999 surveys on labour relations, 42% of the surveyed workers at the new private enterprises emphasized wages as the main advantage, as compared with 21%<sup>79</sup> of the workers of the state enterprises. At the state sector low wages are to some extent compensated by benefits, working schedule and stability (these are the factors emphasized as advantages by those employed at the state sector).

Calculations by S.Lomonosova, Center for the Labour Market Research of the Institute of the Economics of the Russian Academy of Sciences

Thus, despite the official data, amount of the wages is sure to be the main factor for the labour force to switch for private sector. Here a worker is provided with better material terms, however there are different risk factors as well. In most of the cases, employment and wage payments in private sector are not guaranteed for an ordinary worker.

The majority of the contracts remain perfunctory despite the fact that contracted relations are particularly common for private sector. Actual wages are an order different from those indicated by contract (this seems to explain the disagreement between the data of independent and official surveys). According to the labour relations surveys, in 1999 36,6% of the workers of private sector were “handed” bonuses, that on average 4,9 times exceeded contracted wages (such a practice is of a much less scale at the state enterprises).

**Employers’ strategies to set wages.** Enterprises are relatively free to shape own policy on wages, thus a various ways and means of wage payments naturally emerge. However, it is important to understand on what criteria wage policy is based and how objective these criteria are. Tariff rates schedules are most typical for the manufacture enterprises that were established long before market reforms.

However, state tariff rates “in their pure form” are no longer used at manufacture enterprises, for they introduced their own systems based on state tariff rate schedules. Thus, while in 1994 56% of the enterprises paid wages in strict observance of state tariff rates, in 2000 there remained only 27% of them.

State and privatized enterprises in most cases choose to apply unified schemes of wage calculations, making a full use of traditional principles of wage payments. Nevertheless, within the period of reforms a large sector of private entrepreneurship – with no background of state tariff rate application - has emerged in Russia and it is distinguished by a great variety of wage payment principles and systems.

Any serious limitations on wage payments are absent, thus bringing about a variety of criteria to determine wage amounts. The majority of new private enterprises are small non-manufacture businesses with small number of workers and fast money turnover. Such enterprises are characterized by fast and dynamic decisions, translating into, first of all, close links between the wage payments and an enterprise financial activity, and, secondly, into greater subjective approach to wage payment issues.

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Sciences, in 1999 wages in private sector were twice higher than in the state sector, and 1,5 higher than wages at the privatized enterprises.

<sup>79</sup> Enterprises were classified into three groups: state, privatized (that is the form of ownership of such an enterprise was altered within the transition period) and new private (that is newly established).

According to the 1999 labour relations surveys, in a new private sector in 33% of cases financial status of an enterprise acts as a criteria to set worker's wages. Besides, private enterprises are noted – when setting wages - for their consideration of market environment – with regards to existing regional or industrial level of wages.

Calculations by S.Lomonosova, Center for the Labour Market Research of the Institute of the Economics of the Russian Academy of Sciences

Despite the fact that employers of private and state sectors apply different wage payment schemes, objective human capital characteristics are predominant for all the employers as they set the wage amounts. Wage amount is primarily determined by worker's qualifications. Meanwhile, such characteristics as education and work experience are twice more seldom taken into consideration as criteria to set wages amount at the private sector enterprises as compared with state and privatized ones. This is the very reason to explain a negative attitude of young people to professional education.

Such factors as objective characteristics of labour force and financial status of the enterprise are certainly to be the predominant ones, still we would emphasize growing importance of subjective approach to wage setting. Employers of all sectors pay great attention to worker's personal qualities, to those that are hardly the subjects for quantitative measurement (initiative, creative approach, loyalty to the company, easy character, the ability to win boss's sympathy, useful connections, etc.). It looks that at the absence of acting mechanisms to regulate wage setting, the process becomes to a great extent individual and is determined by demands of a particular employer.

Rational labour market behavior calls, from one hand, for an employer to work out exact requirements on a certain work position, and, from the other hand, - the worker is to clearly understand what qualities raise his chances for higher wages, what factors determine the wage amount. A large number of workers do not understand wage setting criteria for their labour due to subjective approaches of employers.

One third of surveyed workers of privatized and private enterprises (and a quarter of those employed in the state sector) noted the interconnection between their wages and decision of the boss.<sup>80</sup> Only 7% of those employed in the private sector reported wage amount to be determined by terms of the contract as compared with 36,6% of the state sector workers.

Calculations by S.Lomonosova, Center for the Labour Market Research of the Institute of the Economics of the Russian Academy of Sciences

It is also worth noting that there is observed an explicit link between wage payment schemes and position status of a worker. The lower is the position status the less his wages are affected by how well the enterprise is doing and are to a greater extent determined by a decision of the boss. On the contrary, the higher is the position of a worker, the more his wages are determined by how successive the enterprise is. Thus, for low-qualified workers high risk of

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<sup>80</sup> Worker's choice of such an answer can not be absolutely linked to arbitrary decisions of administration on wage issues, however, such a situation is very probable, for the workers did choose the very answer, while other variants were given as well (such as supposing a greater certainty as provided by terms of the contract, personal contribution, results of the work of the enterprise, etc.)

poverty is linked not only to low level of officially established wages, but to lower guarantees of wage payments as well - due to increasing influence of subjective decisions of the boss on the amount of actually paid wages.

### **Flexible forms of wage payments and their influence on worker's living standards.**

Greater flexibility of wage payments was brought about by decentralization of wage payment policy. The growing number of variable components of the worker's income (premiums and bonuses) is to reinforce a stimulating function of the wages and is to translate into closer interconnection between wages amount and results of labour contribution (individual or team, as determined by the chosen system).

From another side, **variable wage components, being not guaranteed ones**, may end up in reduced stimulating impact - for the interests of hired workers might get impaired. Strict state tariff regulation was cancelled in early 1990s, thus a number of variable components of the enterprise workers' incomes sharply rose. This was seen as market trends in management. However, the growth slowed down later due to the increasing default payments. Under such conditions insufficient monetary means to cover wages ruled big bonuses out. Thus, enterprises more and more often introduced another, "innovative" option of flexible wage payments. There were applied – despite law-violations - late wage payments, in-kind wages, shadow wage payments. The very essence of flexible wages had been transformed for the actually received wages themselves emerged as a stimulating factor.

Within the poverty reduction strategy we would like to note that such "innovative forms" of flexible wage payments, being applied, aggravate poverty risk for ordinary workers. Successive financial policy of an enterprise is to a greater extent determined by strategies pursued by top management. It means that they are the very category with wages to be substantially composed of variable components, however, according to RLFS data, flexible wages are the most frequently applied in regards to mid-level managers and blue-collar workers.<sup>81</sup> In case we have a look at administration of the enterprises, we can't help but observe managerial drive to "ensure" own earnings through increased fixed wage component (position salaries), independent from economic status of the enterprise.

A bigger use has been made of **unpaid for labour** since mid-1990s. By the late 1990s the amount of real wages of the workers of all industries shrank mainly due to growing volume of wage payment debt. This problem was extremely sharp in 1996-1997, when 41,2% of the manufacture enterprises failed to pay wages, while the average unpaid period amounted to 10,7 weeks in 1997.<sup>82</sup> Wage payment debt grew by several orders faster than the accrued wages. The percentage of the poor is directly determined by the expanding usage of unpaid labour in the majority of critical industries with moderate wages. In the industries with low wages, the percentage of workers to be yet paid overdue wages, exceeds their percentage within the general employment structure.<sup>83</sup>

Positive shifts in overdue wage payments that had emerged by 1999 slowed down by 2000. The recent general reduction of sum total of overdue wage payments is provided mainly through settlement of the debt to the enterprises of non-manufacture industries – education,

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<sup>81</sup> Here wages being the possible subject to statistical registration are mentioned.

<sup>82</sup> According to RLSF data.

<sup>83</sup> While in 1999 31,3% of the workers were employed in agriculture, education, healthcare, culture, the percentage of the workers of these industries in the total number of those to be yet paid overdue wages was about 45%.

healthcare, social provision, culture and arts. Debt is much slowly paid out to manufacture enterprises and the number of the enterprises with debts on overdue wages remains the same. Presently overdue wages debts of the enterprises are caused not by state activities, but by the status of enterprise own balance (in early 2001 84,5% of the overdue wages debt was due to the lack of own means).

**Wages paid in-kind** is another way to hurt interests of a hired enterprise worker. The practice of in-kind wages not only impairs worker's right to use the earned money in his own way, but lowers the level of a family income in case the in-kind products received as a wage component are hard to sell at a decent price.<sup>84</sup> Though the current trend is to reduce in-kind wages, they were most common for the last 3 years, in 2001 such wages were practiced at 21% of the manufacture enterprises.

As it follows from the above-rendered, the officially published data on accrued wages is overestimated due to the existing practice of default and in-kind wages. At the same time there is also a factor of counteracting influence on income indexes. A number of workers, in a private sector in particular, receive a considerable part of wage in the form of undocumented cash.

In case expenditures of the enterprises to cover shadow wages increase, the smaller cost of labour force, that is mirrored by official statistics, may conceal its actual growth. Provided completed wage estimation, carried out by Goskomstat, is considered, the real wages decline turns out to be much smaller. While in 1997 the index of real wages amounted to 49% of the pre-reform level, it turned out to be 73%<sup>85</sup> in case a completed wage estimation was considered. According to the labour relations surveys of 1999, only 76,7% of workers are paid as provided by terms of the contract (this index is much smaller for the private sector – 63,3%).

Positive shifts in order to reduce the practice of law-violating forms of flexible wages are to a great extent possible only in case the efforts of the state are supported by corresponding steps of enterprise administration. Presently the major part of debts on wages to be yet paid to the workers is caused by financial policy of the enterprises (debts due to insufficient budget expenditures do not exceed 20-25% of the total volume of wage debts).

### ***3.2.3. The Way Wages to Be Reformed in Order to Support Poverty Reduction Among the Working Population***

There are two key priorities of poverty reduction among the working population: to raise official individual incomes of low-paid workers and to socially support their dependants. Within the wage issues we would dwell on measures to promote higher wages.

As it is proved by our analysis there are to be outlined two main directions to reform the system of wage payments:

- Minimal wage level per a working place is to be raised. In the near perspective – minimal wages are to be raised up to the subsistence minimum amount;

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<sup>84</sup> As it is indicated by practice, in kind products - when given as a wage component - are overpriced.

<sup>85</sup> Kapeliushnikov R.I. Russian Labour Market: Adaptation without Restructuring. Coll.works: Some Aspects of the Theory of Transitory Economy. M., Institute of World Economics and International Relations, 1999. At the same time, an important source to save on labour force – overdue wage payments – is not considered.

- Wage differentiation at the company level, as well as throughout an industry and economy in general is to be reduced;
- Institutional limitations on major types of additional employment are to be discontinued. Such limitations are to be expediently retained for certain categories of civil servants only.
- Unofficial relations in wage payments are to be reduced through economic, political and institutional measures.

## 4. Social Transfers and Their Role in Poverty Alleviation Strategy in Russia

### 4.1. The System of Social Benefits, Payments and Privileges

In the Soviet period the system of social benefits and privileges was a built-in part of a distributional mechanism. With wages being formally leveled, this mechanism ensured unequal access to the material wealth. The actual size of the resources distributed through the system of benefits and privileges was carefully concealed. The main principle of the system of social benefits had been always the same: to provide as much as possible for those deserving, but not to the needy. As soon as the state had more of the economic capacities, the system of benefits was expanded: a larger number of population groups were granted benefits, the amount of benefits was raised as well. But the principle itself remained unchanged. In general, the Soviet system of social support to population was to meet the three main tasks:

- To support those who performed outstanding deeds to the State;
- To make payments, that are to some extent similar to the insurance (pensions, benefits due to temporal work disability, etc.);
- To provide social services to the categories of population, not capable for labour and lacking adequate family support. Here we include some types of allowances (for children, to the families with many children and to the single parents, etc.).

The **first** of the mentioned tasks was always a priority. Inequality was served – within the society that declared equal access to material wealth - through support of those with special merits. Thus, the mechanisms of this function were mainly of hidden (shadow) nature and concerned the distribution of housing, access to quality services (medical, resort and sanatorium, transportation, educational, etc.). As a result, financing of this part of social aid was not transparent and support was rendered to the wealthiest members of the society.

The circle of people deserving some privileges could and even should be relatively wide, but still limited. For example, the housing rent was extremely low for all those entitled to live in state housing, because all the extra expenses to care for this type of housing were compensated by “Social Consumption Funds”. In 1990, for example, 6% of the total amount of means of the social consumption funds were spent on this.

This benefit was not enjoyed by the majority of rural residents, who lived in their own houses, neither by the city residents without “state housing”, or by the many on waiting-list for “state housing”. Thus, the exclusively low rent for those residing in state housing was by itself an additional privilege, for this type of housing was, as a rule, of more than average comfort. And the more comfortable it was (the rate of comfort was determined by the “rate of merits” as well), the bigger was a benefit.

The **second** task – to carry out similar to insurance payments – was as much close to the insurance principles as it was possible under the conditions of the planned economy (the amount of payments was determined by the amount of labour contributed).

The **third** of the tasks mentioned was of the last priority and was a financial leftover. As a result, the low-income families had a limited access to the resources redistributed through the system of benefits and privileges.

Such an approach to set priorities was – within the Soviet system of distribution – to a great extent a reasonable one: for social benefits ensured material inequality while total employment and high level of minimal wages<sup>86</sup> protected against poverty. Only in case of a high dependant strain (mainly due to many children) a family had a high poverty risk.

It is important to emphasize that such a system of priorities is not acceptable under emerging market conditions for the policy to curb income distribution differentiation is absent. Being preserved, the Soviet system of benefits (in its concealed part in particular) promotes income redistribution to the benefit of the mostly wealthy members of the society.

The main principle of the development of the social protection system emerged – as the market reforms are introduced – as the prompt reaction to the aggravating social and economic problems (the number of the poor and the unemployed is growing, there come refugees and forced migrants, the wages and pensions are not paid, etc.). As a result there emerged new types of social allowances and benefits at federal, regional and local levels. Meanwhile, the main social commitments and principles of social support typical for the Soviet period have been preserved.

In Russia there exists – at the Federal level only – about 150 types of social benefits financed from the budget. They are allowances, subsidies, payments made to more than 200 categories of population (for example, to the veterans, children, the disabled, students, etc.).

Practically all social allowances, payments and benefits are granted due to categorial affinity. The examination of neediness is required for only three types of social payments of the federal level – a monthly child's allowance, housing subsidies, and state social support<sup>87</sup> - that are paid to the families with per capita incomes below the subsistence minimum.

There exist social allowances and subsidies that are financed by the means of non-budget funds of social sphere (for example, the unemployment benefits, benefits due to temporal work disability, etc.). There are also social payments and benefits that are rendered by regions to various categories of local residents.

In 1999 expenditures of the consolidated budget of the Russian Federation on the social and cultural issues amounted to 367 billion roubles or 8,1% of GDP (Appendix 4, table 4.1.). Expenditures of the non-budget state social funds<sup>88</sup> amounted to 375,5 billion roubles or 8,3% of the GDP (Appendix 4, Table 4.2.).

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<sup>86</sup> In the Soviet period the amount of minimal wages was 150% of the amount of subsistence minimum.

<sup>87</sup> According to the Ministry of Labour of the Russian Federation such a support was paid in 1999 in the 21 of the Russian Federation Subjects. But only 13 regions possessed the comprehensive data on such payments. (M.Baygireev. Poverty and Policy of Addressed Social Support to the Families of the Poor. Man and Labour. 2001. No 1)

<sup>88</sup> They are: the Pension Fund of the Russian Federation, The Fund of the Social Insurance of the Russian Federation, The Fund of the Employment of the RF Population, The Republican Fund of Social Support of Population, Federal and Territorial Funds of Obligatory Medical Insurance.

In 1999 social transfers to the population – pensions, allowances, stipends, insurance payments, etc. amounted up to 381,4 billion roubles (8,4% of the GDP). Pensions constitute 80% of the total volume of social transfers. In 1999 the relative weight of all social transfers in the total volume of the money incomes of the population amounted to 13,7% (Appendix 4, Table 4.3.). Meanwhile, in 1999 all social allowances constituted only 2% of the aggregate money incomes and 1,2% of the GDP (Appendix 4, Table 4.4).

Up to 1997 the increasing share of benefits in the volume of money income was an apparent tendency, while since 1998 this share is shrinking. Meanwhile, in 1998 36,7% of the total volume of assigned benefits was not paid, in 1999 – 21,0%. In 1999 the three mostly frequent types of allowances constituted 76% of the total sum of assigned benefits. These are the benefits due to temporal work disability (35,9%), a monthly allowance for each child (26,4%) and the unemployment benefit (13,7%).

There have been observed the shrinking percentage of the family and maternal allowances<sup>89</sup> in the total volume of allowances: while in 1995 such allowances constituted 54% of the total volume of allowances, to 1999 this percentage decreased to 37,3%. Nowadays children are the very population group with highest risk to fall to poverty and that - to a great extent - is due to the reduced volumes of social support to children. There are three main causes for that.

First of all the addressed allowance payment for each child was not accompanied by the redistribution of resources to the benefit of the children from the families of the poor, but laid grounds to cut down the expenditures for the program.

The second reason is the late payments of such an allowance: according to the data of the Ministry of Labour and Social Protection of the Russian Federation, by the 1<sup>st</sup> of April, 2001 the total sum of the arrears of allowances amounted to 22,3 billion roubles. By this date it was completely paid only in 18 regions, and in 11 regions the arrears were relieved to the amount of 1-4 month period.

Thirdly, a benefit amount remains low, while the majority of other types of incomes - such as wages and pensions - are growing.

The budget section “Social Policy” is usually the one to provide budget financing for the social protection of population. In 1999 the expenditures of the consolidated budget by the entries of this section amounted to 92,4 billion roubles, that is 2,0% of the GDP or approximately 7,3% of the total expenditures of the consolidated budget of the Russian Federation. 53% of the mentioned expenditures were borne by the federal budget. A number of social protection payments are covered by federal and territorial non-budget social funds. However, such financing is not sufficient to meet all the social commitments.

The necessary financing of the allowances and benefits of the federal level is estimated at the amount of more than 15% of the GDP, that 10 times exceeds the current federal budget expenditures on social policy. Thus, the major shortcoming of the presently existing system of social support stems out from state commitments being inadequate to its capacities.

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<sup>89</sup> Family and maternal allowances are as follows: maternity and birth benefit; birth grant; childcare benefit (up to age 18 month old); a benefit due to a disabled child care; a monthly allowance for each child.

A huge number of laws - with all the amendments introduced – constitute a legal base for the acting system of social allowances, payments and benefits. There are also Presidential Orders, Government Statements and many other legal acts, adopted at federal, regional and municipal levels. It is not infrequent that these documents do not comply with each other, fail to clearly outline sources to finance social payments, along with defendants and liability forms in case the above-mentioned legal acts are not observed.

As declared by the 1993 Constitution, the Russian Federation is a social state, thus the legal aspect the emerging system of social guarantees is becoming of a particular importance. In 1992 there were developed – by a number of Ministries and Institutions – “Main Principles and Guidelines of Social Policy of the Russian Federation for the period of 1992-1993”. The social policy principles are outlined as follows: comprehensive treatment is to be combined with differentiated approach to various population groups, social policy is to be of active and address character, is to include social partnership, while the authorities are to be divided between different levels of power. Main guidelines of social policy suggested the system of social insurance is to be shaped and the social security is to be reformed according to the social insurance and welfare principles.

Unfortunately, not all of the above-listed principles were applied to the social protection of population. The principle of comprehensive treatment is translated into an attempt to expand these or those forms of social protection over the biggest number of people. Differentiated approach to various population groups is interpreted as benefit or allowance coverage of various population groups without taking into account the actual neediness of particular social aid recipients. Addressed character of social protection is used to grant a benefit or an allowance to those in favour, but not the ones actually in need of social aid.

The currently existing system of social benefits and allowances for population is built up by the following basics:

- A monthly allowance for children under 16 years old in the families with average per capita income below the subsistence minimum is paid by the Federal Compensation Fund and is one of the most important of social allowances in the Russian Federation.<sup>90</sup>
- According to the RF Constitution, any citizen is guaranteed social provision due to illness, childcare (art.39), while all the workers are the subjects for compulsory state social insurance (Labour Code, art.236).
- According to the provisions of the Labour Code (art.239), the workers have the right for temporal work disability benefit,<sup>91</sup> that is paid at the amount of 60-100% of the wage amount and according to the duration of uninterrupted years in service and other circumstances.<sup>92</sup>

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<sup>90</sup> Provided by the Federal Law “On State Allowance for Citizens with Children”, dated 19 May 1995, No 81-Φ3, with the amendments and supplements introduced on December 30, 1996, July 12, 1998, July 17, 1999, by the Statements of the RF Government No 1096, dated September 29, 1995 and No 1245, dated November 12, 1999.

<sup>91</sup> It is covered by the Fund of Social Insurance.

<sup>92</sup> In case of labour-related disability or disease, such an allowance is paid in the amount of 100% of the wages. The RF Laws “On Donors of Blood and Its Components”, dated June 9, 1993, “On State Guarantees and Compensations to Those Working and Residing in the Extreme North and in the Areas Granted the Equal Status”, dated February 19, 1993, the Order of the President of the Russian Federation, dated October 2, 1992 stipulate specific provisions to allowance payments for some categories of citizens. As provided by the Order of

- As provided by the Federal Law “On Burials and Undertaking” (with amendments and supplements dated June 28, 1997, No 91-Φ3), the citizens are compensated the costs of undertaking services and a social allowance in the amount not exceeding 10 minimal wages is paid.
- The maternity and birth benefit is paid to women that are subjects to the state social insurance, at the amount of 100% of the wages and is covered by the Fund of Social Insurance (Art. 165, 240 of the Labour Code; the Federal Law “On State Allowances to Citizens with Children”, dated May 19, 1995, No 81-Φ3).<sup>93</sup>
- There are laws, according to which citizens have the right for a lumpsum birth grant at the amount of 15 minimal wages; a monthly allowance – at the amount of 2 minimal wages - for the period of childcare (up to the time the child is of 18 month old).<sup>94</sup>
- A big number of laws provide benefits in housing rent, communal services, telephone bills, etc.<sup>95</sup> Besides, there exist a program of housing subsidies.<sup>96</sup>
- The existing in the Russian Federation system of medicine benefits (discounts) is of categorial nature. A substantial number of medicine benefits is rendered to citizens as a sign of appreciation of their deeds to the State, the smaller part is rendered to those with acute and chronic diseases, that call for ongoing supportive expensive treatment. The list of population categories eligible for benefits is adopted by the Statement of the Government, No 890, dated July 30, 1994, and covers a substantial part of the population of Russia, and in some subjects of the Russian Population (the Northern Territories, the Chernobyl Area, etc.) – even all the population.
- As provided by the RF Law “On Employment of the Population of the Russian Federation (adopted in 1991 and with amendments introduced in April 1996 and in June 1999), unemployment benefit is paid to all citizens, laid out due to any reasons, and at the amount of 75% of average monthly wages - at the period of the first 3 successive months, and at the amount of 60% - for the period of 4 next months, later at the amount of 45%, but not below minimal wages and not exceeding the average wages in a given region; as for the citizen for the first time looking for a job – at the amount of minimal wages.

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the RSFSR Council of Ministers, dated October 27, 1987, No 1417-p and by the Main Provisions of the RF Legislation “On Healthcare of the Citizens”, dated July 22, 1993 No 5487-1 (art.22), the allowance for leave to care for a sickchild is paid in the amount of 50-100% of wages.

<sup>93</sup> To some women who are not subjects to state insurance, the allowance is paid in the amount of minimal wages or other, covered by the means of federal or other budgets.

<sup>94</sup> Covered by the Fund of Social Insurance and by budgets of all levels (The Federal Laws “On State Allowances to the Citizens with Children”, dated May 19, 1995 No 81-Φ3 and “On Amendments and Supplements to the Federal Law “On State Allowances to the Citizens with Children”, dated November 24, 1995, No 184-Φ3).

<sup>95</sup> For example, there are benefits in housing rent and communal services for the public procurators (The Law of the Russian Federation “On the Procurator’s Office of the Russian Federation”). Other population categories enjoy such benefits as provided by the Law of the Russian Federation “On Status of Judges in the RF” dated September 26, 1992 No 3132-1 and by the Federal Law “On Additional Guarantees of Social Protection of the Judges and Court Personnel in the Russian Federation” dated January 10, 1996, No 6-Φ3, by the Law of RF “On Police” dated April 18, 1991, No 2026-1, by the Federal Law “On RF Procurator’s Office”, by the RF Law “On Federal Fiscal Police Institutions”, dated June 24, 1998, No 5238-1, by the Presidential Order “On Soldiers Internationalists” dated April 04, 1992 No 362, by the Customs Code of the RF, dated June 10, 1993 and by other legal and normative acts.

<sup>96</sup> Neediness examination is required to obtain housing subsidies (according to the Law “On Main Principles of Federal Housing Policy”, 1992, and a number of Statements of the RF Governments).

- In case a worker is damaged by an injury or a professional disease, a lumpsum payment at the amount of 60 minimal wages is made by the enterprise at fault of the damage. Depending on the degree of disability caused, there are to be additionally provided monthly payments, as well as compensation for the moral damage is possible.<sup>97</sup>

#### **4.2. Population Covered by Social Allowances and Benefits**

As provided by the legislative acts of the Russian Federation, nearly 70% of the total population of the Russian Federation have the rights to receive social guarantees, benefits and payments.<sup>98</sup>

The data on the number of people covered by some types of social payments is drawn in Appendix 4 (Table 4.6.). The number of recipients of temporal work disability benefit, maternity and birth benefits can be estimated by the number of days paid within these benefits (See Appendix 4, Table 4.6.). According to the data of the State Committee of Statistics, in 1999 the number of citizens enjoying housing and communal services benefits amounted to nearly 42,3 billion. Besides, 2,7 million of families (6,5% of the total number of families) received the subsidies for housing rent and communal payments.

According to the data of the random survey of household budgets, made by the State Committee of Statistics in 1999, 33,8% of households turned out to have members – recipients of certain subsidies and benefits, as provided by acting legislation or rendered by enterprises and companies in money or in-kind. Chances to become a recipient of various subsidies and benefits are determined by the level of household wealth. So the chances are much smaller for the households with average per capita possessed resources below the subsistence minimum than for other households. Only 27,4% of households with average per capita possessed resources below the subsistence minimum had members receiving some benefits or allowances.

According to the data of the Russian Monitoring of Economic Situation and Health of the Population (RMESH), in September – November 1996, about 44% of the households of the Russian Federation had the right to receive a monthly child's allowance, more than 11% had medicine benefits and about 1% of the households were receiving fuel subsidies.

RMESH data confirm the conclusion arrived at through the analysis of the data of the State Committee of Statistics: the chances to receive various allowances and benefits are determined by the household wealth. And they are much smaller for the households with an average per capita income below the subsistence minimum.

The RMESH data indicate that only 26% of the households receiving housing subsidies and benefits are the households with incomes below the SM, while 74% of the beneficiaries are the wealthy households. The analysis of data of the 8<sup>th</sup> round of RMESH<sup>99</sup> indicate that the

<sup>97</sup> Basic RF Legislation on the Labour Protection and the Rules for the Employers to Compensate for the Damage due to injure, adopted by the Statement of the Supreme Council of the Russian Federation, dated December 24, 1992, No 42144 with supplements and amendments, dated November 24, 1995, No 180-Ф3.

<sup>98</sup> See the Program of the Russian Federation Government "Restructuring and Economic Growth in 1997-2000".

<sup>99</sup> The preliminary results were presented at the autumn (1999) conference carried out by the Russian-European Centre for Economic Policy (RECEP).

distribution of benefit's recipients is less regressive in case monthly child's benefit payments in the regions are done in addressed form.

Calculations by the ILO expert

The actual number of the social allowances and benefits recipients is lower than the number of those having the right for various types of social aid. Insufficient financing leads to late payments of social allowances and benefits, thus the number of the actual recipients of the allowances is smaller than the number of those eligible. By the end of 1999 arrears of the monthly child's allowance constituted, according to the data of the State Committee of Statistics of the RF, 21% of the total sum of the assigned allowances. According to RMESH data, in late 1998<sup>100</sup> about 83% of the households with the right for the monthly child's allowance were not receiving it.

### **4.3. Social Allowances, Payments of Benefits: the Amount and Trends**

Throughout the 90s the amount of all social allowances was kept at a very low level. The situation was the hardest after the crisis of August, 1998. For example, in 1999 the amount of child's allowance constituted 6% of the subsistence minimum amount. Poverty risk was certainly higher for the families with children for the share of benefits within the total household income decreased and the maternal and child's allowances became less significant. The established system of family and maternal benefits does not promote poverty reduction for this type of families. It is planned to rise the amount of the benefit up to 140 roubles within the next budget year, that is 12% of the current subsistence minimum of a child, however, such a rise has not been officially adopted yet.

Throughout all the years of reforms the minimal pension was fixed at the level below the cost of the subsistence minimum of a pensioner. In 1992 the minimal pension amounted to 85% of the subsistence minimum of a pensioner, by 1998 its amount went down to 48% of the SM and the worst ratio between the minimal pension and the SM was in 1999 – 45%. Data on some types of allowances are drawn in Appendix 4, (Tables 4.8 – 4.9).

The materials of the random survey of the household budgets, made by the State Committee of Statistics in 1999, indicate that the amount of subsidies and benefits received by the households as provided by legislation or rendered by enterprises and companies in money or in-kind, is smaller for the households with per capita possessed resources below the subsistence minimum than the average for the all recipients (Appendix 4, Table 4.10).

The analysis of the level of social allowances and benefits is to consider the forms by which the social aid is rendered to the population. An allowance or a benefit cost appears lower in case it is paid in goods or services for the prices applied are often higher the average retail prices in the region. In the Fund "Institute of the City Economy" the coefficient of 0,5-0,7 is applied to equate the paid in-kind allowances to the money cost, thus reaching a more exact amount of the social aid received by the households.

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<sup>100</sup> Calculated according to the 8<sup>th</sup> RMESH round.

#### **4.4. Efficiency of the Acting System of Social Transfers. The Influence of the Social Allowances And Benefits on Incomes and Poverty**

As it was already noted, about 70% of the population have the right for social payments and benefits, as provided by the Russian Federation legislation. Meanwhile, the low-income families – that presently constitute, according to the estimations of the RF State Committee of Statistics, about 30% of the population – are not the priority group in this system of distribution.

According to the estimations of the International Labour Organization, in the developed countries and in some Eastern European countries the efficiency of social support programs reaches 50% and is calculated as the percentage of accumulated social transfers for the families living below poverty line. The efficiency of social support programs of the Russian Federation is 19%.<sup>101</sup>

As it was shown above by the analysis of the data provided by the RF State Committee of Statistics, the percentage of the low-income families is smaller as well as the amount of the social allowances, subsidies and benefits received by them as compared with average for the total population. It drives us to a conclusion that the main part of the social aid is distributed not to the benefit of the families with incomes below the subsistence minimum.

For the poor the allowances and benefits received are not adequate to their hard economic situation: the ratio between the sum total of benefits and allowances and the income amount (possessed resources) is extremely low for the households of the poor. Thus, the existing system of social protection can not be viewed as the mechanism of real support of the households of the poor.

In case the average amount of the allowances and subsidies, received by the members of households of the poor, is compared with the average deficit of the possessed resources of these households<sup>102</sup>, the conclusion is as follows: food subsidies may cover only about 6% of the deficit of possessed resources; transportation expense subsidies – less than 5%; housing rent subsidies – less than 5%; a monthly child's allowance – less than 8%. Such pattern of aid distribution can be called neither fair, nor efficient, especially considering the limited opportunities of the households of the poor to attract additional material resources.

Regressive character of various forms of social protection of the population is typical both for payments and benefits financed by regional budgets (a monthly child's allowance, subsidies and benefits for housing rent and communal services, fuel subsidies, medicine benefits) and for payments, financed by federal and local budgets (city transportation benefits for the pensioners), as well as for the payments, financed by non- budget funds of social sphere (unemployment benefit, - up to 2001 it was covered by Federal Fund of the Employment of the Population, - temporal work disability benefit, maternity and birth benefit, vacation benefits, including the subsidies for sanatorium and resort treatment, that are covered by the Fund of Social Insurance).

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<sup>101</sup> From Plan to Market (World Development Report 1996. The World Bank). – Oxford, 1996.

<sup>102</sup> Unfortunately, there are not data on deficit of possessed resources of the recipients of allowances and benefits.

The analysis of data of the 8<sup>th</sup> round of RMESH<sup>103</sup> indicates that in case monthly child's benefit payments in the regions are done in addressed form the distribution of benefit's recipients becomes less regressive. However, even if the addressed forms of social protection of population are applied, the issues of redistribution of the resources to the benefit of the poorest are still acute.

According to the data of the State Committee of Statistics of RF and in case one takes into account the index of possessed resources<sup>104</sup>, but not the money incomes, in the 2<sup>nd</sup> quarter of 2000 in the Republic of Chuvashi the low-income households with children received practically the total sum of the monthly child's allowance, while in the Samara region – only 43,9%, in the Belgorod region – only 37%.<sup>105</sup> (Appendix 4, Table 4.11).

Such differences are caused not by the explicit violation of the laws and normative acts, regulating payment procedures of monthly children allowances, but by possible manipulations with indexes that estimate the degree of neediness. In case we apply the index of the possessed resources as a basic one, we end up with estimations of the number of the needy families 1.5-2 times lower as compared with the estimations obtained through the index of official money incomes.

It is certainly confirmed by the examples of the Belgorod region, where the income of the private subsidiary farms are high, and of the Samara region with high level of additional employment and employment in the private sector. The more is the difference between the official money incomes and the possessed household resources, the less is the chance for the children allowances to be concentrated among the really needy families.

The necessity to reform the existing system of social protection was highlighted by the crisis of August, 1998 for it not only aggravated the growing number of the low-income population, but substantially depleted the real meaning of the majority of social transfers. While before the crisis (July 1998) the amount of the monthly child's allowances constituted 13,2% of the subsistence minimum of a child, in the post-crisis period (July 1999) it was only 6,1%.

Nowadays finances to cover the most important social allowances are scarce, while the number of population with money incomes below the subsistence minimum is growing. Thus, attempts to preserve the system of social protection under which only ¼ of means are provided to the low-income groups of population are viewed ineffective and even contradicting the Constitution of the Russian Federation for it declares Russia a social state.

The system of social protection of population is to target, first of all, the most vulnerable groups of population, support of those not able to take care of themselves. The addressed forms of the social aid are to become a priority of the reforms of the social protection system, while the means of the social aid are to be concentrated on the support of the poorest groups of the population and while the neediness is to be registered and examined.

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<sup>103</sup> The preliminary results were presented at the autumn RECEP conference in 1999.

<sup>104</sup> The possessed resources, besides official money incomes, include in-kind incomes, spent savings as well as subsidies and benefits received.

<sup>105</sup> S.Misikhina. Analysis on the data of the random survey of the household budgets, carried out by the State Committee of Statistics of Russia, and of the random survey on the quality of social services of population, made by the State Committee of Statistics of Russia, in the Belgorod, Vologda, Samara, Chelyabinsk regions, in the Khabarovsk Territory, the Chuvashi Republic. The Final Conference on the Project "Survey of the Budget Expenses on Social Provision and Social Protection of the Population." M. 25-26 January, 2001.

There is a substantial number of cases when not the needy population is mistakenly included into the programs of social aid while the families of the poor are excluded from these programs. Such mistakes are obviously brought about by the existing methodics of neediness examination (for the principle to examine neediness has been declared) for these methodics are based on registration of legal incomes (wages, pensions, stipends, etc).

#### **4.5. Provision of Pensions**

The real amount of pensions was cut down twice in the first months of 1992, being the result of price liberalization.<sup>106</sup> To compensate the losses of the pensioners, the Government made the decision to establish the unified labour pension in the amount of 342 roubles. Later this amount became a subject for indexation.

All the successive indexations and pension compensations were done to maintain the amount of average pension at the level beyond the amount of the subsistence minimum of a pensioner and to prevent a too severe decline of the average level of real pensions.

Up to 1995 the financial situation of the Pension Fund was good enough to meet this aim: the budget was run with profit. In the late 1994 – early 1995 as the macro-economic situation got harder and inflation was on the rise, the average pension amount fell below the subsistence minimum of a pensioner, while the amount of a minimal pension – below 50% of the subsistence minimum of a pensioner.

Indexation of pensions in spring of 1995 expanded the commitments of the Pension Fund up to the level beyond its incomings: there emerged the Pension Fund indebtedness on pension payments.<sup>107</sup> Indexation of pensions had to be conducted concurrently with debt payments, thus the debts were managed to be paid only at the end of the year.

In 1996 the level of insurance collections went down due to the growing wage arrears by the enterprises (caused by the lack of finances in the budgets of various levels), wages being paid in-kind, the increasing application of barter operation as well as due to a number of other reasons. The Federal Budget debt to cover the expenses on pension payments financed by federal sources was growing as well. The indebtedness was not overcome in 1996. This problem was settled only in the middle of 1997 through a transfer from the Federal Budget.

The causes of financial problems of 1996 went on into 1997 as well. The aging of population and a larger number of pensioners retired with special benefits were of influence at the Pension Fund budget. The decreasing number of the employed population, contributing the insurance payments to the Pension Fund, aggravated the problem as well.

In 1997 the Government once again got a message that the pension system had to be reformed and a set of measures to develop such a reform was initiated. However, in fact the

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<sup>106</sup> Organization of the social provision: pension provision. M., Ministry of Social Protection of Population of RF. 1993.

<sup>107</sup> Introduced by Presidential Order, dated May 1995, differentiated compensation payment (it was determined by the pension amount) substantially reduced pensions and it was a justified measure under critical conditions. But together with other measures it resulted in the situation when a substantial number of pensioners have the right for a maximal pension.

implementation of the reform of 1997, was ceased, and in 1998 more acute problems emerged.<sup>108</sup>

The pension provision problems became more acute upon the introduction in 1998 of the Federal Law “On Procedures to Accrue and to Increase State Pensions in 1998”. Application of individual coefficient of a pensioner, from one side, takes a better consideration of a worker’s labour contribution when setting the amount of an individual pension, from the other – substantially enlarges the commitments of the Pension Fund.

An acute lack of means for current payments, the rising arrears of pensions throughout the first three quarters of 1998 forced the Government to cancel the indexation of pensions, despite the decrease of pension real content. By the end of the year the debt on pension payments was somehow reduced, however, by January 1, 1999 the amount of the pensions indebted was twice bigger than the total sum of the entitled pensions.

Both the amounts of real average wages accrued and, consequently, the insurance payments collected to the Pension Fund were cut down due to the financial crisis of August, 1998.

Measures taken by the Government to limit the indexation of pensions brought some results: the Pension Fund incomings exceeded the expenses – for the first time since 1995. The Pension Fund incomings were sufficient enough to cover the timely pension payments and to settle - practically completely - the pension debts, that amounted by the end of 1998 to 26,3 trillion roubles.

The Pension Fund budget proficit, reached by the end of the third quarter of 1999, allowed in November to conduct an indexation of pensions and to increase compensatory payments to the low-income pensioners.

Well-being of the pensioners was badly influenced by the crisis of August, 1998, the real amount of pensions decreased. In 1999 both minimal and average pension amount (with compensation) went down to the lowest, since 1992, level. (Appendix 4, Table 4.12.).

According to the Order of the President of the Russian Federation “On Measures to Support Material Provision of the Pensioners”, dated June 14, 1997, No 573, the amount of the minimal pension with compensation can not be less than 80% of the subsistence minimum of a pensioner. In the in-between period - upon adoption of the Order and up to the crisis in 1998 - the minimal pensions with compensation amounted to 75-80% of the subsistence minimum of a pensioner. At the post-crisis period the amount of average pension went down to 70% of the subsistence minimum of a pensioner, while the minimal pension fell down to 45% of the subsistence minimum of a pensioner.

Such a decline of the amount of minimal pensions translates - in the absence of additional sources of income <sup>109</sup> - into extreme poverty for those receiving it. Indexation of pensions,

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<sup>108</sup> Survey of the Economic Situation in Russia in 1998. BEA. 1999

<sup>109</sup> There can be more than 1 million of such pensioners. According to the data of the State Committee of the Russian Federation, at the early 1996 the number of pensioners with pensions set at the minimal amount was 1,31 million. In 1998, the Pension Fund of the RF estimated the number of pensioners covered by the Presidential Order No 573 (that is the number of old-age pensioners, receiving the minimal or smaller – from 1 to 2 minimal amounts - pensions) as 2 mln, that is 1,4% of the population of the Russian Federation.

conducted in November 1999, fail to rise not only the amount of minimal, but the amount of the average pension up to the 80% of the subsistence minimum of a pensioner.

For pensioners the situation is even harder for their access to other sources of income and consumption is limited, and became even more limited after the crisis. The data of the Russian Monitoring of Economic Situation and Health of the Population<sup>110</sup> indicate that the working places usually occupied by pensioners are not the most attractive ones: in the end of 1996 the average wages of workers at the age of 60 and older amounted to less than 63% of the average wages throughout the surveyed. However, even such working places were attractive enough for the workers of active age.

With unemployment on the rise, by the end of 1998 the percentage of the working pensioners was the lowest – since 1992 – level – 15,5% of the total number of pensioners and was lower than the level of November, 1996.<sup>111</sup> This is also confirmed by the data of the random survey of household budgets, made by the State Committee of Statistics of the RF<sup>112</sup>: the percentage of the working pensioners within the total number of pensioners was going down in 1997-1998: from 28% in the beginning of 1997 to 15,5% - in the first half of 1998 and then down to 15% - in the 2<sup>nd</sup> half.

For the households of the poor the employment problem is even more acute: in 1998 – 2<sup>nd</sup> quarter of 1999 there were about 8-9 working pensioners for the average 100 of households, while only 4 for the 100 of households of the poor.<sup>113</sup> Thus, it follows that the pensioner's wages is positively linked to the household wealth.

The hard situation for this social group becomes even tougher by the insufficient means to finance housing and communal services subsidies,<sup>114</sup> institutions of social services, to cover city transportation benefits for the pensioners (in some of the regions this type of benefit was even suspended). According the RMESH data, in 1998 more than 60% of the recently impoverished<sup>115</sup> households did not receive any income through social and private transfers.<sup>116</sup>

At the post-crisis period the chances of the pensioners to fall to poverty increased. Even the sharp decline of real pension amount due to the financial crisis of August, 1998 did not equate the percentage of the pensioners with per capita possessed resources below the subsistence minimum in the total number of pensioners, with the percentage of the poor within the total population. The number of the poor among the pensioners is still less as

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<sup>110</sup> RMESH

<sup>111</sup> Monitoring of the Economic Conditions in the Russian Federation. The Russian Monitoring of Economic Situation and Health of the Population 1992-98, March, 1999.

<sup>112</sup> Further on – random survey of the RF Goskomstat.

<sup>113</sup> Here and further on – according to the data of the State Committee of Statistics of RF, households of the poor are the households with average per capita possessed resources below the subsistence minimum.

<sup>114</sup> The housing subsidies are not applied in a number of regions.

<sup>115</sup> Recently impoverished households – the households that became poor in the present round, but were not poor in the previous RMESH round. Here the recently impoverished households are the households classified as poor in the 8<sup>th</sup> round (the end of 1998), they were not poor in the 7<sup>th</sup> round (the end of 1996). The households of the poor – the households with the general expenses below their subsistence minimum.

<sup>116</sup> There were considered: pensions, stipends, allowances for children and unemployment benefits, housing subsidies and benefits, fuel subsidies, alimonies, private money and in-kind transfers.

compared with the total population and with such groups as engaged through employment, benefit recipients and children under 16 years of age.<sup>117</sup>

Meanwhile, as it was already outlined in the report, there is a particular group of pensioners to be extremely likely to fall to not just poverty, but to severe poverty. They are the lonely-residing pensioners of older ages. This is revealed not only by the absolute poverty measurement – when the incomes are compared with the subsistence minimum – but by the poverty measurement through relative hardships as well. In such a case, a relative poverty of the lonely-residing pensioners is, first of all, linked to the limited access to paid medical services at the absence of free medical services available.

#### **4.6. Guidelines of the Reforms of the System of Social Payments and Benefits**

To render – in order to emphasize the addressed aid – each particular payment or benefit exclusively to the needy is one of possible ways to reform the system of social payments and benefits within the frame of poverty reduction strategy. Meanwhile the whole set of social benefits and allowances is to be maintained. This approach is certainly to be costly for the procedures to render any particular payment and benefit are to be changed, the principle to separately consider the neediness in each particular payment or benefit is to be applied.

Another problem emerged as the methodics to estimate the neediness and the family composition for setting a monthly child's allowance was developed: this methodics is to be different from the one for the housing subsidies. The family income classified as low when setting the housing subsidies may fail to be eligible for the family to be granted the right for a monthly child's allowance (or vice versa). Additional problems may arise as the Federal Law "On State Social Aid" starts being applied.

A maximum simplification of the acting system of the social allowances, payments and benefits is another possible approach within the transition to the principle of addressed rendering of social support to the low-income households. This principle is to be based on examination of the neediness. The system of social protection of the households that can not be classified as low-income is to be switched to the insurance principles. There should be created economic conditions to allow active citizens to provide a higher level of social consumption covered by their own incomes are to be created.

Such reforms of the social support of the population are to comply with the reduction of budget subsidies to the manufacturers of goods and services (first of all, subsidies to housing and communal services and public transportation companies). Such subsidies are to be gradually replaced by the addressed payments to the population categories of the needy.

A substantial body of decisions on commitments on payments of various social allowances, benefits and types of social aid is concentrated at the federal level and in the form of federal laws. Meanwhile, the main part of these payments is to be made by the territories of the Russian Federation. In practice, the regional authorities are left with limited capacities to modify these benefits and to adjust them to particular needs. This is quite contrary to the principles of federalism. Thus, the territories are to be given maximal opportunity to make independent decisions on which payments are indeed useful for a particular territory, in what

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<sup>117</sup> It does not hold true for particular groups of pensioners classified due to the type of the pension received. They are disability pensioners, pensioners due to the loss of the provider.

amounts, how and to what categories of population they should be drawn. And this is one of the principle approaches to the issues of social allowances and benefits.

While addressed forms of social aid are being introduced, the former principles of rendering a substantial number of social benefits are to be retained for particular categories of population. The disabled at and participants in the Great Patriotic War, the disabled of the 1<sup>st</sup> group, as well as some other groups of population lacking own resources (health, education, qualifications, earned wealth, family support, etc.) to overcome poverty are to be still provided with a substantial number of social benefits.

The amount of means to be distributed to the benefit of the least provided households is to substantially increase due to the transition to the addressed social aid to the needy households and is to be based on the examination of neediness.

Such a system is certainly to call for substantial administrative costs<sup>118</sup>, however it also allows to cut the expenses, currently being spent on the maintenance of various systems of payments of certain allowances and benefits, and simultaneous examination of neediness in order to grant certain social payments and benefits.

Such a system of social payments will allow to create a unified informational base on the recipients of social benefits and payments, while the personified registration of the recipients of social allowances, benefits and payments will ensure the smaller financial amount necessary to provide for the system of allowances.

Along with the orientation at the addressed social support, the reforms of the system of social protection are not to be effective in case the reforms miss the hidden social benefits on housing provision, coverage for medical services and sanatorium and resort treatment. Such benefits serve not only unequal distribution of quality social services, but cover ineffective management (in the absence of competitive environment) of the budget expenses of the organizations providing such services.

As it takes place with the housing and communal companies, such services are to be covered by population, while the resources allocated to maintain such companies are to be redistributed through the wage system.

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<sup>118</sup> As demonstrated by the practice of the pilot projects in the Komi Republic, in the cities of Voronezh and Volgograd, such costs may amount from 0,1% to 1,5% of the sum of social payments to the population in case informational technologies of rather high level are applied. (M.Baygireev. Poverty and the Policy of the Addressed Social Aid to the Low-Income Families. Man and Labour. 2001. No 1).

## **5. Poverty and Institutional Limitations that Aggravate Poverty Expansion**

### **5.1. Legislation on Social Issues and Its Impact on the Scale of Poverty Spreading**

#### *5.1.1. Legislation on Social Benefits and Payments*

The acting system of social support was formed during the preceding decades and is marked by the planned state administration of the economy. That is why presently it is not in sync with the current realities and is to be reformed. The acting legislation on social issues in many cases frames the setbacks and inefficiency of this system.

The ideology of the Russian legislation on social issues does not imply reduction of poverty, thus, up to nowadays such an objective has not been a target of the legal regulation. Objectives and priorities of social policy - in case one sets to formulate them according to the acting legislation – are to be outlined as follows: first of all, services to the state are to be encouraged, “propaganda of the conscientious military service and labour” (Article 8 of the Law “On Veterans”), social protection of the senior, the handicapped and the disabled, support to the family and children and at the last place – support to the poor, that is poverty reduction.

It is a well-known fact, that out of total expenditures for social support, the poor receive only a tiny part. This happens in full accord with the acting legislation that carefully mirrors the already shaped priorities of social protection.

**Federal Legislation.** The Russian Federation Constitution declares Russia a social state implying that people’s labour and health are to be protected, guaranteed minimal wages are to be established, state support to be extended to family, motherhood, fatherhood and childhood, to the handicapped and the senior, social protection system is to be developed, state pensions, allowances and other types of social protection are to be guaranteed (article 7).

Two articles that are directly devoted to social support and develop provisions of article 7 are as follows: article 38 is devoted to protection of motherhood, childhood and family and is of rather declarative character; and article 39 dwells on guarantees – very unclear ones – to the right to the social support. These provisions are not enough to develop the essence and to construct a model of social state where the poor might receive some state aid.

The Russian Federation Constitution does not dwell on the interconnection between the minimal subsistence minimum and the minimal wages. To some extent this was compensated by the Federal Law “On Subsistence Minimum in the Russian Federation” (adopted by the State Duma on October 10, 1997 and by the Council of Federations – on October 15, 1997). However, in this case again these two notions were not firmly linked.

“The amount of minimal wages and minimal old-age pensions, as well as the amount of stipends, allowances and other social payments is based on the amount of subsistence minimum.” Minimal wages and minimal old-age pensions are “gradually raised up to the amount of subsistence minimum. The ratio between the minimal wages, minimal old-age pensions and the amount of subsistence minimum for the next financial year is set by the federal law on federal budget for the corresponding year”. (Article 5, p.2. of the Federal Law “On the Subsistence Minimum in the Russian Federation”).

This law does not provide that the amounts of minimal wages and minimal old-age pensions be equal to the amount of the subsistence minimum. The same holds true about the amount of the state-rendered social support, for the citizens (or families) whose per capita income is below the subsistence minimum are qualified as poor and have the right to receive social aid from the state (Article 6, p.1). However, the conditions and procedures of rendering such an aid “are set according to the legislation of the Russian Federation and the legislation of the Russian Federation subjects” (article 6, p.2).

Thus, the Law “On Subsistence Minimum in the Russian Federation” does not link the amount of wages, pensions and allowances to the subsistence minimum amount, it contains references to other legal acts, many of which have not been yet adopted. Besides, not only the conditions and procedures of state social aid rendering are to be set, but as well the procedures to qualify the poor.

It is worth noting that this most important law was adopted only in autumn of 1997 and became effective since January 1, 1998 (article 8), while such a law is to be a fundamental one in the social legislation corpus.

The Law “On State Social Support”, adopted in 1999, compliments the Federal Law “On the Subsistence Minimum...”. The objectives of rendering state social aid are formulated by the Law “on Social State Support” as follows: “to support the living standards of the families of the poor, as well the poor and separately living senior, whose per capita income is below the subsistence minimum, ... to provide addressed and rational use of the budget means.” (Article 3).

It is underlined that only those poor, whose per capita income is below the subsistence minimum *due to the independent of them reasons*, can be the recipients of such aid. (Part 2, article 6). The sources of state social aid rendering are indicated in the article 5.

This law, in its currently existing form, can not settle the issue of social support to the poor. The main reason this law does not work is that it can’t provide that budget resources of all levels be concentrated to render support to the mostly needy part of the population.

The law is based on the guaranteed subsistence minimum for the overall population of the country and supposes to render state social aid that is to cover the difference between the average per capita income and the subsistence minimum amount for the all families of the poor and separately living citizens, independently from the reasons for their poverty. This provision contradicts article 6, part 2 of the very same law.

Besides, the acting law provides that only one poverty estimation mechanism is to be applied. It is to be exclusively based on control and registration of money incomes, but not on the data on real consumption by the citizen. However, a considerable part of income is received in natural form and goes unaccounted for.

The law does not stipulate the possibility to apply indirect methods to estimate neediness, the ones that have already been tested in a number of regions of the Russian Federation and showed positive results. According to obtained results, many of the households, officially possessing per capita incomes not exceeding the subsistence minimum, are not actually poor as estimated by the index of potential consumer expenses.

The law provision that the amount of state social aid rendered “can not exceed the difference between the factual money and/or natural income of the applicant’s family and the regionally set sum of the subsistence minimums of all the members of the applicant’s family” (article 11), is certainly interpreted in the regions as the sure leveling of state social aid to subsistence minimum amount. Due to the above-mentioned flaws in the acting law the circle of state social aid recipients is expanded and the volume of social aid payments is overrated.

Despite the above-mentioned drawbacks, the Law “On State Social Support” for the first time provides an opportunity to determine those acutely in need of social aid. The first step is being made to switch from category division to the provision of addressed support based on the material provision estimation. However, even a number of new legal provisions won’t make the law work due to its unclear and indefinite wording.

Federal laws, adopted in 1994-1996, such as “On Veterans”, “On the Grounds for Social Services to the Population of the Russian Federation”, “On Social Services to the Senior Citizens and the Disabled”, “On State Protection of the Handicapped in the Russian Federation”, “On State Allowances to the Citizens with Children”, “On Additional Guarantees of Social Protection of Orphans and Children without Parents’ Trust”, “On Burial Procedures and Undertaking” and some others, as well the Orders of the President and Decrees of the Government target social protection and various types of allowances, benefits and compensation payments to certain categories of population (e.g. families with many children, students and post-graduates, handicapped children, etc.).

These legal and regulative acts enlist a huge number of various categories of vulnerable citizens and benefits for them. However, rendering of social aid and services is not directly linked to the financial and material status of citizens. Moreover, being reinforced (despite the principle of addressed aid declared in the laws) and combined with the target nature of various types of social aid and services, the categorial approach prevents the social aid to reach those acutely in need.

It is worth noting that the legal acts adopted in that period mirror the period of time they were issued (the period of election campaigns) and frequently are of the frankly populist nature. Despite a number of sure strong points they are markedly of a declarative character. Regulative and legal acts of that period contain a huge number of references to benefits, allowances, compensation payments, the opportunity to receive free or partially free social services the right for which was extended to a whole row of population groups, and not only to particular persons in need.

Besides the above-mentioned laws, there is a number of effective legal acts of various juridical force that target particular categories of population (refugees and migrants; military men taking part or who had taken part in military conflicts settlement in Russia and on the CIS territory; donors; those suffered from the accident at the industrial enterprise “Mayak”, at the Semipalatinsk testing ground, at the Chernobyl atomic power station; residents of the Severe North districts and the districts qualified as them; the HIV-infected and medical personnel caring for them; the USSR and RF Heroes; victims of repressions; etc.).

There also exists a number of so-called “corporate” legal acts. These acts provide social protection to those working in certain industries or services, those occupying positions at the state service (e.g., the rescuers, railway workers, judges, bailiffs, residents of closed

administrative and territorial areas, interior officers, etc.). Strictly speaking, those covered by these legislative acts can not be called the poor (the needy).

The State Duma of the second convocation tried to correct that was done by the preceding Duma as for the social protection issues. Finally, in 1996-2000 there were adopted the laws to have been of primary order and to have laid grounds for the whole legislation on social issues.

The legislative acts on social issues adopted in 1997-2000 considerably differ from the ones adopted at the previous period of time. First of all, the new social laws established definite procedures of state social aid rendering, secondly gradual transition to its addressed rendering is taking place. Thirdly, there is made an attempt to introduce order to rights, benefits and guarantees that were provided by the regulative and legal acts of the previous period.

The social legislation of 1997-2000 not only sets and reinforces the right for various types of social aid, but mostly establishes grounds to grant the right for it. Federal Laws “On Subsistence Minimum in the Russian Federation” and “On State Social Aid” have been mentioned above. Amendments and supplements to the Federal Law “On State Allowances to the Citizens with Children” of 1995 are adopted annually.

Analysis on the contents of these laws indicates that the transition to the addressed aid rendering is under way. It is worth noting that the Law “On State Allowances to the Citizens with Children” was frequently criticized for it does provide allowances to all parents (adopters, guardians, and tutors) independently from their incomes. Presently the right for a monthly child allowance is enjoyed by the families with per capita incomes not exceeding 100% of the subsistence minimum amount in the RF subject (article 16, part 1).

In 1999 there were taken further steps to switch to the addressed rendering of social aid. As for the law-maker’s concept, grounds for aid rendering to the poor and those in acute need was stipulated by the laws “On Basic Cost of the Necessary Social Set”<sup>119</sup>, “On Consumer Basket in the Russian Federation Nationwide” as well as the Statements of the Government of the Russian Federation “On Methodical Recommendation to Set the Consumer Basket for the Major Social and Demographic Groups of the Population in the Russian Federation Nationwide and in the Subjects of the Russian Federation”, No 192, dated February 17, 1999, and “On Setting the Order of Registration and Calculation of the Per Capita Income Amount to Provide the Right for Monthly Child Allowance”, No 1096, dated 29.09.99.

Thus, regulative and legal acts of recent years clearly indicate the emerging tendency to set definite frames for state social aid rendering for those really in need.

The regulative and legal acts adopted in 1997-2000 lay grounds to classification to determine persons, not categories, really in need of various types of social aid. The RF subjects are following-up and are adopting their own regulative and legal acts on social protection and services . Federal regulative and legal acts provide the basic calculation norms and procedures of social aid rendering, as well as contents and volume of social services, amounts and volume of various social payments.

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<sup>119</sup> It is worth noting that the Law “On Basic Cost of the Necessary Social Set” was adopted by the State Duma on December 03, 1997 and agreed upon by the Federation Council on December 03, 1997, but signed and published by the President only in February 1999, and became effective on the date of its official publication.

However, the importance of regulative and legal acts of 1997-2000 is seriously diminished and their efficiency is limited by the following:

1. Asystematical character and inner contradictions of the whole social legislation. The norms of the acts adopted prior to 1997 and after 1997, including the so-called “corporate” ones, to some extent contradict one another. The parallel and mutually excluding norms brings chaos to their implementation;
2. Huge lacunas in the legislation of all levels obstruct the transition to the addressed aid rendering, make it hard to determine particular persons with incomes below the minimal subsistence minimum for efficient mechanisms to determine such persons are lacking;
3. Efforts of various social services are not coordinated and centralized, as well as restricted by so-called “corporate” (institutional) systems of social protection;
4. Essential laws and other regulative acts that are to support the whole structure of social legislation (such as on social order, on volunteers, on legal status of a social worker, amendments to the legislation on charity, etc.) are absent.

The acting legislation (that is not aimed at poverty reduction) determined the way allocations are provided on social aid rendering. Category-division approach prevails and is supported by state institutional paternalism. The state monopoly on social state rendering is reinforced and non-state organizations are pushed out of this sphere

**Regional legislation.** According to the Constitution of the Russian Federation, the issues of social protection are jointly regulated by the Russian Federation and the RF Subjects legislation (part 1, p.ж). Thus, the federal legislation stipulates that the RF subjects are to set complimentary (to the federal) categories of population and payments, benefits, allowances, other types of social aid and protection financed correspondingly from the budgets of RF subjects.

In due course, local bodies of self-administration are authorized to set within the administrated territories complimentary (to the federal and regional) categories of population and types of social aid and protection to be financed from the local budgets. In other words, those regions and municipal administration that have financial means in their budgets can set additional types of social aid and protection.

In case the local self-administration bodies are granted state authorities<sup>120</sup> on social protection and aid they should be also provided by the necessary material means (p.5 of article 4 of the Federal Law “On General Principles of Local Self-Administration in the Russian Federation”).

Thus, the regional regulative and legal acts as a rule are a follow-up of the federal ones. Regions do not strive to fill the lacunas in the legislation until the decisions are made at the federal level.

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<sup>120</sup> According to the Article 12 of the Constitution of the Russian Federation, the self-administrations

There are, however, many issues where regions come first. In many regions there are acting laws or statements of the local administration on addressed social aid rendering (The Republic of Mordovia, Tatarstan, Karelia, The Republic of Komi, the Arkhangelsk, Moscow, Tver, Tula, Voronezh, Yaroslavskaaya regions and many others). Many of the regional regulative and legal acts as well the acts of the self-administrations (municipal bodies) were adopted prior to the Federal Law “On State Social Aid” of 1999.

Moreover, principles, not covered by the federal legislation, are introduced by these acts. For example, it is important that in some regions application and identifying approaches to the social aid are combined and reinforced. In this case, the protection of such persons not even able to apply for social aid due to various reasons (lack of information, a restricted access to information or to social aid itself, etc) is initiated by the social aid offices.

The following principles of addressed social aid rendering are introduced in the Chabarovsky Region Law “On Addressed Social Aid to the Citizens of the Chabarovsky Region” (No 58 dated March 01, 1996): forms and amounts of aid are to be determined depending on material, housing and marital status, as well as on age, labour-capacity and according to the subsistence minimum amount of Chabarovsky region; the social aid is to be rendered “on demand” or initiated by the social protection offices. (article 3).

Combination of social aid rendering “on demand” or as initiated by the protection are offices is also reinforced in the law of the Republic of Karelia “On State Social Aid” (adopted on March 9, 1998). This law also stipulates the provision of state social aid depending on material status, age and labour capacity of those in need (article 3).

The necessity to switch to the addressed social aid was recognized earlier in the regions, than at the federal level. It is mostly probable that the adoption of regulative and legal acts on addressed aid was connected with the addressed payments of “child allowances” in the regions. In its turn, these payments became addressed ones even prior to the introduction of amendments to the corresponding law, just “because of poverty”, necessitated by the growing late payments of “child allowances”.

Many of the regional laws and programs on addressed social aid have a common distinctive trait: the categorial division approach is combined with the principle of addressed aid. Laws and programs of addressed aid target certain categories of population (as a rule, pensioners, the handicapped and the disabled, one-parent families and families with many kids) and the most needy are selected out of their total number.

The social aid rendering is financed by regional budgets and/or municipal budgets. Addressed social aid is rendered upon an application and additional paperwork is submitted; though the Federal Law “On State Social Aid” stipulates that additional information verification might be occasionally done, p.2 of the article 8).

The comparative analysis of federal and regional regulative and legal acts indicates that formally the transition to the principle of addressed social aid rendering is nearly accomplished at the regional level.<sup>121</sup>

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<sup>121</sup> However, it is worth underlining that we do not have information that allows to estimate the efficiency of regional acts and their practical application, thus making the analysis inconclusive.

Tracing the development of regional legislation on social issues from the early 90s up to early 2001 one can see that the initial declarations were followed by pragmatic approach. Thus, the priority was given to the addressed social aid rendering based on the amount of subsistence minimum and estimations of per capita income calculated for each region; to the development of ways to render various types of benefits; as well as defining lists of state-guaranteed social services. Regional peculiarities were taken into consideration as well. Besides, regional legislation is more consistent than the federal one.

### ***5.1.2. Perspectives to Improve Social Legislation in Order to Promote Poverty Reduction***

The principle of addressed aid is to be developed. To switch social programs to support the categories of the population of the poor is possible only in case the poor are to be provided a privileged access to these programs. This is to be done through the principle of addressed aid. However, there is no a legislative, or at least, commonly recognized definition of the principle of addressed aid. Thus, even social workers broadly interpret the principle of the addressed social aid.

Being put to work, the principle of addressed aid will allow to direct it to those really in need. Of a great importance here is the mechanism of addressed social aid rendering. It is to be composed as follows: aid is to be rendered not to the population categories, but to particular persons; the per capita income of the recipients is to be below the subsistence minimum amount established by the corresponding RF subject as the basis for aid rendering; the actual need is to be verified, the material status of the families of the poor and separately residing citizens is to be examined; the responsibility of the social aid recipient for the properly submitted paperwork and faithful information is to be set; the mechanism to reveal and register the poor is to be developed.

The acting social legislation (both at federal and at regional levels) does not always provide a consistent development of the principle of addressed aid. The Federal Law “On the Guidelines of Social Services to the Population in the Russian Federation” (adopted by the State Duma on November 15, 1995) is of great importance in this context.

According to the legal definition, a hard life situation is the one that objectively disrupts the regular life activities of a citizen (physical disablement, inability to care for oneself due to old age, illness, orphanhood, neglect, ill-provision, unemployment, the absence of definite residence, family quarrels and cruelty, loneliness, etc.) and can't be overcome by individual efforts (article 3, p.4). Despite all the drawbacks of the cited-above definition, it allows – in combination with other norms (e.g. on the calculation of per capita income) to clearly determine the particular persons in need of social aid.

The principle of addressed aid is consistently developed in the article 16 of this law.<sup>122</sup> The principle of addressed aid is also reinforced by other laws, adopted in 1995-1996. However, it

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<sup>122</sup> Article 16 of the Law “On Guidelines of the Social Services to the Population of the Russian Federation” provides free services for the citizens that are not able to care for themselves due to old age, illness, physical disablement, those without relatives, able to provide them with aid and care, in case their per capita income is below the regional subsistence minimum; for unemployed citizen; for the citizens that suffered from natural disasters, catastrophes, military and inter-ethnic conflicts; to under age children in hard life situations.

is completely lost in the maze of laws, aimed at social protection of particular population categories,<sup>123</sup> as well as among so-called “corporate” regulative and legal acts.

The target character of the categorial division approach is often cited as its strong point. Meanwhile, if a social benefit and payment is not exactly specific (crunches, wheelchairs), then allowances and benefits, to be provided to a certain person for his/her deeds, due to the health or age status, as a rule, become immersed in “the family pot”. Thus, the target character is deprived of its meaning.

However, the addressed aid is not a panacea for it may lead to “relaxed” attitude. To be effective the system of addressed social aid rendering is to be both rather flexible and well designed.

Legislation on social issues is to agree with priorities and objectives of the social policy. A hierarchy of social policy objectives is to be established in order to improve the system of social protection as a whole. Two main directions are to be outlined as follows:

- a) to overcome poverty by pulling together a human potential of an individual to get over a hard life situation on one’s own as well as to support him/her in this struggle;
- b) to encourage outstanding deeds for Russia (that is granting benefits independently from per capita income of the recipients - the Heroes of the Russian Federation, the Heroes of the Soviet Union, bearers of the complete set of Orders of Glory; the handicapped and the participants of the Great Patriotic War; the liquidators of the accident at the Chernobyl atomic power station; those injured defending the constitutional and legal order; the former prisoners of the fascist concentration camps). Thus, we talk about the transition to the addressed social aid rendering while at the same time there should be preserved the division in specific population categories who receive benefits and allowances that by nature are more of compensations, than of aid.

Social benefits are to be revised and gradually cut. The acting legislation does not constitute a coherent system and, consequently, is not efficient. Inconsistent and colliding acts result in a huge number of reiterated population categories eligible for benefits and allowances.

Consistency should be introduced to the system of social legislation, some of the norms are to be reduced or eliminated, especially the ones of so-called “corporate” laws. Thus, the number of duplicated population categories receiving social aid and bringing order as for the allowance payments and benefits is to be cut down. Target payments and benefits are to be cancelled or replaced (by compensations, vouchers, stamps, cheques, tickets, etc); in case the benefits are preserved they are to be temporary ones and strictly targeted.

The authorities of state power bodies of the Russian Federation and the state power bodies of the subjects of the Russian Federation are to be separated, the frame legislation is to be introduced. The issues on the authority division between the state power bodies of the

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<sup>123</sup> They are as follows: refugees and migrants; military men taking part or who had taken part in settlement of military conflicts in Russia and on CIS territory; donors; those suffered from the accident at the industrial enterprise “Mayak”, at the Semipalatinsk testing ground, at the Chernobyl atomic power station; residents of the Severe North districts and the districts qualified as such; the HIV-infected and medical personnel caring for them; the USSR and RF Heroes; victims of repressions; etc.).

Russian Federation and the state power bodies of the subjects of the Russian Federation are closely interconnected with the issues of federal frame legislation development.

The frame legislation will hardly be effective unless the authorities of the federal center and the regions are to be clearly separated. Consequently, the weak system of social protection is brought about by the vague division of the sources to finance social aid. This is illustrated by practically inefficient Federal Law “On State Social Aid” (1999).

Division of authorities is one of the most complex issues. The authorities of the federal center are to be clearly outlined, as well as the joint authorities of the Russian Federation and the subjects of the Russian Federation; and the authorities of subjects of the Russian Federation in the field of social protection and social aid rendering.

Regional regulative and legal acts to be yet developed are to define the authorities of the self-administrations, the means to carry out the above-mentioned tasks are to be simultaneously transferred to these bodies in case they are granted the state authorities on the social protection.

According to part 1, p.1 ж) of the Article 72 of the Constitution of the Russian Federation, the state power bodies of the Russian Federation are to establish general principles, provisions, legal and organizational forms of social aid rendering and those of social protection system functioning.

The regions are to be granted discretionary authorities within their competence. Profuse commitments undertaken by the federal center result in numerous failures of social functions. Frame laws establishing general principles and provisions for all the subjects of the Russian Federation allow to take into consideration regional and local peculiarities, economic, social, political, demographic, cultural and other factors and traditions.

The acting legislation is inefficient mainly because the center regulates too many details while the regions are not independent enough. Besides, the main strain of social protection of the population is borne by the regions and municipal sector in particular.

Laws, adopted by the subjects of the Russian Federation, turn out to be more real and easier to execute for they take into consideration local peculiarities and the needs of the population. As a rule, activities of the municipal bodies are the most effective, for they stand close to population and are able to consider the demands and needs of the residents of a particular territory.

However, the efficiency is lower when the municipal bodies are given big and unbearable tasks on rendering social aid to population. In this case, material, financial means and resources become scattered.

Law making is to be improved. As it was mentioned above, social laws are usually adopted at the time of election campaigns and their mostly frequent target is to win voices, but not to provide social protection to the most vulnerable groups of population. No wonder law-making process is often disrupted when objectives are substituted.

- The time schedule (plan) of law making is absent or disregarded. Consequently the laws of primary order turn out to be the last to be adopted. That is why the two laws

regulating practically the same issues of social protection<sup>124</sup> were simultaneously adopted. The time schedule of law-making is to be observed, thus, bringing down the opportunities to employ social legislation as a manipulative means;

- Laws are not considered and adopted “in packets”, though such a practice is an important tool in social law-making. Repetitions, duplicating norms of various laws, collision of notions, legal lacunas are prevented in case laws are adopted by packet. Thus, the same issues are regulated by several laws, while some other issues remain unregulated when this practice is ignored. As a result, the adopted social laws are not interconnected and often contradict the already acting legislation;
- The provision of the Constitution that “the law drafts that demand for the Federal Budget expenditures, are to be brought for adoption only upon the Conclusion of the Russian Federation Government” (Art.104, p.3. of the Constitution)<sup>125</sup> is often violated at the very discussion and adoption of the social laws – and one doesn’t need to point out to the importance to observe the provisions of the Constitution.
- The quality of the laws is not the best in case they are submitted in by the deputies, for they, as a rule, are motivated by minor reasons. To avoid such a practice the Government is to initiate laws more actively.

## **5.2. Labour Legislation**

Labour is the main source of earning the living for the majority of people. This is the very reason why the right for labour is defined as one of the major human rights. The basic legal document here is the Labour Code of the Russian Federation (KZoT), adopted in December 1971.

Presently it is still in force while there had been introduced lot of amendments and supplements, the latter were added in May 1999. The Article 4 of the Labour Code says, “the labour legislation of the Russian Federation is constituted by the present Code and by other labour acts of the Russian Federation and the Republics within the Russian Federation”.

It means that various issues of labour relations are regulated -along with the Labour Code - by independent regulative acts – laws, statements, provisions, instructions, supplements, orders and other legal acts, adopted and published by the authoritative bodies. These issues are as well regulated by agreements and contracts (collective and individual) that are signed by employers (representatives of employers) and workers (representatives of workers) at the corresponding levels. All these legal documents combined constitute the system of acting labour legislation of the Russian Federation.

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<sup>124</sup> For example, there come - one straight after another - the Laws “On Social Services to the Senior and the Handicapped” and “On Social Protection of the Disabled”, while the Law “On the Guidelines of Social Services to the Population in the Russian Federation” was adopted later, though it would be only logical to start with as it is the basic law in the field.

<sup>125</sup> These violations are caused by short-lived aspirations of the deputies at the time of the adoption. They either ignore this provision or adopt such laws having a negative conclusion form the Government. In case such laws pass through all the “filters” – The Federation Council, the Administration of the President – the outcome is naturally negative for financial and material provision is not provided.

The provisions of the acting labour legislation cover *all the workers* independently from the property type of the enterprise, company or organization they have labour relations with. (Article 1 of the Labour Code).

Analysis on acting legal provisions on labour relations allows to make a conclusion that in general the above-mentioned laws correspond to the international labour standards and tend to protect the workers (Appendix 1). However, many of the legal acts existing today have been developed for the economic system based on the state monopoly, for the period of economic stagnation.

Under new conditions these legislative acts turned out to be hard to observe and are not observed. The main contradiction and legal lacunas in the labour relations regulation are as follows:

- Acting legal norms practically do not regulate the specific labour relations in private sector and in organizations with small number of workers. That is the very reason why in the majority of cases such labour relations are not properly documented.
- There are too many restriction on hiring: for example, one can have only one additional job, and only part-time.
- The clear-cut demands to the contents of the labour agreements (contracts) are not formulated – it is not stated what is obligatory for inclusion and what is optional.

In many cases **the legally established mode of employer's actions towards the worker is too ambiguous**: it is obligatory to warn a worker on the layoff and to draw worker's signed notification, to receive an explanation on the worker's misdeed, as well as a must is to get an trade union consent on worker's firing, it is prohibited to fire the worker who is sick, etc. Even the most careful employer frequently is just unable to observe all the provisions of the law and that results in mass violations that have already become "ways of life".

It is obviously necessary to reform labour legislation. Cases of imperfect legal regulation that aggravate poverty among the working population are considered below:

### *5.2.1. Employer's strategy on workers release*

The labour legislation of the Russian Federation **strictly regulates** the procedure of workers' release. This can be viewed as employment guarantees for the workers whose working places are to be cut down (Chapter III-A of the Labour Code, that regulates the issues of workers' release, has a corresponding title: "Employment Provision and Guarantees of the Right for Labour").

In case the worker submits a suit and the legally established procedure is proved to have been violated the worker is to be reinstated at the former job and the average salary for the period of forced absence is to be paid. A released worker is legally guaranteed compensations for job loss (severance benefit) paid by the employer at a higher than average amount.<sup>126</sup> The worker as well keeps an average monthly payment for the period of job-searching for the second and the third months after the layout.

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<sup>126</sup> A released worker is guaranteed an average monthly payment. According to the general practice, when it is provided by law the severance benefit amounts to average fortnight pay.

Unfortunately, in practice all these provisions are hardly observed by the employers, first of all due to economic reasons. That is why the employers often provoke a worker to quit the job on his own and on fully legal grounds. For example, in case of certain business and economic problems, the employer has the right to change the important conditions of labour, that are – according to the Article 25 of the Labour Code (Draft of the Law of the Russian Federation dated September 25, 1992) as follows: the amount of payment; introduction of part-time positions; the changes in working time, etc. The worker's wages can be substantially cut down, practically to the level of the minimal wages.

Keeping in mind, that presently the minimal wages amount only to 8-10% of the subsistence minimum of a active worker, it means that the employer practically has the right not to pay wages to the worker. Instead of the regular duration of the working day the employer may introduce – in full accord with the labour legislation – part-time working day, so the worker will work two days a week for 4 hours – with corresponding wages.

In case such situation arises, many of the workers start seeking another job or quit the job by their own initiative. It means, that the employer can practically get rid of the excessive working force avoiding a rather ambiguous and expensive procedure of workers' release.

Most often the employers use the above-mentioned tricks at the period right prior to the workers' releasing term. It is done in order to cut down the average wages that serve as the basic sum to calculate the amount of severance pay and compensation payments for the job-searching period of the second and third months after the layout (the calculation is based on the average monthly payments for the three month right before the layout).

Thus, from one side the legislation calls for the strict observance of the procedures set and this should be viewed as the state protection of the citizens, from another side, - it lets an employer to be flexible enough to take care of his own interests, but not the ones of the worker.

### ***5.2.2. Additional jobs: opportunities and limitations***

Many workers are forced to seek additional earnings: economic situation in the country is hard, wages are of a low level in many industries and some manufactures are partly discontinued. The acting legislation allows the worker - while keeping the main job - to have an additional one at the time free from the main job. A worker has the right to sign an agreement (a contract) for an extra job both with the enterprise of his permanent job (*inner job-compounding*) and with any other enterprise (*outer job-compounding*).

The hours at additional job are legally limited: as a rule the time can not exceed four hours a day or full time at the week-end, so the extra-workers are part time ones. Besides, the above-cited definition of the "job compounding" indicates that, besides the main job a worker can have only one additional job, so he has the right to sign an agreement (a contract) as an extra-worker with not more that one enterprise.

“Job-compounding is an implementation by the worker– besides his main job – of some other regularly paid job as provided by the labour agreement (contract) at the time free from the main job” (Provisions on Job-Compounding adopted by the joint Statement of the USSR Ministry of Labour, USSR Ministry of Justice and the VTZSPS<sup>127</sup> Secretariat, dated March 9, 1989 with amendments and supplements).

Due to these limitations both workers and employers intentionally violate the law. For example, to get hired full time the worker must produce the labour record book, so the workers have to illegally obtain additional labour record books. Employers hire full-time professionals that are officially employed at some other enterprises, though officially they have the right to hire them only part-time.

Upon signing a labour agreement (contract) with the enterprise, the worker holding an additional job is included in the staff list and becomes a full and equal party of the labour relations, and, consequently, should have the right for all the guarantees and benefits provided by labour legislation.

However, both the legislation and practice allow for “special treatment” of workers holding an additional job. Up to present time the issue on sick-leaves payments for such workers is not yet legally settled. It looks more than strange, for the employer is obliged to pay to the Social Insurance Fund for all workers, including for the ones holding additional jobs.

Up to present time the legislation is providing the employer with the right to fire the worker holding an additional job – not only due to regular grounds – but because another, full-time worker has been hired for his position. In this case neither warnings to the workers holding additional jobs, nor compensations (severance pay) are provided by the legislation (p.8 of the Provisions).

Besides openly discriminative legal provisions for the workers holding additional jobs, there exists a number of set and practiced notions on limited rights of such workers. In particular, is it sometimes considered, that the workers holding additional jobs are not to be covered by collective agreements, and consequently they are not eligible for social benefits provided by such agreements.

Employers frequently hire workers through “labour agreements” that considerably limit workers’ interests. “Labour agreements” stand for common, not legal, notion that means widely practiced civil and legal agreements for contracted works, errands as well as contracts for paid jobs. As a rule, such “labour agreements” by their content are very much alike with labour agreements (contracts).

Appendix 2 provides a conclusion - based on the comparative analysis of juridical characteristics of labour agreement (contract) and civil and legal agreements - that there are considerable legal differences between a labour agreement (contract) and contiguous civil and legal agreement.

“Labour agreements” considerably limit, from the legal point of view, the rights of a citizen: in this case, a worker does not have the right for many guarantees, compensations and

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<sup>127</sup> VTZSPS – the All Union Central Council of the Trade Unions (interpr.)

benefits provided by norms of labour legislation. In particular, he/she loses the right for the annual paid leave for the period not shorter than 24 of working days; benefits due to the illness; compensations for the job-related injuries; limitations due to material responsibilities; regularly scheduled wage payments (at least every fortnight); special and free settlement of labour disputes; limitations or prohibitions to be hired under certain circumstances, etc.

Another legally provided way to get additional earnings is **to combine jobs (positions)**. “Job-combination” and “Job-compounding” considerably differ by both characteristics of the job to be performed and ways of payment.

“A worker “combines jobs” when - along with his/her primary job under the labour agreement (contract) – performs an additional job within another occupation (position), or the functions of the temporarily absent worker while not being released from main job. The amount of additional payments is set by the administration of the enterprise as agreed by the parties. (Article 87 of the Labour Code).

Job (position) combination is one of the wide practices to cope with a set volume of work by the smaller personnel, it actually means the bigger work load and working areas (with homogeneous labour functions), and in case some workers are absent – covering additional labour functions.

Additional payments are usually regulated by local legal acts (by Provisions on wages at the enterprise, or by collective agreements), but sometimes – by individual labour agreements (contracts). One of the most frequent of practical mistakes is to limit the additional payments for combining jobs at the amount of 30% (for employees) and at 50% (for workers) of the set tariffs or wages.

Such limitations were actually introduced by the Statement of the USSR Council of Ministers dated December 04, 1981, but upon introduction of supplements to the Labour Code (1992) are no longer efficient. Presently the amount of additional payments can be agreed by the parties, no limitations are applied.

However, the legislation does not guarantee the minimal additional payments, so in practice it is not rare that a worker does not receive any additional payments for job combination (e.g. for covering for a vacationing or sick co-worker, etc.). It is not infrequent when an employer cuts down the personnel, forcing the rest of the workers to perform the same work-load by a smaller team and with the same or just a bit higher payments. In such cases it not easy to expose an employer for direct law violation, for existing labour productivity and intensity norms are out of date for many occupations and positions and as for many recently emerged occupations (positions) they just do not exist at all.

In practice the notions of “**job combination**” and “**overtime job**” are sometimes mistaken, though they are much different.

“An overtime job” is the performance of the main job within one’s main occupation, but for longer than regular, set by the law working hours (articles 42-47 of the Labour Code), as well as for hours exceeding the duration of working shifts, as set by the rules of inner labour regulations or a time schedule of an enterprise (Articles 46, 48, 51-53 of the Labour Code).

The strict limitations<sup>128</sup> legally imposed on the overtime duration are broadly violated in practice – employers do not usually take into consideration that overtime work is allowed exclusively under extreme circumstances and is limited in its duration. Moreover, employers often ignore that there is a set legally guaranteed amount of minimal wages for overtime work (Article 88 of the Labour Code – for the first two hours it amounts to 1,5 of minimal wages, for the next hours – not less than twice of the minimal wage amount).

It most often happens at the enterprises of the private sector where the wages are somehow higher as compared with the state sector. This gives an employer a chance not to pay for overtime work. Employers also violate the legal provisions that it is obligatory to get a consent of trade unions for overtime works.

There is also a practice of undocumented overtime works, when no official order is issued, just an oral one is made. In such cases, it is impossible to register the duration (number of hours) and to verify the correct payments and legal grounds to enlist workers for overtime work.

### ***5.2.3. Partial employment***

Part time employment as a provision of the labour agreement (contract) may be cited both at the moment of hiring and later on in the job. Part-time working hours are paid for in proportion with the actual time at work (it is not the same as shortened working hours that are established for underage workers and those working under hazardous working conditions and are fully paid for).

In terms of the planned economy, the opportunity to work part time is considered mostly as a privilege, it was rendered, for example, to those combining job and learning, to workers with family commitments, etc.

“Part time hours or part time week may be set both at the moment of hiring or later on in the job as agreed by the worker and the employer. **The employer must** set part time hours or part time week at the request of a pregnant woman, of a worker with a child under 14 years old (for a disabled child or a handicapped one since childhood – under 18 years old) or at the request of the worker caring for the sick family member, as stated in the medical conclusion. The wages are paid in proportion to the time in the job or depending on the productivity. The part time employment does not result in any limitations as for the duration of annual leave, calculations of years-in-service and as for other labour rights”. (Article 49 of Labour Code).

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<sup>128</sup> **Limitations on overtime works:** a) *as for the duration* – not more than four hours for each worker for two days in a row and 120 hours in a working year (Article 56 of Labour Code); b) *as for workers’ categories* – overtime is now allowed for pregnant women, women with children younger than 3 years of age; workers younger than 18 years of age; workers combining job and learning, on the days of classes, etc.; as for the women with children at the age of 3-14 years old – only upon their consent and for the working disabled – only on condition overtime works are not prohibited by medical recommendations (Article 54 of Labour Code); c) *as for the permitting procedure and documentation* – overtime work is allowed only in extraordinary cases (to defend the country; at the danger of destruction or harm to the enterprise equipment due to accidents, natural disasters, etc.; at repair and restoration work to prevent an enterprise hold up and for considerable number of workers; to cover for the absent relief to insure the continuity of the working cycle, etc. – Article 55 of Labour Code) and only upon consent of the elected trade union of the enterprise, that is the order of the administration to carry out overtime works can not be issued without consent of the elected trade union of the enterprise (Article 56 of Labour Code).

However, many of the enterprises have recently introduced part time as a compulsory measure caused manufacture decline. This measure is legally classified as ‘the considerable changes of labour conditions due to the organizational shifts in manufacture and labour’ (part 3, article 25 of the Labour Code, was supplemented in 1992) and may introduced by the employer provided the worker is given not less than a 2-month warning. In case the worker does not agree he is to be fired exactly on these grounds (“due to the refusal to continue work under the changed labour conditions” –p.6 of article 29 of Labour Code) and is paid a fortnight severance pay.

In practice a rather complex procedure of a worker’s warning (personal and to be signed by the worker) is often violated, and a too long – in employers’ opinion – 2-month period is not observed either. Such actions are certainly can be suited as the very reason of considerable changes of labour conditions.

Forced (so-called “administrative”) unpaid leaves is another compulsory measure widely practiced by employers. It became such a frequent practice that the state had to take action and The Federal Employment Service of the Russian Federation had worked out and issued “Provisions on the Procedures and Conditions of Compensation Payments to the Workers on Unpaid Leaves due to the Forced Temporary End of Work” (adopted by the Order No 44 dated March 06, 1995).

The amount of loans to the enterprises from the Wage Fund to cover compensation payments to the workers was calculated at the range of not more than 6 minimal wages per each worker. However, to obtain such a loan an enterprise had to submit a plan of measures to repay the loan, banking guarantees on its financial status, etc., as well as to avoid layouts of excessive working force at that period of time.

In practice these Provisions were extremely seldom used because of the complicated procedures of paperwork submitting, while the amount of compensations was not big. That is why the employers prefer to use – in case of a holdup – a tested, but not always legal way out – “administrative” unpaid leaves.

In this context the Ministry of Labour of the Russian Federation issued the Explanatory Note dated June 27, 1996, that says that work stoppage at no fault of a worker is qualified as a holdup and the employer must pay for this time in a due order (Article 94 of Labour Code). Unpaid “administrative” leaves are not in any way legally settled. Should *unpaid leaves* take place, according to Article 76 of the Labour Code, they are granted at the individual request of the worker, as a rule, due to family circumstances. Thus, without a written request by the worker an unpaid leave is to be ruled out as illegal.

#### ***5.2.4. Trade Unions and Employment***

Trade Unions are to focus on social and labour relations, and first of all, on the issues of employment, labour conditions and wages. Presently social partnership between the parties of labour relations can be considered the most effective mechanism to translate the right of the trade unions to assist employment. The list of recommended social and labour issues of primary importance to be included in these contractual documents is rendered in the Federal Law “On Collective Contracts and Agreements”. There are the issues of employment, personnel retraining and conditions to release workers.

It is hard to make a simple estimation when analyzing the situation on social dialogue and collective and contracted regulation of employment issues.

From one side, the mere fact that the negotiations started to take place, the issues being discussed and somehow settled can be estimated as a progress in the development of social dialogue between employers and workers.

From another part, irresponsible treatment of the agreements reached, impunity of the employers for the violations made, weak state and institutional control, indifference of the workers and their representatives do not allow to consider the social partnership to be of substantial impact to provide better labour guarantees for the released workers.

It is worth noting, that a certain success was recently achieved – collective agreements and contracts are signed more and more frequently, at a growing number of enterprises and cover a larger number of workers. Courts have started to treat contractual documents as legal sources when considering labour disputes. Associations of employers are gradually emerging as a party of collective contracts at industrial and territorial levels. All these processes give hope that the future social dialogue will bring the desired results and will become an efficient means to regulate employment issues in Russia.

Collective contracts signed by the employers and workers' representatives at all levels are to become one of the major of legal means of prompt and efficient reaction at changes in social and economic conditions. The importance of the social partnership and of its institutions is to be raised, the role of trade unions as representatives and advocates of workers' labour interests is to be reinforced.

Trade Unions and Wages. Trade Unions are to represent and protect workers' interests. as for establishing and payments of decent wages. The Labour Code establishes only the minimal wages (MW) for the workers. It also stipulate the payments are to be scheduled (at least once every fortnight).

All other issues on wages regulation are independently settled by the enterprises and organizations with the obligatory participation of trade unions: “wage systems, forms of material encouragement, the amount of tariffs (salaries), as well as labour norms are set by employers, associations and unions of employers upon agreement of the corresponding trade unions and are reinforced by the collective contracts” (Article 11, p.3 of Law “On Trade Unions” and the corresponding articles of Labour Code). Thus, collective contracts are the main means for the trade unions to take part in wage regulation. Labour Code also stipulates that local provisions on wages and bonuses are to be agreed with trade unions.

As practice shows, however, such an agreement is most often of a formal nature (formal signing), while trade unions are not admitted to the development of the documents and their opinion is not taken into consideration.

### ***5.2.5. Main Reasons for Labour Disputes to Arise and the Practices to Settle Them***

The following main reasons for labour disputes are revealed by current practice of individual labour disputes consideration:

- Untimely wage payments and the small amount of wages.
- Layout of workers;
- Violation of certain norms of acting labour legislation (a firing procedure, shifts and considerable changes in labour conditions, ill payments for holdups, additional paid leaves, etc.) and other issues.

Untimely, wage payments remain the main cause for collective labour disputes and recently it is followed by a small amount of wages and the absence of wage rating in case delayed payments.

According to the data, provided by the Department of Collective Labour Disputes Settlement and Social Partnership Development of the Ministry of Labour of the Russian Federation for the period from January – September of 1999, 89% of collective labour disputes were caused by these reasons. No wonder, the sum of wage debt amounted to 56 155 million roubles by the September 1, 1999. As compared with the data for the October 1, 1998 (88 094 million roubles) it was surely down for 36,3%, however the situation on wage payments still can not be considered satisfactory.

Failure to pay wages paralyzed practically all industries of economy. The practice of labour payment in other than money form was introduced to the financial and economic activity of the enterprises. For example, the wages are expressed in goods the enterprise specializes in and to get cash the workers have to distribute them themselves, or by other barter goods - for the enterprises often pay each other by barter goods. Such ways of payments as coupons, cards, debt books and other money substitutes are widely used as well.

Presently the state law enforcement bodies are rather reluctant to interfere into the relations between the workers and employers, thus making it easy for the irresponsible employers to get away. Trade unions, being a social organization, are still weak representatives and advocates of the workers' interests and fail to effectively use their present rights to exercise a control over law observance and to take part in labour relations regulation as well as in settlement of labour disputes.

Numerous violations happens because of an extremely low level of legal culture both of workers' and employers. Norms of labour legislation are to be widely exposed to public for the knowledge of one's own legal rights will probably increase workers' social activity and will encourage a conscious uniting effort of workers to legally stand for their interests.

### ***5.2.6. The Degree of Social Protection of the Workers and the Types of Labour Contracts at the Enterprises of Various Types of Ownership***

The workers employed in the private sector – as it was shown above – receive higher wages, most part of which is paid through unofficial schemes. However, analysis of the labour relations, those emerged during the years of reforms, indicates that high wages of this

economy sector are paired with low level of the social protection of the workers. Employers usually follow one of the following schemes:

1. They choose such official schemes of labour relations and payments that minimize their commitments to the worker;
2. They apply hiring and payments schemes that violate the acting legislation.

The system of double-labour contracts is not infrequently employed at enterprises (mostly private ones). The first, official version of a labour contract is drawn according to the acting legislation. The second – agreed on words only – is quite different and it in fact determines the actual relations between the worker and the employer.

What are employers' hiring preferences? According to the data of the 1999 survey on labour relations, in the state sector there are practically absent the enterprises with the majority of workers being hired by temporal contracts. As for the privatized sector – the percentage of such enterprises is only 15%, while there are 60% of them in the private sector.

Presently only 9,7% of enterprises employ exclusively temporary contracts. These are mostly recently established enterprises, 1/3 of which hire workers exclusively by temporary contracts. Such a practice of private enterprises contradicts the Labour Code, for it sets rather strict frames for the application of temporary contracts (Appendix 4.2.1).

Starting mid 90s the informal hiring has been on the rise and has spread over new fields. According the data of the survey on the market flexibility, in 2000<sup>129</sup> 14,6% of the enterprises made use of unofficial hiring. However, for the Limited Companies, a big number of which constitute the new private sector, this index amounted to 32,4%.

The contents of labour contracts. At the state and privatized enterprises the majority of the contracts contain both compulsory provisions (the amount of wages, working terms and hours) and some of the commitments anyway to be observed by an employer as stipulated by the labour legislation. Things are quite different in the private sector:<sup>130</sup>

- The provisions on the amount of wages is absent in about 1/5 of the permanent and more than 10% of temporary contracts.
- Working terms and regime are not determined by ¼ of permanent and 1/5 of the temporary contracts.
- A paid leave is not guaranteed (“the provision on the paid leave is not included in the terms of the contract”) by more than ¼ of the temporary contracts drawn in the private sector.
- About 40% of the contracts do not provide a paid leave due to temporary labour disability.

The provision on the employer's commitments to pay for late hours is the most frequent to be absent from the contracts. This holds true for all the sectors. According to the information

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<sup>129</sup> Survey by the Center for the Labour Market Research, 2000.

<sup>130</sup> According by the calculations, done by T.Chetvernina, the ILO expert

provided by the employers, such type of guarantees most often are provided at the privatized enterprises in regards to the permanent workers (68,8%).

In other cases, the percentage of the contracts providing payments of late hours ranges between 40% and 60%. According to the information provided by the workers, the percentage of contracts providing the such payments is even smaller: from 42,4% for permanent workers of the state enterprises to 24% for those employed by temporary contracts in the privatized sector.

How the employers fulfill their commitments to the workers. The employers frequently avoid fulfilling their commitments to the workers. This holds true about both - commitments imposed by the law and about the voluntary ones, undertaken under the contract (Appendix 5.2.3. Table 5.2.3.1.). These violations are common for the enterprises of all types of ownership, but they are most frequent at the enterprises of the private sector. The percentage of enterprises, practicing violation, is much higher in the private sector as compared with the other sectors, and it involves all the positions:

- Annual leave is not paid for at the 22,6% of the private enterprises (this benefit is usually provided by state and privatized enterprises).
- The period of temporary labour disability is not paid for at 37,8% of the private enterprises (8% of state and 8,8% of privatized enterprises practice such a violation, and these are not a small numbers).

The most common violations at the enterprises of all types of ownership is poor observance of payment periods (more than a half of all the enterprises), as well as improper payments for late hours (29,6% of the state, 43,7% of the privatized and 50,1% of the private enterprises).<sup>131</sup>

The private enterprises are most frequently practice a “double violation” of workers’ rights, when both law provisions and contract terms are disregarded.

It is worth noting, that while the provisions of labour legislation cover all the workers, the poor social protection of the workers employed in the private sector is due to the fact that the majority of the private sector employers hold the opinion that the provisions of the labour legislation are compulsory primarily for the state enterprises. Providing higher wages, they consider it possible to disregard other commitments - even contractual ones. Employers of state and privatized sectors cite – among the reasons of improper fulfillment of the undertaken commitments – economic difficulties, the necessity to save the means for the enterprise to survive or just the lack of resources to make certain payments to the workers, for late hours in particular.

Thus, what is lost or gained by a worker? Formally there is a choice – to work in accordance with written contract and to receive all the “benefits” as provided by the acting legislation or to follow the oral agreement with an employer? In case a worker chooses the first variant, he is to be paid low wages, fixed in the contract, but as well to receive payments for annual leave, allowance on temporary labour disability, for late hours, and women – maternity

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<sup>131</sup> According by the calculations, done by T.Chetvernina, the ILO expert

allowance, etc. In the second variant sharp reduction or total absence of labour and social guarantees is the “price” for high wages.

Such a model is to a certain extent justified provided all the private sector workers are covered by it – that is, high salary instead of social protection. However, according to the 1999 surveys carried out by the Center for Labour Market Research of the Russian Academy of Sciences, in Moscow for example, only 57% of the private sector workers received the wages at the amount higher than it was provided by the contract (average for all the regions – 37%). The wage-drift generally amounts to 5 times.

Meanwhile 43% of the private sector workers in Moscow (63% for all the regions) are paid the wages as provided by the contract. Most of them are the low-level workers, most frequently – the unqualified ones. Thus, for the category of unqualified, private sector workers notoriously low guarantees of social protection are not compensated by high wages. It means, that though the employment in private sector is considered a successful adjustment to new economic conditions, working terms in the private sector may aggravate poverty as well, though the fact is hard to disclose by statistic and administrative means.

### ***5.2.7. Measures to Reduce Poverty and Regulations of Labour Relations***

Upon consideration the institutional norms regulating labour relations, we have arrived at the conclusion that the legislative norms, as well as the way they are applied, aggravate poverty among the working population. It means, that poverty reduction strategy is not to be successfully implemented unless corresponding measures are taken.

Such measures are to target amendments in labour legislation, as well as procedures to control their execution. To prevent further increase of the active age population of the poor the system of such measures is to observe the following methodological principles:

1. It is necessary to consider new social and economic conditions under which the yet to be adopted legal norms are to be implemented. Thus, real capacities are to lay grounds for the legislation.
2. Measures to improve legislation are to consider judicial norms, for they are to be feasible for execution.
3. The reform of the labour legislation is not to result in the increase of population of the working poor.

We would like once again to attend an issue of the already shaped peculiarities of the institutional regulation of the emerging labour market:

- Many of the acting legislative acts that regulate labour relations were developed for the planned economy with its guarantees of total employment of population. Under new conditions such provisions turned out to be hard to execute and they are not executed. The acting “strict” Labour Code deprives employers of free choice to shape and to pursue flexible, economically expedient under the market economy HR-policy. The acting Labour Code obstructs restructuring of the enterprises with considerable number of excessive workers.

- The provisions of the out-of-date Labour Code not only prevent the employer from getting rid of excessive labour force, but limit the workers' opportunities at the secondary employment market (the second job is allowed to be part-time only; the secondary employment is discriminated as for a number of social guarantees – payments on the temporary labour disability, paid annual leave (excluding the cases when the second job is officially documented – in this case the annual leave is paid for), etc.
- Under the present conditions, the employers have developed their own “rules of the game” aimed to counteract the “strict” Labour Code, thus the legislative provisions are frequently disregarded.
- Our analysis of the ways the legislation is applied indicates that even within the frame of the acting Labour Code there are many quite legal ways that allow to “trick” the “strict” legal provisions – however, such ways are usually time-consuming. The employers ignore the labour legislation not only because it is not up to new economic conditions, but because the execution surveillance system allows for such violations.
- The emerged system of social support of the unemployed is not adequate to the scale and depth of such problems. The recent institutional amendments in this field (Amendments to the Law “On the Employment of Population in the Russian Federation”, adopted in July 1999 and the dismissal of the Employment Fund”) only made the situation harder for the unemployed. Families with unemployed members are the families with high poverty risk.
- 40% of the total number of the population of the poor are represented by the families of the “working poor”.

All the above-rendered prove that the labour legislation is to be reformed. However, the poverty has reached such a scale, that the reform is not to result in the growing number of the working poor. It means, the reform is a must, but the ways to do it are rather limited. Liberalization of labour regulating norms is possible only in case there exists an adequate effective system of social support of the unemployed.

## 6. Poverty Reduction Strategy – Regional Aspects

### 6.1. Contrast of Regional Development: Basic Reasons, the Soviet Inheritance and Trends of the New Transitory Period

**Basic Reasons.** Poverty – in such a huge country as Russia – is built up by both common and different – as the territory stretches – characteristics. Such a situation stems out from in extreme heterogeneity of Russian regions in the level of economic development, labour market situation, age and gender composition of population, urbanization and living conditions.

Poverty characteristics always differ in any country for they result from the territorial disproportions of economic development. The economy growth can not be one-time or take place everywhere, it starts in “points of growth” of a particular location or in the centers with the most favourable social and economic conditions.

Investment concentration in the “points of growth” is necessary for innovation processes to take place and later expand to the peripheral areas, thus making growth possible for less developed territories. It is practically impossible - due to these objectively existing mechanisms of development – to avoid economic territorial inequality, and these regional disproportions can hardly be ever completely leveled, especially in big countries.

The territorial disproportions in living standards are mostly pronounced in the countries with “catching up” development, including the ones with transitory economies. Here territorial social policy is of an utmost importance for the growing social and material dissociation (split) of the population raises the risk of social and political conflicts and disintegration. In 90s Russia faced all these problems as well.

**The Soviet Inheritance.** Poverty analysis in Russia starts with regional and settlement disproportions taken over from the Soviet period. At that time all the regions of the Russian Federation were classified in three main groups:

- The regions rich in resources and recently developed (the European North, the North of the Siberia and the Far East). Nominal and real per capita incomes of the population were the highest due to the northern wage increments; the percentage of the poor population was a minimal one.
- The developed industrial regions of traditional settlements in the European part and in the Urals. There resided the majority of the population of the Russian Federation with average incomes. Traditional risk groups of the poor – the seniors, not capable for labour – were predominant.
- Much less developed and poorly industrialized territories (Autonomous Republics of the North Caucuses, in particular) with the lowest level of wages, in agriculture in particular. There the percentage of the families with low income was the highest, with poverty concentrated in families with many children, the number of which remained high for the demographic transition was not finished.

The regional differences in wages (the main source of income for majority of people) were determined by the industrial structure of the economy and by the geographical location. The

maximal wage differences in the 1980s were between the extracting industries of the Extreme North and the agricultural republics of the Northern Caucasus (3-4 times).<sup>132</sup>

Taking into consideration the natural produce income from private supplementary farms (PSF), better developed in the South, the differences were ¼ lower.<sup>133</sup> The actual leveling effect was even higher, for the “grey” incomes were apparently under-registered: for example, the North economic zone enjoyed the best supply of compact cars. It is worth noting that population incomes and poverty level indexes were practically the same for the majority of the regions, while the regions with extreme meanings of these indexes were geographically located in the north-west and in the South of Russia.

The differences due to the type of settlement were less pronounced as compared with the regional differences. Only in Moscow the wage level was 15-20% higher than in the neighbouring regional centers due to the managerial employment. The level of wages was mostly determined by the economic specialization of the town/city as well as by its geographical location, that is why the incomes of population of the Northern cities of recent development were the highest and the lowest (formally) - in the Southern rural areas and towns/cities.

In the Soviet period the major mechanisms to level the territorial differences in living standards were as follows:

- The system of planned redistribution of financial resources between the regions;
- Unified throughout the industries wage tariffs;
- Price regulation and huge subsidies for the main food products and paid services (housing, transportation);
- The unified system of social consumer funds, free services.

These mechanisms were first of all working to straighten wage levels and population income structure, but it was only to some extent effective for the poorly developed and agricultural territories. Besides there was also pursued the task to support the development of high priority regions.

The higher living standards in the northern regions specializing in extracting industries was provided by substantial amounts of wage increments while the price markup for goods and services was not high, transportation tariffs were understated. Population of the biggest capital cities was much better provided by goods and services, but migration was prevented by official housing registration, that was a part of a system of administrative residence limitations.

Due to these limitations of the planned economy, it was hard to estimate the regional living standards and poverty level through income indexes, for the actual consumption was determined not only by amount of the income, but by the access to deficit goods and free services. However, general efficiency of the Soviet mechanisms to level regional incomes (though the incomes were very low) was rather high.

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<sup>132</sup> Labour in the RSFSR (the Russian Soviet Federal Socialistic Republic, int.). Moscow: Goskomstat, 1990.

**Transitory period.** In the critical 1990s the regions of Russia split into two main groups: the “open” ones, linked to the world economy and rich in natural resources and export-orientated regions as well as the biggest cities with fast growing tertiary sector, and the other ones – so-called “closed” regions, linked with domestic economy, they suffered the most and constitute about 70% of the total number of the RF subjects, and 2/3 of the overall population reside there.

The regional economic differences are extremely high: gross regional product<sup>134</sup> (GRP) of the Tyumen region is about 13 times higher than the one of the Ingush Republic. The average index for the five leading regions is 5,5 times higher than per capita GRP of the five outsider regions. The minority of the Russian regions are relatively well-off, only in 22 subjects out of 78<sup>135</sup> the level of per capita GRP exceeds the national average (Appendix 4, table 1). The ¼ of the regions are sure outsiders with GRP 2/3 lower than the average in the country.

The differences in industrial structure of regional economy caused the income differences as well. There suffered most the regions specializing in machinery-building, military production, light and food industries. In 1996 the level of industrial manufacture fell 20-45% as compared with 1990.

- The market reforms were accompanied by sky-rocketing prices for goods and services, later they became regionally differentiated, and to a much greater extent than in the Soviet period;<sup>136</sup>

The regions specializing in fuel and power industries and metallurgy retained 60-75% of the manufacture volume. In the biggest cities (mostly federal ones) the deep decline of the industrial manufacture was compensated by the fast growth of service sector.

Industrial growth that followed the financial crisis of August 1998, to some extent lessened the disproportions, for the manufacture primarily grew in the import-replacing industries, thus in the regions of the domestic economy. However, this growth can hardly be considered stable as proved by falling industrial dynamics since autumn 2000. As a result, poverty problems in the regions of domestic economy that suffered the maximum decline of manufacture in 1991-1996, are the most acute ones.

Under critical conditions of 1990s the mechanisms of the territorial leveling and redistribution were either cancelled or considerably reduced:

- Industrial wage differentiation increased<sup>137</sup> consequently in the regions of different economic specialization; meanwhile the percentage of low-paid workers of budget sphere increased in all regions (for 6-10% in the 1990s);

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<sup>133</sup> National Economy in the USSR in 1990. – Moscow: Finance and Statistics, p.112.

<sup>134</sup> GRP is adjusted for the subsistence minimum in the region according to the methodics, used in the Russian reports on the development of the human potential of the UN Development Program.

<sup>135</sup> Autonomous Districts are not considered, for GRP is calculated neither for them, nor for the Chechen Republic.

<sup>136</sup> Zonal prices differed 1,5 times, while the cost of regional minimal food baskets differed 4 times in 1998-1999.

<sup>137</sup> Average wages in oil- and gas industries of the autonomous districts of the Tyumen region is presently 10-15 times higher than the wages of agriculture workers of the Northern Caucasian Republics.

- Income sources differences grew by regions and settlements: entrepreneurial profits are becoming more and more important for the residents of the biggest cities, while for those living in the rural areas and in the South – the incomes from private auxiliary farms.
- The food subsidiaries were ceased by the mid 1990s (except a few regions such as the Ulyanovsk Region, the Republic of Tatarstan), but the level of budget subsidiaries for the housing and communal services sharply differs in the regions and is determined by the policy of local authorities. Not infrequently the most developed subjects (e.g. Moscow) enjoy the maximal subsidiaries, thus the regional disproportions in poverty levels are aggravated.
- There was an uneven cut down in the volume and the number of free services rendered through social consumer funds. A great volume of free consumption was retained in the export-orientated regions, first of all, in the oil-extracting ones (the Khanty-Mansijsk and the Yamalo-Nenets Autonomous Districts), as well as in some of the Republics with special budget regime (the Republic of Tatarstan). Here the services are partially subsidized by the profits of enterprises or by republican budget. The quality and quantity decline of free services reached its maximum in the weakest and mostly depressed regions that resulted in growing differences in poverty level.
- Under critical situation in economy there happened the considerable cut down in the volumes of redistribution of financial and budget resources to support the poorly developed and high priority regions.

In 1990s territorial disproportions in economy development grew, levelling mechanisms were cancelled, thus resulting in increase in regional differences in income and poverty levels.

## **6.2. Regional Differences and the Dynamics of Incomes and Poverty Level**

**The system of indexes.** The regional poverty estimations are to be based on several index groups:

***Poverty level indexes*** (percentage of population with incomes below the subsistence minimum) calculated by various methodics;

***Basic economic indicators***, having impact on poverty indexes (per capita GRP, the relation between per capita money incomes and the subsistence minimum, unemployment level);

***Demographic and geographic factors*** of indirect impact (demographic structure, family composition and the peculiarities of settlement distribution).

When composed like this the regional analysis is based both on the direct indicators and the factors to explain the differences. It helps to make poverty indexes precise for the serious methodical and instrumental problems arise when one strives to register incomes in the countries with transitory economies and there emerge grounds for discussion on the priority of the indicators of percentage of population with incomes below the subsistence minimum. (whether the indicators of percentage of population with incomes below the subsistence minimum do come first).

The suggested list of indicators is rather wide and complex. Each index is to be expertly estimated and the most weighty and verified ones are to be circled out in order to draw an

adequate estimation of the poverty level in regions and to determine the way it is interconnected with major factors of social and economic development.

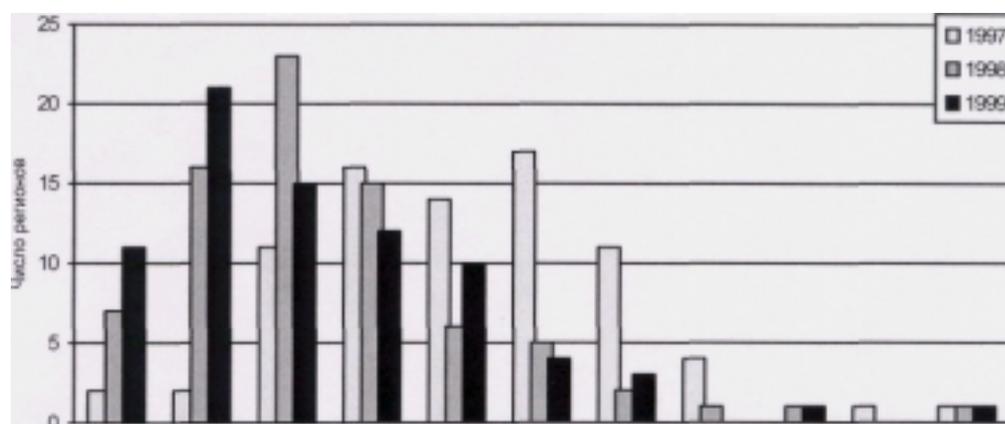
Taking into consideration the analysis made we singled out the **group of poverty indicators**. Taken together they provide the most adequate description of regional differences, are easy to access and are regularly measured as well as allow to draw a meaningful and grounded interpretation of the typology of regions due to poverty levels:

- Percentage of population with per capita incomes below the subsistence minimum (the balance method of income estimation based on macro-level data);
- Percentage of population with possessed resources below the subsistence minimum (estimation made according the data of budget statistics);
- The ratio between the average level of per capita incomes and the subsistence minimum.

**Regional differentiation.** Territorial contrasts of living standards can be estimated through the ration between per capita incomes and the subsistence minimum (illustr.1) The buying capacity of the population incomes of the poorest RF subjects is 8-12 times lower that the ones of the leading one (Moscow). Next follows a small group of relatively well-off export-orientated regions – oil and gas districts of the Western Siberia, the Samara, the Murmansk, the Lipetsk, the Belgorod regions, the Krasnoyarsk Territory, the Komi Republic and the Republic of Tatarstan.

The majority of the RF subjects have the incomes below the average national level. The median group is particularly prone to swaying – in the relatively well-to-do 1997 it was more fluctuating while under critical conditions of 1998-1999 median regions moved closed to the outsiders. The group with hardest problems is constituted by 10-12 territories. The margins of extreme poverty are fluctuating, thus making it hard to single out the regions with high poverty level as the priority targets for poverty reduction policy.

**Illustr. 1.** Ratio between money incomes and subsistence minimum as distributed in the RF regions, for November of each year



less than 1 1-1.25 1.25-1.5 1.5-1.75 1.75-2 2-2.25 2.25-2.5 2.5-3 3-3.5 3.5-4 4-6



**Poverty level types of regions.** The typology of regions as for poverty levels is based on data on poverty estimated by methods of possessed resources as well as by balance method (Appendix 4, table 2). It also takes into consideration the ratio between per capita money incomes and the subsistence minimum. There were additionally analyzed the per capita GRP index, differences in the economy openness and living conditions, as well as employment and demographic indexes that influence the poverty level in the regions. Thus, there were singled out five types of regions as for poverty level and the extent of acute poverty. Some of the types were subdivided into groups in order to determine specific poverty characteristics (table 1).

**1. The least developed Republics (autonomous districts) with maximal poverty level** are characterized by severe manufacture decline and de-industrialization of economy accompanied by weak social modernization, as well by considerable population growth and high percentage of families with many children. This is the group of obvious outsiders with minimal GRP and per capita incomes, the highest percentage of the unemployed (70-90% of the population) and the maximal general unemployment (as estimated by ILT methodology), especially among the young people.

However, it is hard to estimate the real unemployment level and poverty depth in these regions for the employment in shadow domestic economy is understated, as well as the incomes gained through private supplementary farms and earned by labour migrants, seasonally or for a long time working in other Russian territories.

**2. Less developed Republics with high poverty level:**

a) The republics with nearly finished demographic transition, low mobile population, the raised percentage of employment in agriculture and budget sectors that provide low incomes for population. These areas are also characterized by high percentage of families with many children among the poor.

b) Northern poorly developed regions with depressed economy lacking export-orientation, with the highest cost of living, high unemployment and poverty concentration among population of active age and in the families with children, with critical unemployment level and poverty in the settlements around the closing enterprises.

c) Depressed regions of traditionally developed territories of the European part, that suffered a hard manufacture decline in 1990-1996, considerable registered unemployment and high poverty level due to the unemployment and low wages, are also characterized by a high percentage of the senior with low incomes.

d) Depressed, not export-orientated regions of the Southern Siberia and the Far East that suffered a severe crisis and slow recovery, without considerable registered unemployment but with high poverty level due to hidden unemployment and low wages in all sectors of economy.

**Table 1. Poverty Level Types of Regions**

Type	Regions	Average percentage of the poor	
		Due to money incomes	Due to possessed resources
<b>1. The Least Developed Republics and Autonomous Districts* Under Acute Crisis</b>			
	The Ingushi Republic, the Republic of Daghestan, the Republic of Kalmykia, The Republic of Tuva, the Ust-Ordyn Buryat and the Aginsk Buryat Autonomous Districts	83	83
<b>2. Less Developed and Critical Regions</b>			
a) Poorly developed Republics	The Republic of Marij El, the Republic of Mordovia, The Chuvashi Republic, the Altai Territory, the Republic of Buryatia, the Karachayevo-Cherkessian Republic, the Kabardino-Balkarian Republic	61	63
b) the north-eastern areas	The Magadan Region, the Chukotka Region, the Koryak, the Evenk, the Taimyr, the Komi-Permyatski Autonomous Districts	62	77
c) the depressed regions of European part of Russia	The Tver, the Ivanovo, the Pskov, the Kirov, the Ryazan, the Penza, the Arkhangelsk, <i>the Leningrad, and the Volgograd*</i> Regions	57	60
d) the depressed areas of the Southern Urals, the Siberia and the Far East	The Chita <sup>×</sup> , the Amur Regions, the Jewish Autonomous District, the Novosibirsk Region, the Altai Territory, the Kurgan Region	55	60
<b>3. The Regions of Median Zone</b>			
a) with higher than average poverty level	The Kostroma, the Smolensk, the Bryansk, the Kaluga, the Vladimir, the Kaliningrad, the Saratov, the Astrakhan Regions, the Stavropol Territory, the Republic of Adygeya, the Udmurtian Republic, the Omsk Region, the Republic of Khakassia, the Sakalin, the Kamchatka Region, the Primorie Territory, the Nenets Autonomous District	40	53

\* Autonomous districts are considered only the poverty estimation due to money incomes (balance method)

\* The transitory (to a more well-off status) regions are given in fine type

<sup>×</sup> The Chita region by per capita incomes and poverty level indexes is close to the 1<sup>st</sup> type (more than 80%) and is not added up to the sum index

b) with national average poverty level	St.Petersburg, the Vologda Region, the Republic of Karelia, the Moscow, the Orel, the Tula, the Yaroslav, the Nizhni Novgorod, the Voronezh, the Kursk, the Tambov, the Ulyanovsk, the Rostov Regions, the Krasnodar Territory, the Republic of North Ossetia, the Republic of Bashkortostan, the Orenburg, the Servdlovsk, the Chelyabinsk,, the Tomsk, the Kemerovo, the Irkutsk Regions, the Khabarovsk Territory, the Republic of Yakutia, <i>the Perm, the Novgorod Regions</i>	30	46
<b>4. Relatively Well-Off Regions</b>			
a) more developed, of traditional settlements	The Samara, the Belgorod, the Lipetsk Regions, the Republic of Tatarstan	25	36
b) export-orientated, northern and eastern	The Tyumen, the Murmansk Regions, the Krasnoyarsk Territory, the Komi Republic	21	36
<b>5. The Most Well-Off RF Subjects</b>			
a) the biggest exporters	The Yamalo-Nenets, the Khanty-Mansijsk Autonomous Districts	14	N/A
b) the capital city	Moscow	23	29

**3. The median zone covers the half of RF regions where the poverty level exceeds** or is close to the average in the country. The regions with average percentage of the poor are moving towards the relatively well-off ones, but fail to catch up either due to insufficient population incomes, or due to high subsistence minimum.

**4. Relatively well-off regions:**

a) The regions of the European part with mainly urban distribution of population, with diversified “open” economy, not high subsistence minimum and higher real incomes. The lowered poverty level is combined with a more even income distribution of the families.

b) Northern and Eastern regions with “open” economy, specializing in raw-materials export. Nominal incomes are high and there is a strong income polarization of the population. The lowered poverty level is also localized in the standard risk groups (one-parent families and families with many children, families with unemployed).

**5. The most well-off RF subjects** are characterized by maximal incomes, low percentage of the poor, poverty concentration either in senior age groups (the RF capital), or in one-parent families or families with unemployed (oil- and gas-extracting districts of the Tyumen region).

Such structure of regional poverty profile helps to formulate the strategic task to outline target priorities when the resources are limited: either “to pull up” the weakest, allocating the main means to 10-15 regions with the deepest and stagnant poverty, or to divide the resources more evenly, thus reaching the considerably lower poverty level in less critical regions of the median zone. We consider the second way to be more effective in order to reduce and to localize poverty in Russia.

**Poverty in settlements of various types.** The inner regional income and poverty levels differences are similar in their meanings to the regional differences in general. This becomes especially obvious as one starts comparing the biggest cities with small towns or rural settlements. We shall briefly describe some of the specific characteristics of various types of settlements, keeping in mind the poverty reduction strategy.

The factors influencing poverty levels in the settlements of various types are as follows:

- the size of population and town status: labour market is more diverse and provides more high-paid working places due to the fast growth of market economy and new types of employment;
- specialization of a city/town economy in export industries as well in manufacture of goods of domestic demand caused in 1990s substantial wage differences; employment problems are the most acute in the depressed towns of “domestic” economy as well.
- the location of a town/rural settlement within or outside of major agglomerations results in different opportunities for territorial mobility of population and swaying migration of population to major centers;
- developmental level of the region where a settlement is located. It determines the volume of allocated budget social transfers to municipal bodies;
- natural and geographic conditions to develop private supplementary farms, that in critical years emerged as an importance income source for a great number of population of small towns and in the rural settlements.

The general scheme of settlements’ division as for the degree of actual poverty is composed by the combination of the above-mentioned influences:

- Rural settlements outside of agglomerations. The highest poverty level is typical for Nechernozemny zone, mostly populated by the senior pensioners of the small rural settlements.
- Small and average size towns with mono-specialization in currently depressed industries. They are characterized by the maximal poverty level of all population groups. Failure to pay wages and mass unemployment are the main causes for poverty. Poverty is often stagnant due to low territorial mobility of population.
- Small and average size towns – local centers outside of agglomerations. Here employment is concentrated in low-paid budget industries and in agriculture processing. Population is mostly of senior age here and there is a high percentage of pensioners among the poor. Opportunities for new working places are scarce for the lack of investments. Poverty is of stagnant character.
- Towns – local centers and rural settlements within agglomerations. Low incomes of those residing and working here are supported by high earnings of swaying migrants. The junior unemployment is less acute due to the labour migrations.
- Big cities with higher and rather polarized incomes. The labour market is diverse and small business are somehow developed.

- Small and average size towns specializing in export-orientated industries, with the highest wage level and sharply polarized incomes of those employed in main manufactures and in the budget industries.
- The biggest cities, regional centers, with concentrated human potential (younger, active, well-educated population). The labour market is the most diverse, unemployment is the lowest and population incomes highly polarized.

The above-rendered scheme was developed through expert suppositions for it is impossible to measure the real poverty level differences for the lack of statistical data.<sup>139</sup> Data on the interconnection between wage level and town/city economic specialization and its size indirectly indicate the poverty level of the urban population. (Appendix 3, Tables 3.1.-3.2).

The problem of rural poverty is a complex one. The income level of rural population falls greatly behind the one of the urban population: per capita possessed resources of the rural residents in 1999 were 31% lower than those of urban residents, money incomes – 45% (twice) lower.

However, there are great regional and settlement differences. Income deficit of active population of main premises of agricultural enterprises is to a great extent compensated by the produce of developed private supplementary farms. In the small settlements of the Nechernozemny zone the poverty of the senior pensioners who are physically not able to work at the supplementary farm is extremely severe. The poverty level differs zonally for the profit gained at private supplementary farms are higher in southern villages. However, all these differences can be evaluated by expert suppositions only for there the data on incomes in various rural areas is absent.

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<sup>139</sup> Indexes for per capita money incomes, subsistence minimum and percentage of the poor populations are calculated by the State Committee of Statistics only at the level of RF subjects.

### **6.3. State Policy of Straightening Territorial Disproportions of Social Expenses: Budget and Non-Budget Mechanisms**

Regional differences in poverty level are determined not only by labour earnings of population, but by the amount of state social expenses allocated from budgets of various levels and non-budget funds.

Territorial disproportions of economic development result in the strongest fluctuations of tax potential. Per capita tax revenues of regional budgets differ dozen of times: in oil- and gas-extracting autonomous regions of Tyumen district and in Moscow they are 3-4 times higher than average in the country, while in the Republic of Tuva, the Republic of Dagestan, in the Ust-Ordyn Buryat Autonomous District they amount only to 15-20% of the country average.

Thus, territorial leveling of the social expense financing emerges as an important state task. There have already been shaped the mechanisms to level territorial disproportions, but they are to become effective as well. In order to estimate how effective are the existing mechanisms to fight poverty we used the data of Ministry of Finance of 2000 as well as the regional calculations on budget and non-budget financing of social expenses from “The Report on Human Potential Development in the Russian Federation in 2000”<sup>140</sup>.

In Russia the state provides finances the social sphere out of federal, regional and local budgets and non-budget funds (Appendix 5, table 5.1.). Social expenses (Appendix 5, table 5.2.) of main items are borne by budgets of various levels in various proportions:

- The federal budget bears the most part of social policy expenditures;
- The budgets of regional level supply the substantial share of expenditures on healthcare and culture;
- The municipal budgets cover the main expenditures on housing and communal services and education.

**Federal budget expenditures.** The volumes of social allocations of federal budget are relatively small (917 roubles per person in 2000), the social policy expenditures are the major ones (50%), next come the expenditures on education (28%). The volume of social expenditures of the federal budget is greater than the overall financial aid (transfers) to the regional budgets.

The division of social expenditures of the federal budgets between the regions is extremely uneven: per capita differences (Moscow is not considered) for RF subjects amount to 30 times, while the federal social policy expenditures differ more than 70 times. The huge differences are not infrequent even between adjacent regions with practically the same social conditions.

Still there is some sense in expenditure division: maximal per capita social allocations (mostly allowances for children) are typical for the Northern Caucasian regions; all other

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<sup>140</sup> Besides we used the materials of comprehensive research on budget and non-budget funds in the regions, carried out in 1999 and guided by A.M.Lavrov. The results were published in the book “Federal Budget and the Regions: Analysis on Financial Flows”. The publication was done by Moscow Center of “East-West” Institute in the frame of “Open Finance” Program.

expenditures are the highest at the places where major educational, cultural and medical centers are concentrated and are financed from federal budget (Moscow and St.Petersburg first of all). This lack of unified federal social policy results in the situation when only the already existing social objects (mostly of federal supervision) are – at best – supported by inertia and the children allowances are subsidized in the places where the problem is the most acute due to lack of budget resources of poorly developed subjects.

**Regional budgets.** The main strain of social payments is borne by consolidated regional budgets that allocate for social issues 4,5 times more than the federal budget.<sup>141</sup>

The Fund of Financial Support to the Regions (FFSR) redistributes budget means in order to bridge the gap between the “rich” and the “poor” regions. The budget share of FFSR is permanently changing, but in general it shrinks.<sup>142</sup> In 2001 the Compensation Fund was set within the federal budget, it provides the means for allowances for children and social benefits for the handicapped. In 2001 the joint means of FFSR and the Compensation Fund summed up to 12% of tax revenues (customs payments excluded) or 11,2% of overall tax payments.

The methodics to calculate FFSR transfers became much more objective upon “Concept of Reform of Interbudget Relation in the Russian Federation in 1999-2001” was adopted. The subjective, actually existing revenues and expenses were replaced by estimations of meanings of tax potential and expenditure needs of regions.

The formula to determine the transfers is simple enough – according to the FFSR amount, the subsidized regions are brought to the same level and it is not to exceed the budget provision for the non-subsidized regions. More than 60 RF subjects received FFSR subsidies according to this approach. The share of financial aid from the federal budget amounted up to 70-80% of budget revenues of the poorest republics – The Republic of Dagestan, The Ingushi Republic, and the Republic of Tuva.

But even with such strong leveling there is huge difference (up to 10 times) in per capita provision in the strongest regions as compared with the recipients of FFSR subsidies. (Appendix 5, table 3). In the absence of the effective leveling budget social expenditures in the weakest regions fail to reach a minimally acceptable level. The situation is getting worse for high percentage of the poor in these regions is aggravated by acute deficit of finances for healthcare, education, by failure to pay allowances to the needy families.

Unfortunately, when economic development is highly polarized it is impossible to avoid a regional inequality in social services provision. But huge volume of redistribution is risky for the main strain of “pulling out” the weak regions is borne by 10-12 RF subjects with own budget social expenditures far from sufficient. To increase redistribution of means may result not only in harder situation in the strong regions but encourage the parasitic moods in the weak RF subjects, may undermine incentives to increase one’s own tax revenues.

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<sup>141</sup> At the same time per capita volume of expenditures for social policy can be compared, for in 1999 this item of regional budgets amounted only to 11%, while federal expenditures were 58%.

<sup>142</sup> In 1999 it was allocated 14% of the tax payments of the federal budget (customs payments excluded). Since 2000 the FFSR amount as well as the amount of certain transfers is fixed in roubles, and its share decreased to 9,4% of tax revenue (customs payments excluded) or 7.1% of overall tax revenues.

We consider, from the poverty reduction point, that the level of budget redistribution still might be a bit higher (in the USA and Canada it amounts to 17-18% of the federal budget).<sup>143</sup> The optimal amount of the budget allocations can be reached only through calculation of regional needs in budget allocations and better account of their tax potential.

Besides, it should be understood, that the increase in volumes of redistribution will not result in considerably higher payments to the poor for the main part of additional allocations will be swallowed by the housing and communal, as well as educational and healthcare subsidies. They constitute about 85% of the social expenditures of the consolidated regional budgets.

There also might be subjective priorities over spending: for example, in 1990s in the Republic of Yakutia more than 30% of overall expenditures of the regional budget (federal transfers included) were allocated at the ambitious educational program at the expense of other items; in a number of regions (the Ryazan, the Tula regions) there was pursued an ineffective policy to support agriculture instead of increasing social expenditures. Thus any redistribution of federal budget means for social issues is to be done under strict control and with clear cut targets in mind.

**Local budgets.** Social expenditures of local budgets still remain the most problematic issue. The own revenues of local budgets are completely insufficient, while more than a half of all social expenditures are handed to this level.

The budgets of many of administrative areas are 70% subsidized, even if all regional taxes are spent within their territory they can do without financial aid. Only 400 out of 12,5 municipal areas in Russia are donors,<sup>144</sup> those are mainly big cities or the mono-functional cities of export-orientated industries.

Effective social policy is not to be reached unless revenues and expenditure authorities of local budgets are not to be regulated.

Besides, the tax revenue is to be stable in order for municipal authorities to be able to plan expenditures and social programs. Meanwhile the Law “On Financial Guidelines of Local Self-Administration in the Russian Federation” stipulates the minimal tax shares of local budgets only for the RF subjects.

It means that any amount of share can be fixed for a given municipal authorities, and it is a subject to change. The donor cities – for a substantial part of revenues are withdrawn to the regional budget – have lower per capita social budget expenditures than strongly-subsidized municipalities, that receive financial aid from the regional transfers fund.

Such a subjective leveling results in the situation when due to low wages of budget sphere workers the poverty level does not decline in a few strong municipalities, at the same time poverty level does not go down in the weak areas, receiving subsidies, for the “easy come” redistributed means are frequently spent ineffectively, mainly to subsidize the housing and communal services. Social expenditures are to remain ineffective “patchwork” system unless the strict mechanism of inter regional redistribution is to be introduced.

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<sup>143</sup> Ibid, p.69

<sup>144</sup> Boreškova E.V., Kitova E.N. Some Peculiarities of Interbudget Relations at Subfederal and Local Levels // Finances. – 2000. No 5, pp.12-15.

Additional problems to manage social development arise due to insufficient legal regulation of the system of local authorities and their budgets: not all the lower-level administrative units have the municipal status and the right for the own budget and financial independence. The legal regulation of local self-administration is enormously inconsistent: in some of the subjects (the Republic of Tatarstan) even big cities are not considered municipal bodies, while in others (the Tyumen region) practically all settlements have the municipal status.

The problem of deficit of means and ineffective social expenditures at the lower level calls for cardinal decisions. It is obviously necessary to develop the unified methodics to calculate the amounts of financial aid to local budgets that will counteract the subjective redistribution of budget means.

It is necessary, first of all, to determine the priority principles of territorial leveling within the frame of poverty reduction strategy. The federal budget resources are to be concentrated and substantial volumes of redistribution according to well-regulated and transparent calculation methods are to be made within the policy of fast leveling of regional differences in poverty levels. In this case regional and local budgets are to be the delivery channels of federal means for addressed social aid only.

In case the Center understands that the regional disproportions are unevitable, but should be kept under critical levels, the redistribution policy is to be elective (aid to the least developed and depressed territories) and of less volumes, while the poverty reduction programs within the frame of existing financial resources are to be implemented by regions and municipals.

**Non-budget funds.** The non-budget funds cover more than 2/5 of overall social expenditures, that can be compared with social expenditures of consolidated regional budgets. At present time the social non-budget funds are not much different from the budget for the insurance payments, that constitute a great part of fund revenues, are very close to taxes.

The means of Pension Fund cover, first of all, payments of state pensions, the allowances to care for a child older than 1,5 years of age, as well as material aid to the senior and labour-incapable citizens.

The Employment Fund covers the unemployment allowances and some other payments to citizen (for example, material aid to the family members of the unemployed) as well as measures to reduce unemployment (professional training and retraining, social works, preservation and creation of additional or new working places, etc.). The Employment Fund was cancelled in 2001. Unemployment payments are done through employment offices, while the programs to support employment are to be directly financed from the federal budget.

The expenditures of the Fund of Social Insurance are more diverse – allowances on temporary labour disability, on pregnancy and labour, on care for a child younger than 1.5 years old, funeral allowances, it also covers payments for sanatorium and resort stay, traffic fare to the place of medical treatment, as well as payments on special nutrition, partial coverage of out-of-town health camps for children, etc.

Per capita expenditures of fund area divisions are close to per capita expenditures of regional budgets. In 1999 in Russia it was spent 2,6 thousand or roubles per capita from social funds,

including 1,9 thousand roubles – from the Pension Fund (7,1 thousand of roubles as calculated for one pensioner), 300 roubles – from the Fund of Social Insurance, 80 roubles – from the Employment Fund.

Per capita calculated revenues of funds differ regionally, for there are great differences in wage levels. Each fund has its own methodics to calculate revenue redistribution and financial aid to area divisions. The highest leveling is reached in the Pension Fund, however, here the difference between the maximal and minimal per capita revenue of area offices, even with regional differences in subsistence minimum considered, amounts to 4,4 times as calculated per one pensioner. For the Employment Fund this index amounts up 7 times more, for the Fund of Social Insurance –54 times.

The differences between the Funds is explained by the regulation of their expenditures. The amounts of pensions are legally established, thus there can not be big differences between the RF subjects.

The same holds true for the unemployment benefits, but the volumes of financing the measures to create working places, professional retraining might be different. The regional inequality of the expenditures for social insurance (especially, financing of camps for children, sport schools, allowances for sanatorium and resort treatment) might be even considered fair, for social benefits are to be first of all provided to those, at whose expense they are created.

Per capita expenditures of the Employment Fund are the highest in the economically well-to-do RF subjects and in the north eastern regions (1,5-3 times higher that the average in the country). This is possible due to the high revenues of the Fund in these subjects, however, in the North there exists additional expenditures to cover the allowances for the unemployed who to be relocated from the northern subjects upon to the suggestion of employment service. The concentration of Fund means in the regions with relatively favourable situation at labour market (particularly in Moscow) results in absence of revenue leveling for area divisions. The worse is the situation in the region, the less means it possesses to carry out somehow meaningful employment policy and to improve the situation at the regional labour market.

The economic well-being plays even a bigger part for the Social Insurance Fund due to the smaller range of revenue redistribution. Besides, per capita indexes are higher in northern and eastern regions for traffic fare for the northern residents going for vacations to the southern areas is covered.<sup>145</sup>

As a result territorial expenditure priorities of the certain non-budget funds are not the same. The doubts on the fair and effective redistribution of means between the region often arise, for the gap is huge and not always understandable. Thus, information on financial flows of social funds is to become easier to access, while the decision making is to be widely discussed.

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<sup>145</sup> Per capita revenue of the Fund area divisions in the Taimyr Autonomous District are 19 times higher that the average in the country, 5 times higher in Yamalo-Nenets Autonomous District, 3,5 times higher in the Khanty-Mansijsk Autonomous District, from 1,5 to 2 times higher in Moscow, in the Komi Republic, in the Samara Region, in the Nenets and Chukotka Autonomous Districts. Meanwhile, there are regions, where per capita revenue of the funds do not amount even to the half of the average in Russia.

Thus, the main problem of social expenditures in the regions stems out of poor coordination of social policy. Revenue redistribution within the federal budget is not interconnected with the redistribution of non-budget funds, while the expenditures of federal and consolidated regional budgets are practically independent from each other.

#### **6.4. Poverty Reduction Strategy Under the Conditions of High Regional Inequality**

We developed the suggestions on poverty reduction strategy to be based on the regional typology rendered above and to consider the regional specifications of the problem. In Russia it is obviously insufficient to work out only the general federal strategy on poverty reduction, for there exist huge differences in conditions and factors of social and economic development all over the country. Measures, efficient in some regions, might be insufficient or inefficient for the others. The priority targets for regions and settlements of various types are to be outlined within the programs on poverty reduction.

**Methodical tasks.** Some of methodical issues are to be settled in order to formulate such a strategy. The development of poverty elimination strategy is impossible unless it would be based on verified information on poverty scale in the regions and in settlements. To improve the quality of statistical information the following is to be done:

1. To create representational regional data collection for budget studies and to enlarge the number of respondents in the regions where the data already collected is not sufficient to analyze the living standards of population. Regional budgets can be the sources of additional finance for the regional authorities do need adequate estimations of poverty margins and the data on real number of people with low incomes. This information will allow to optimally spend budget means to render an addressed social protection.
2. More precise methodics to estimate earnings from private supplementary farms are needed. The introduction of various regional or zonal coefficients– upon monitoring the real consumption of food products - can become the most formalized and convenient way to draw additional estimations. Such coefficients will be higher in the southern regions with more favourable natural and climate conditions, smaller in the urban regions of Nechernozemny zone and minimal – in the North.
3. More precise poverty margins for big cities and less urbanized territories (rural areas and small towns) are to be drawn. The subsistence minimum for rural areas and for big cities within each region is to be separately calculated, for many of expenses (food, housing and communal services, transportation) sharply differ.
4. Additional estimation of “shadow” earnings is to be done for each regional type where population receives additional rent due to geographic and economic situation of the region. These are first of all regions adjacent to the borders and the cities with developed trans-border exchange of goods. A substantial part of such exchange is often a part of “shadow” economy (the Kaliningrad region, the Primorie territory). It is hard to estimate the distribution of “border location” profits among the population groups, but it is quite obvious that to some extent all the residents of the regions benefit from it through provision of cheaper goods and services or expanded opportunities for alternative (additional) employment.

5. In the biggest cities it is necessary to draw an estimation of real estate of those applying for poverty allowances, for in such cities the realty might bring considerable rent revenue and is of real sales price. Interest and cooperation of regional authorities is to ensure a more detailed and complex income and poverty level estimations. This is possible only in case the poverty reduction policy is to be financed from both federal (a fixed part) and regional budgets. In case the regional authorities are to “force out” and to redistribute the federal means the poverty level is sure to be overstated.

**Priority targets of programs in the regions of various types.** Basic elements of poverty reduction strategy are better wages and employment, more even income distribution and addressed aid to the less provided households. The aid is to be provided due to the data revealed by income registration. The priorities of this basic strategy are to be more precisely outlined for regions of various types.

“Strong” regions and cities. They are characterized by “open” economy, higher per capita GRP, good budget provision and are included in the of world globalization processes. Here there is a big percentage of population with average and higher income levels. The poor households are mostly represented by traditional risk groups – one-parent families and families with many children, single pensioners of the senior age, city residents in particular. In the risk group there are also families, the working members of which are employed in budget sphere only. They should be aided by the nationwide federal policy on rising wages of those employed in budget sphere.

Regional authorities of strong subjects and better provided municipal of capital centers and cities with export-orientated economy are capable to support those employed in education and healthcare industries through redistribution of their own budget means.

“Northern” regions that are not export-orientated leaders. The criteria of per capita GRP with cost of living considered is to lay grounds to single out such regions. Poverty in such locations results from population excess under the declining economic activity in many mono-functional cities and settlements of extracting industries. That is why the poverty reduction program is a secondary one as compared with relocation programs for unemployed residents of settlements without economic perspective.

Relocation of pensioners is the next measure to eliminate poverty. Pensions in the traditionally developed regions are to surpass the subsistence minimum while in the North it is impossible to survive with such pensions. To reduce poverty of the native northerners there should be introduced – instead of money payments - a system of rationed natural food supplies according to the number of people in the family, for it is impossible to register incomes of the existing traditional types of households and economic activity.

It is hard to implement such a program at the federal level, thus its volume is to be determined by financial capacities of the certain region.

“Depressed” regions and cities of processing industries that failed to overcome the severe manufacture decline (more than for 60% as compared with 1990). Here the problem is to identify such regions. For example, in the frame of TESIS<sup>146</sup> special program and based on it

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<sup>146</sup> TESIS Project “Regional Policy Aimed at Reduction of Social, Economic and Legal Asymmetry”. – Moscow-Novosibirsk: Ekor, the Siberian Agreement, - 2000. – p.549.

the Draft “On State Support to the Most Needy Depressed Territories of RF” the poorly developed RF republics of another poverty profile are also classified as such.

The depressed regions are to be provided by special federal support program with special expenditures on professional retraining, unemployment and poverty benefits. But to calculate the allowances for the poor it is necessary to differentiate the poverty level estimations based on budget surveys.

Corrective regional coefficients are probably to be introduced, for the depressed regions of traditional industries (the Ivanovo, Pskov regions, the Udmurtian Republic) do not provide conditions for considerable additional incomes from private supplementary farms, when the regions are located to the south regions (the Kurgan, Penza regions) this income source is of a much bigger importance even for the urban population. But in any case the main means to support the poor is to be allocated from the federal budget, for the recovery and employment growth in the depressed regions is counteracted by the inertia of unfavourable industrial structure of the economy.

“Underdeveloped” republics with unfinished demographic transition – the most difficult group to develop poverty reduction programs for. These regions are characterized by a complex system of interfamily (between the relatives, within a clan) income redistribution and by considerable labour (seasonal or permanent) migration of mostly masculine population to other RF regions to earn the living at the shadow sectors of the economy. Having such a structure, the households are impossible to estimate real income level and the percentage of the poor. Besides, the regional authorities can hardly implement any poverty reduction program.

First of all these republics are classified as the poorest RF subjects and their budgets are 50-80% subsidized. Secondly, the main financial aid will be distributed according to clan and family relations in case the federal control is absent.

We suppose that in such regions it is wise to retain a categorial approach to determine subjects eligible for aid (families with many children or one-parent families that lost the provider). The urban and rural categories of the poor are not to be distinguished for in the areas of recent urbanization interfamily redistribution of natural incomes from private supplementary farms is especially high.

Levels of administration, responsible to make the concrete steps both to prevent and to reduce poverty are to be clearly defined.

**Possible outlines for regional leveling in order to promote poverty reduction.** Special attention is to be paid to the federal expenditures in the regions presently lacking adequate distribution. The ratio between the maximal and minimal meanings of per capita expenditures (the subsistence minimum considered) is a bit more than 7 times for social non-budget funds, it is 14 times for consolidated regional budgets, while it amounts up to 30 times for federal budget social expenditures – Moscow excluded, and to more than 70 times for federal expenditures for social issues. Since more than a half of all social policy expenditures (allowances for children and for the poor) is done through the federal budget, it becomes the first priority task to develop an objective and formalized mechanism to distribute social expenditures of federal budget to the regions.

Should the problem of discordant expenditure authorities and revenues of municipal budgets not be settled, poverty reduction programs will be impossible to carry out, for indefinite financial and legal authorities of local budgets will obstruct implementation of any system of addressed social aid.

The most important task for the non-budget funds is to change territorial policy for the Employment Fund and to work out a more strict redistribution mechanism for the existing system of revenue concentration in more well-to-do regions translates into stagnant problems for other regions, does not provide opportunities for personnel retraining and creation of new working places.

As for calculation of pensions and redistribution of means of the Pension Fund there may be used a mechanism to consider the regional differences of cost of living instead of existing North wage increments. However, any changes are to be cautiously introduced: there is no economic sense to retain the senior pensioners in the northern regions. Thus, it takes a prolong legal adoption to introduce any changes in the amounts of pensions and is not always sensible due to interregional differences in the cost of consumer basket.

Besides there are alternative ways out – in the biggest cities pension increments can be finances not from the federal budget, but by municipal budgets provided there exists a more tolerant system of revenue extraction.

## 7. Statistical Monitoring of Poverty Level

To set main guidelines to promote poverty reduction there should be a clear-cut understanding of the following issues:

- on tendencies of the development of major macroeconomic indexes that define the stage of economic cycle (boom, stagnation or recession);
- on picture of poverty, that outlines its main manifestations;
- on poverty expansion and depth that is reflected through poverty scale and poverty depth indexes;
- on poverty profile, that characterizes social and demographic structure of the poor population and allows to estimate poverty risks for certain social and demographic groups of population;
- on social and economic processes that aggravate poverty.

The present chapter dwells on analysis of data sources that allow to estimate poverty level, profile and picture. As for the major macroeconomic estimations and statistical indexes, that identify poverty aggravating processes, they were attended in the preceding chapters.

Within the frame of the Russian system of statistics the Goskomstat is a traditional source of data on population incomes, on income distribution among the major social groups, including the ones of the less provided for, the incomes of which are below the subsistence minimum.

Presently the Goskomstat is carrying – within the frame of statistics on incomes - two target programs on poverty monitoring.

The first program summarizes the data gathered at enterprises and organizations that make payments to the population, as well as the data on bank accounting on the flow of savings and cash in circulation (the Balance of Incomes and Expenditures – BIE).

The second program - “Household Budget Survey” (HBS) - has been a defined function of the Goskomstat since 1952 and targets the data on incomes and expenditures. Such data allows – along with meeting other tasks – to draw analysis on uneven income distribution.

Poverty definition is guided by the principles outlined in the Decision of the UN Economic and Social Council dated December 19, 1984.”Individuals, families, groups of people are considered poor, in case their resources (material, cultural or social) are that scarce that limit their opportunities to lead minimally acceptable living in the member-states of their residence.”<sup>147</sup>

Due to the lack of opportunity to consider cultural and social components of the expanded definition (notion) of poverty for a special statistical database is to be created for such goals

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<sup>147</sup> Materials of the Meeting on Household Budget Statistics (Geneva, March 14-17, 1994), Report of the European Committee on Statistics “The Statistical Survey on Poverty” by Deo Ramprakash.

the Goskomstat poverty estimations are exclusively based on the data on material resources, thus a method of measuring absolute poverty is applied.

Since 1992 the Goskomstat applies the indexes on subsistence minimum amount and on per capita money incomes of population as the criteria of choice to measure absolute poverty level.

As it is indicated by the majority of poverty surveys in the countries with transitory economy, the social indexes remained at a relatively high level for a long period of time. Thus, the Goskomstat holds an opinion that the applied in poverty estimations ratios between the subsistence minimum and the per capita money incomes are more to measure low incomes of population, than poverty itself.

Besides, total incomings that determine the actual level of consumption of the population are not considered in full by the category of money incomes. That is the reason for the majority of rural residents and a considerable number of urban residents to be classified as low-incomes groups of population, however, they compensate the lack of money means by self-made produce thus sustaining the stable and exceeding the subsistence minimum level of food product consumption.

Such population groups are to be excluded from the low income category as provided by international recommendations on poverty statistics drawing, according to which the subsistence minimum amount is to be measured against the income aggregation, the meaning of which is to be close to the category of the possessed income or expenditures of the final consumption within the system of national accounts (SNA).

In 1997 a new program of budget surveys was introduced, thus this problem was partially settled. There was applied a new entry of “the possessed resources” that comprises – along with money expenses – conditionally estimated cost of self-made produce (calculated according to the average buying prices in a given region), as well as the cost of subsidies and privileges received by households in the form of in kind transfers. Besides, the possessed resources include money savings made by the household within the surveyed period. The sum total of all these components provides estimation of means possessed by the households surveyed, means that determined their wealth level – in its broad meaning - as compared with just money incomes and expenses.

The difference between the estimations of poverty level through the index of possessed resources and through money income index in 1997-1998 in average amounted up to 10 percent points. As indicated by the analysis of the changes in possessed resources structure, such differences tend to grow as the consumer capacity of population incomes further decreases.

### **7.1. Calculation of the Subsistence Minimum Amount**

According to the Federal Law “On the Subsistence Minimum in the Russian Federation” **the amount of the subsistence minimum** is the cost estimation of the consumer basket, as well as the expenses on obligatory payments and charges. The consumer basket is built by minimal food product set, other than food goods and services necessary to maintain human health and to provide for his life activities.

Nationwide the subsistence minimum amount has been calculated since the 1 quarter of 2000 in accordance with the above-rendered and with the Methodics to Calculate the Subsistence Minimum Amount in the Russian Federation Nationwide.<sup>148</sup> To calculate the consumer basket cost estimate the following indexes are applied:

- a) the volume of consumption of certain kinds of food products, other than food goods and services that determine the consumer basket (the consumer basket in in general in Russia nationwide is established by the Federal Law) and
- b) the Goskomstat data on the level of the consumer prices on such items. The amount of the subsistence minimum in general is quarterly established in Russia nationwide by the Government of the Russian Federation.

**Table 7.1. Subsistence minimum amount in 2000<sup>149</sup>**  
(average per capita, roubles a month)

	Population total	As distributed among social and demographic population groups		
		Active population total	Pensioners	Children
I quarter	1138	1232	851	1161
II quarter	1185	1290	894	1182
III quarter	1234	1350	930	1218
IV quarter	1285	1406	962	1272
Year <sup>150</sup>	1210	1320	909	1208

At the period since 1992 to 1999 including, the official estimations of the subsistence minimum in the Russian Federation were based on the Methodical Recommendations of the Ministry of Labour of the Russian Federation, dated November 10, 1992 in accordance with the Order of the President of the Russian Federation “On the System of Minimal Consumer Budgets” No 210, dated March 2, 1992.

As compared with currently applied methodics that is based on the minimal sets of *goods and services*, the calculations of the subsistence minimum of 1992 were based on “*food basket*” that included the food products of the natural minimal consumption volume to provide the necessary calorie value in order to satisfy nutritional needs of various population groups and to allow for the healthy nutrition at minimal expenses. Expenses on other than food goods, services, obligatory payments and charges were calculated due to the cost of the food basket and the shares of such expenses within the total amount of the subsistence minimum. The latter were developed due to the data of budget surveys on expense structure of the low-income population groups.

<sup>148</sup> It was adopted by the Statement of the Ministry of Labour and the Goskomstat of Russia on April 28, 2000. No 36/34.

<sup>149</sup> It is established by the Government of the Russian Federation.

<sup>150</sup> Estimation is based on the data set by the Government of the Russian Federation within the period of 1<sup>st</sup> – IV quarters of 2000.

**Table 7.2. Subsistence minimum amount in 1992-1999.**

(average per capita, thousands of roubles a month, since 1998 – roubles.)

	Population Total	as distributed among social and demographic population groups		
		Active population	Pensioners	Children
1992	1,9	2,1	1,3	1,8
1993	20,6	23,1	14,4	20,7
1994	86,6	97,4	61,0	87,4
1995	264,1	297,2	186,2	268,6
1996	369,4	415,6	260,5	373,2
1997	411,2	462,4	289,9	415,1
1998	493,3	554,7	347,9	498,2
1999	907,8	1002,8	639,9	901,7

In 2000 new approach to calculate subsistence minimum amount was introduced. It set higher minimal volumes of consumption to maintain human health and living activities, thus the SM amount 15% exceeded the corresponding meaning obtained through previous methodics. For the pensioners is grew for about 25%, for children – for 20%, for active population – for about 12%.

In order to present dynamic rows on the subsistence minimum amount in comparative terms the retrospective estimations of this index for 1999 and 1998 were developed through the methodics effective since 2000. The estimation outcome is drawn in the following Table 7.3.

**Table 7.3. Dynamics of the subsistence minimum amount**

(Roubles a month)

Year	Population Total	As distributed amount social and demographic population groups		
		Active population	Pensioners	Children
<b>1998</b> <sup>151</sup>	493 (567)	555 (616)	348 (426)	498 (572)
<b>1999</b> <sup>5)</sup>	908 (1008)	1003 (1089)	640 (771)	902 (1017)
<b>2000</b> <sup>152153</sup>	1210	1320	909	1208

<sup>151</sup> The presented data for the period of 1998-1999 were based on the Methodical Recommendations of the Ministry of Labour of the Russian Federation, dated November 10, 1992 in accordance with the Order of the President of the Russian Federation “On the System of Minimal Consumer Budgets” No 210, dated March 2, 1992. Meanings in brackets are estimated according to the Federal Law No 134-Φ3, dated October 24, 1997, “On the Subsistence Minimum in the Russian Federation and due to the Methodics to Calculate the Subsistence Minimum Amount in the Russian Federation Nationwide adopted by the Statement of the Ministry of Labour and the Goskomstat of Russia on April 28, 2000. No 36/34. These data are used to exclusively provide comparative terms for the dynamic rows due to the amended Methodics to Calculate Subsistence Minimum Amount effective since the 1<sup>st</sup> quarter of 2000.

<sup>152</sup> The presented data were calculated in accordance with the Federal Law “On the Subsistence Minimum in the Russian Federation” No 134-Φ3, dated October 24, 1997, and due to the Methodics to Calculate the Subsistence Minimum Amount in the Russian Federation Nationwide adopted by the Statement of the Ministry of Labour and the Goskomstat of Russia on April 28, 2000. No 36/34.

The lack of legislative norms hindered the implementation of the Federal Law “On the Subsistence Minimum of the Russian Federation” in the subjects of the Russian Federation in 2000. The Law stipulates, in particular, that the consumer basket in the subjects of the Russian Federation is determined by the legislative (representative) bodies of the subjects of the Russian Federation upon the expertise to be carried out as regulated by the Government of the Russian Federation.

The expertise order for the consumer baskets drafts is regulated by the Statement of the Government of the Russian Federation “On Expertise of the Consumer Basket Drafts for the Major Social and Demographic Population Groups in the Subjects of the Russian Federation” No 494 dated July 5, 2000 and by the Regulations of the Expertise of the Consumer Basket Drafts for the Major Social and Demographic Population Groups in the subjects of the Russian Federation (adopted by the Statement of the Ministry of Labour of Russia, No 58, dated August, 15, 2000). In the period of 2000 – first half of 2001 the Intersectorial Expertise Commission of the Ministry of Labour considered the consumer basket drafts submitted by the executive authorities of the 82 subjects of the Russian Federation.

## **7.2. Poverty Level Estimation Based on Macroeconomic Data**

**According to this method the number (a percentage) of population with money incomes below the subsistence minimum amount** is calculated for a quarterly or annual period and is based on the estimation data on *the distribution of the population due to the amount of per capita money income* as well on measuring it against the amount of the average monthly per capita subsistence minimum for the corresponding period of time.

Money incomes of population include the wages paid to hired workers (accrued wages, re-estimated to the past debt), entrepreneurial revenues, pensions, allowances, stipends and other social transfers, property revenues (interests on holdings, securities, dividends) and other types of incomes.

Money incomes of population are calculated and completely estimated upon consideration of concealed wages that are detected by balance means as the difference between the consolidated expenses on all the household needs, including the increase of financial assets, and officially registered incomes.

Calculations of *distribution of population as for the level of per capita money incomes* are based on the method of imitative modeling under the Methodics adopted by the Goskomstat of Russia in 1996 and agreed upon with a number of ministries and institutions concerned. The main provisions of this methodics are based on a hypothesis that the distribution of money incomes of the population agree to the lognormal (two parameter) model.

This hypothesis was established and the adequacy of the based on it model was proved by the data of the simultaneous (every five-years) income surveys of the 170 thousand families (310 thousand for the former USSR). The last income survey was carried out in March, 1989. In the absence of the data of the analogous survey the effective methodics determines that the

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<sup>153</sup> The estimation is based on the data established by the Government of the Russian Federation for the period of the 1st – the 4<sup>th</sup> quarters, 2000.

estimations on distribution of the population as for the level of per capita money incomes are to be obtained through regular surveys on household budgets.

### **7.3. Poverty Level Estimation Based on Household Budget Surveys**

Based on the outcome of random household budget surveys, the percentage of population/households with per capita possessed resources below the subsistence minimum amount is determined as follows: the amount of the possessed resources per each household is measured against the subsistence minimum amount as taken for a particular subject of the Russian Federation in the place of residence of the population surveyed.

Meanwhile, the subsistence minimum amount (or poverty margin) is defined as the sum total of the corresponding indexes for the various social and demographic population groups in regards to the actual composition of every household surveyed.

The following additional criteria to explain the category status of households with wealth level below the subsistence minimum amount are employed to process the outcome of the household surveys:

- percentage ratio: the relation of the number of low income population/households with the level of possessed resources twice or more times below the subsistence minimum amount (is classified as population/households in dire need) - to the total number of households/population;
- for this household category - the amount of means deficient in their wealth level for it to reach the subsistence minimum amount.

The second group of indexes comprises the ones of poverty depth and poverty acuteness. Both indexes define the ratio between the household wealth deficit and the subsistence minimum amount per one person (that is the difference between one of the wealth indexes and the subsistence minimum amount).

The results obtained through household survey lay grounds for of low-income households to be classified into various types and social categories as for a place of residence, employment status, gender, age and level of education.

The number of low-income population/households is calculated due to the results of household budget surveys and are based on measuring of the amount of the possessed resources per each household surveyed against the subsistence minimum amount as taken for a given quarterly period. In case the program does not contain questions to provide direct data for corresponding annual period registered, average annual estimations of indexes are reached through the sum of independent quarterly surveys.

The current methodics is based on a supposition that the budget survey indexes of a particular household remain at the same level throughout the year, as they were in a quarterly period of a survey, thus there are no special methods to be applied to quarterly data in regards to the annual period. However, neither the incomes received nor the expenses made are even throughout a year, thus we end up with overestimated annual data on the number of the low-income population as obtained through household budget surveys.

These are the reasons why in Russia the current practice to determine the indexes of social and economic differentiation of the population through the income level is different from the practices applied in other countries. There the estimations are drawn through direct annual income measurements.

Household budget surveys target a number of points. The main tasks are defined as follows: to obtain weight indexes to calculate consumer price index and data to compose accounts of household sector within the system of national accounts. Traditional budget survey is also a source of statistical data on population distribution by for material wealth level, as well as on poverty level and on food products consumption.

Starting April 1, 1996 in order to provide fuller representation of the data obtained through surveys to analyze social and economic processes there were set new volumes and placement of random household aggregation. The net of households was composed on random basis and comprised 49,2 thousand households. The transition to the new net was accomplished by January 1, 1997. The survey is carried out on random basis in all the Republics within the Russian Federation as well as in the Territories and Regions.

The 1994 micro-census of population provided informational grounds to built a random household aggregation. A **household** is defined as the final selected unit and is the aggregation of individuals, residing at the same accommodation or in a part of it, both having or without family connections, jointly providing all necessary for living, fully or partially joining and spending their means. A household can be constituted by one, separately residing individual. A household is also a survey unit.

Since the regular budget surveys were initiated 50 years ago, their agenda has undergone significant amendments. While being fully adequate to the pre-reforms objectives, the survey data ceased satisfying the growing demands of information consumers. The survey results got sharply criticized for they provided neither adequate indexes to characterize changes in behavior of families nor the ones in their living standards. Application of territorial and industrial method of household selection was criticized as well, along with not enough flexible programs to gather and process information.

Cardinally new approach to shape household selection was introduced in 1996-1997. It was based on the model of two-stage stratification selection due to territorial distribution. It was mainly built on the data obtained in the 1994 micro-census of population. Consequently the end was put to industrial method of household selection for it no longer met the objectives of the research on living conditions and macroeconomic estimations under new social and economic conditions.

Presently the random selection is based on the typified selection, built by combination of structural relations of the interconnected group features, such as the household size, the ownership and type of residence, land piece in disposal, gender and age of the household members, their level of education of sources of living.

In 1997 the budget survey program was brought to a new stage of reforms. The program objectives were analyzed in order to select the two immediate priorities. They emerged as follows: to estimate weight indexes in order to calculate consumer price index (CPI) and to estimate the differences in the wealth level, to determine the areas of poverty expansion as well. The budget survey program was amended through implementation of two approaches.

The first approach cancelled questions that hampered survey and were to result in for sure misleading information. The questions on the household size, composition and sources of money incomes were ruled out, while the number of parameters to characterize the production of agricultural produce in the private subsidiary farm and the food product turnover were substantially reduced.

The second approach targeted easier data registration. Thus, there were introduced various in its comprehensiveness and coverage procedures of data gathering. An annual cycle was reduced to a quarterly one, during which households were keeping short-term (for a fortnight) detailed diaries on daily expenses and maintained less detailed journal records on other than food purchases and service payments (during the rest period of the survey).

The final quarterly survey targets to obtain a limited number of parameters to precise the total sum of money expenses, as well as to obtain information on household composition, employment status of its members, on benefits and subsidiaries received in money and in kind. Additional survey at the end of the year reflects general parameters on the education level of household members, housing conditions and the cattle in the private subsidiary farms in disposal.

Upon the introduction of the amendments, the budget survey targeted the data on expense composition and volumes of individual consumption. New definitions and final indexes were introduced, such as the possessed resources and the expenses on the household final consumption. These indexes allow – in the absence of money income indexes – to obtain aggregation to estimate social and economic differentiation and poverty level. The amount of money income of every household is now calculated on the basis of registered sums of money expenses and financial assets increase. However, the results obtained are employed as an auxiliary means only, mostly to determine poverty level parameters. Thus, the information lacuna is not compensated - for precise estimation of household money income distribution is still absent.

A statistical weighing of the results of the household budget survey is done in order to obtain data that cover general aggregation. Under this method each household surveyed is characterized through statistical weigh that defines the general number of households represented by the selected fraction. This notion is based on a hypothesis that a group of households surveyed and grouped by some feature corresponds to the household groups with the same feature within the general aggregation. Weighs for individual household budget parameters are calculated quarterly.

Statistical weighs are drawn in two stages:

- the first stage is the calculation of “basic” weighs that allow to bring the data of random survey to the general aggregation due to the general selection principles;
- at the second stage the “basic” weighs of selection are corrected and shifted - for due to various reasons it is impossible to obtain information on the full range of households, included in selected aggregation.

The following data is used to calculate the first stage weighs:

1. The 1994 micro-census data on distribution of members of households surveyed in the families of various composition - separately for urban and rural population as taken regionally.
2. The data on population size for the January 1<sup>st</sup> of the current year for urban and rural population as taken regionally.

The sum total of “basic” weighs provides the estimation of quantity of all households of a given region and in Russia in general. While at the first stage the application of weighing provides for selected aggregation to correspond to the initial goals of selection shaping, based on demographic features, the objective of the second stage is to obtain data corresponding to the general aggregation by economic features.

The ratio gets distorted mainly because the potential respondents withhold from participation in the survey - they prefer to remain silent on their wealth level. The number of the responses from the household groups with relatively high incomes is not sufficient, thus the results of the survey become distorted. This calls for additional re-estimation of weigh shift.

At the second stage “basic” weighs are shifted due to the regional data on per capita money incomes of general aggregation and according to the hypothesis that income distribution within general aggregation agrees to the law of lognormal distribution. This hypothesis is tested by preliminary calculations of distributional rows of the population surveyed, such calculations were obtained through re-weighing by “basic” weighs.

#### **7.4. Main Contradictions within Poverty Indexes**

Two sources on the data of poverty scale and expansion result into two estimations of poverty level. For example, in 1999 according to macro-economic data, 29,9% of the population were classified as poor, and 50.2% - according to household budget survey. Such disagreements are fully understandable.

From one side, budget statistics data does not consider the full volume of concealed incomes, thus the poverty level is overestimated. From the other side, when macroeconomic data is applied to the complete estimation incomes of both the poor and the wealthy are equally increased, however, it is known, that the unregistered incomes tend to be concentrated by the wealthy.

Both of the methods are not free from mistakes. The majority of the researchers consider the macroeconomic estimations be closer to the actual poverty scale. However, the poverty risks for particular social and demographic groups can be obtained through budget statistics only. These are the very data to disclose poverty profile, due to which half of the poor is constituted by the working poor.

The suggestion that the extent of the underreported incomes varies for particular social and demographic groups, and the actual level of impoverishment of the working poor is smaller is quite justified when drawing the re-estimation. It is impossible to calculate the poverty risks for particular population groups though macroeconomic data, and the methodics of poverty profile estimations are to be developed only within budget surveys. It seems particularly expedient to employ additional, corrective parameters to identify the families of the poor,

such as subjective estimation of poverty level, indexes on possessions and on consumption of particular products, goods and services.

## 8. Recommendations on Poverty Reduction Strategy

New opportunities, brought by current market reforms, are paired for the Russian population with new problems. Poverty risk increases both for traditionally poor population categories and for the working poor. Thus, poverty scale and depth is expanding. At the same time it becomes an indicator that for the majority of the Russian population social problems, brought by the reforms, to a great extent counteract the opportunities of the wealth growth.

The fact that poverty has spread over the 1/3 of the population of Russia – as estimated by relatively low standards to define and measure poverty – gives grounds to announce the poverty reduction strategy as a priority of the pursued social and economic policy.

Here we emphasize that economic growth does not always guarantee poverty scale reduction. The objective base of the poverty reduction strategy is to be constituted by the policy to be adequate to this task and to prevent discrimination of the poor in their access to the resources. In Russia during the last 10 years the distributional policy was rather ambivalent and aggravated the growing inequality in the distribution of the resources. Thus, the contradictions are as follows:

- **Liberalization of the labour relations.** Labour relations were liberalized at the political and economic level of decision making, while the former regulations are acting at the institutional level. This collision was settled through non-punishable violation of institutional norms and rules, thus encouraging unofficial relations at the labour market. For the ten years of reforms the economic priorities to motivate non-punishable violations have been transformed. In the first years of reforms the imperfect labour legislation, along with the desire to relieve taxes (in order to maintain one's positions at the non-deficit market) mostly motivated the non-punishable violations.

Presently we have the situation, when practically all big companies and enterprises turned out to be involved in the shadow relations. Thus, the main incentive for the unofficial relations is the drive of the decision-making managers as well as bureaucrats to provide and, if possible, to conceal beneficial to them and the ungrounded resources redistribution, - independently on the efficiency of the decisions made. As a result, growing inequality in resources distribution took place under economic decline, but not growth.

The recently emerging economic growth is not the result of the economically expedient and growing inequality, but is due to the favourable situation at the world primary market.

- **Social redistributive policy inadequate to the functioning of the market economy.** In the Soviet period the policy of the redistribution of the social wealth was to provide a better access to resources for the most deserving citizens. This function was performed, while overall equal access to the material wealth was declared and in the absence of the compensation of insurance risks, including the life-threatening ones. As a result, such a system provided a rather high level of social inequality, but the majority of the redistributive mechanisms were far from being financially transparent.

Meanwhile, employment and rather high level of minimal wages was guaranteed for the majority of the population.

Presently, the majority of the guarantees to prevent poverty are dismissed, while the policy to curb income distribution differentiation is absent. Conditions of transitory economy call for state redistributive system be redirected to support the population groups of the poor. Should the former principles of redistribution be retained they would aggravate social and material inequality.

In Russia the poverty reduction policy emerged along with the first steps of the market reforms. Poverty is certainly to exist – due to its relative nature – under any social and economic formation, but in the Soviet period the fact that there are families of the poor was not admitted. Thus, 10 years ago the poverty reduction policy was originated with the admittance of the families of the poor as well as their needs for support. However, that took care of the advantages of the reformed policy on poverty as compared with the Soviet system. Further on support of the poor was mainly translated into the “emergency reaction to the hottest issues”, accompanied by inconsistent decisions made at political, economic and institutional level.

At the initial stage of the reforms, financial market institutions and privatization were given the priority, while the changes introduced to the social sphere mainly aimed for the state social expenditures be cut down. Only in case social consequences of reforms resulted in open social tension or severe manifestations of material or social problems, the state reacted to such “hot issues”.

As a compromise of legislative and executive powers of federal and regional level was reached and due to the active position of various social and political forces, the strategy to counteract limitations on access to the resources in a social sphere was pursued through the following two main patterns:

1. Due to the insufficient resources the problem was only partly – in its most severe manifestations - acknowledged at the national level. Under such an approach all those claiming for social aid are firmly alienated. Here, the way unemployment is treated is the most typical example of such an approach for only those registered are taken into consideration, thus nearly 90% of those non-working, but searching for a job, are left out. In this case, not only the measures fail to be adequate to the situation, but the state institutions to counteract unemployment lack the adequate notion about its reality.
2. The problem is admitted in its scale, but the institutional and financial provision of the policy to alleviate social problems is not adequate to their scale. This is exactly the way the addressed social aid is attempted to be rendered.

Despite the fact that at the legislative level it is declared that all those with incomes below the subsistence minimum have the right for the aid that is to bridge actual incomes and the subsistence minimum amount, the actual amount of aid is much less and is rendered to a much smaller part of population. The system of social allowances follows the suit.

Both of these approaches - within the frame of measures being implemented and aimed at poverty alleviation – do not counteract poverty, and only in case the poor are correctly identified provide a rather limited support. Meanwhile, substantial state expenditures are

allocated to maintain comfort living for the limited number of people. It is worth noting, that as compared with the Soviet period, the poverty standards have been lowered, while the comfort standards have been substantially upgraded.

Thus, during the reforms poverty was aggravated - along with manufacture decline, firstly by discriminative changes introduced to the system of distributional relations, and secondly - by the vague state policy to alleviate poverty.

Provided poverty alleviation strategy is an agreed priority of the social and economic development, one can single out the three key directions, being priorities for the modern Russian reality:

1. To curb and to prevent the further expansion of poverty scale.
2. To create conditions for the active population to earn enough to provide for themselves and their families.
3. To establish an effective system to support socially vulnerable population groups (the old-age, disabled and handicapped, families with high dependant strain, families in emergencies – refugees, etc.) as well as to guarantee non-discriminative access to the free or subsidized social services.

These three components are essential for any poverty alleviation strategy, though their interrelations and significance are determined by particular political, economic and institutional conditions. The factors to aggravate poverty are of a complex nature and the whole set of measures within the poverty reduction strategy is to be systematically built in order to enhance the cumulative effect.

For example, a wage rise can result in growing unemployment, and the general effect, as seen from the point of poverty reduction, may turn out to be negative. Thus, areas of cross actions of the several factors are to be carefully estimated as for their eventual outcome in order to choose the most optimal strategy to reduce poverty.

### **8.1. Measures to Prevent Further Poverty Expansion**

Measures to prevent and to curb poverty are relevant for Russia due to several reasons. First of all, as estimated by even relatively low standards to define and measure poverty, it has spread over the 1/3 of the population of Russia. Already such poverty scale and a 10<sup>-year</sup> period of its expansion jeopardize the economy growth, even under favourable investment climate.

As it was shown above, poverty translates into health decline, impairs labour resources quality as well as incentives for efficient and productive labour. Secondly, as it is indicated by the outcome of the Russian and foreign research and pilot projects on marginal population groups (persistently unemployed, homeless children, families with lingering poverty, etc.), - preventive measures on such issues are more effective and less expensive for the society in general.

To prevent further growth of the population of the poor the following is to be provided:

- All the wide-scale reforms are to be the subject for expertise of their social consequences. In case, the reforms result in harder situation for the vulnerable groups of population, they can not be adopted without compensative social components. This principle becomes of particular relevance - for the reforms in medical, educational, housing and communal spheres as well as restructuring of RAO UES are to be promptly introduced.
- There should not be introduced new methodological principles to define and to measure poverty (that consequently indicate a bigger number of the poor) until substantial poverty reduction is brought by the positive dynamics of the better living standards. Under conditions when such steps are not supported by adequate measures of social policy, the access to social aid gets substantially limited for the most vulnerable groups of population.

## **8.2. Conditions to Be Created for the Active Population to Independently Overcome Poverty**

As indicated by the analysis of labour market and social support of the non-working active adults, the main three key issues here are as follows:

- Institutional regulation of the labour market;
- Wages;
- Employment-friendly measures;
- Support to the unemployed.

### ***8.2.1. Measures to Institutionally Regulate Employment***

- To discontinue measures prohibiting and discriminating secondary employment. Here we mean, first of all, limitations on the second job (it is allowed to have only one additional job) and its hours (the second job can be part time only).
- A detailed mechanism to put into practice labour legal provisions is to be developed. Such provisions are to create preconditions, incentives and control measures in order to raise labour norms efficiency.
- There should be raised responsibility of state law enforcement and court institutions – along with the responsibilities of the employers in case worker’s labour rights are violated – as for the inadequate and late reaction on such violations. Sanctions and fines, imposed for violations, are to become more strict. Current fine amounts are minimal and are not of profound material effect to the employer.
- In order to raise legal competence of the labour relations participants a compulsory certification on labour legislation issues is to be introduced for the administrative officers and managers of the enterprises, institutions and companies (first of all, for the heads of the enterprises and HR-directors).
- A more active participation of the trade unions as representatives and advocates of social and labour rights of the workers is to contribute to the labour issues settlement. This is to be done through the institutions of social partnership. Trade unions, - having

the right to control observation of labour legislative norms, - are to enhance protection - to disclose cases of violations of the workers' rights and to stand for the worker in law-enforcement and court institutions. Thus, the level of legal competence of the elected trade union leaders is to be raised through the system of trade union education (at workshops, trainings, etc.).

- Hiring and releasing procedures are to be liberalized. It is an imminent measure, but it can be implemented only in case the concept of social support to the unemployed is changed and the control over the labour legislation observance by the employers is properly executed. Otherwise, in order to prevent the growing number of the active poor, it is advisable to maintain the former legal norms.
- Even the out-of-date Labour Code provides a lot of roundabout ways to avoid "hardcore" provisions, and secondly, as it was shown above, the enterprise drive to maintain "unnecessary" workers is predisposed not only by legislative limitations, but by certain economic interests of the directors as well.

### ***8.2.2. Measures to Reduce Poverty Through Wage Policy***

In this context, the main factor to provoke poverty is the low level of wages. According to the State Committee of Statistics, in 1999 the accrued wages of 42,3% of the workers did not exceed the amount of subsistence minimum for the active population.

Thus, a priority here is to decrease the number of low-paid workers. It is worth noting, that this priority can counteract the drive to increase employment, for it is possible to reduce the number of low-paid workers both through wage-rise and through layoffs. Meanwhile, as it was shown above, despite the limitations on the release of the excessive workers, the employers have already got rid of the most useless. Thus, the massive unemployment is not to be brought by liberalization of hiring and release procedures.

Here we emphasize once again, that all the measures within poverty reduction strategy are to be targeted at the eventual outcome. Even if a particular measure, taken apart, can be of a more effect under given initial economic conditions, it is important for it not to result in harder problems. Resources to get bigger means allocated for the wage-rise of the low-paid workers can be obtained brought both by the economy growth as well as through better distributional system.

#### **Measures to reduce the number of the low-paid workers under conditions of stable economy growth.**

- To rise wages for the budget-sector workers through increased wage allocations. A priority here is to raise minimal wages up to the amount of the subsistence minimum of a active worker.
- To introduce mechanisms of wage indexation. In case gradual, one-at-a-time wage indexation is done, the budget is not to suffer from sharp and unbearable strain.

**Measures possible through better distributional system are mainly linked to the redistribution of resources to cover wages to the benefit of low-paid workers and to legalization of shadow incomes. The priorities here are as follows:**

- Under deficit of the resources to cover wages of the budget-sector workers the tariff schemes differentiations can be diminished. In such a case differentiation may be provided by the variable component of the wages to be covered by other than budget resources.
- Nowadays the secondary employment is a regular practice and, in its essence, is the most common of positive ways to adjust to new economic conditions. Thus, the legislative base to regulate additional employment is to be improved.

Limitations on the additional employment and earnings, as well as discrimination in social guarantees (coverage of annual and sick-leaves, employment guarantees) of the primary and secondary jobs are to be removed. Legislation on the retirement issues is to be supplemented by the provisions allowing to consider the officially registered earnings at the additional job together with the ones of the main job while setting the amount of pensions.

- In case the earnings at the secondary job exceed the ones of the main job the worker is to be granted the right to choose what amount of earnings is to be considered for his future pension. Such measures are to encourage legalization of incomes.
- Legal norms and provisions, discriminating additional employment (limitations on the number, wages and social guarantees of secondary jobs) are to be discontinued.
- There should be pursued a policy to reduce illegal flexible ways to pay wages that result in increasing poverty for the working population (overdue wages, wages in-kind, prevailing variable components in the wages of low-paid workers). Such a policy is to comprise mainly the measures of economic and administrative nature that are, first of all, to target the employer.
- There should be pursued a policy to reduce illegal flexible ways to pay wages and to legalize incomes and to limit inadequate to the economic outcome wage differentiation. Measures of such policy are to be addressed to the employers who are concealing the amounts of wage funds in order to avoid taxes. They should be also addressed to the highly-paid executives (top-managers and directors) who redistribute wages to their own benefit through shadow schemes of wage payment.
- Measures, that are connected with the pension provision reforms, as well as with development of mortgage and consumer credit lending are to stimulate all workers to legalize incomes.
- Institutional capacities of the budget organizations to attract additional means to pay wages are to be expanded. First of all, it is relevant for the educational, healthcare, scientific and cultural organizations.
- The practice of uneven budget financing of similar enterprises is to be abandoned.

- The number of companies and enterprises that are financed from the budget is to be reduced. First of all, it is relevant to the budget enterprises, the services of which are already of a certain demand at the market of paid services, for example, the sanatorium and resort enterprises.
- Measures to reduce poverty among the working population are not be of the same range for all the sectors of economy. It is determined both by various degrees of state influence on certain sectors, and by limited capacities of the state. Under such conditions introduction of a double standard of the amount of minimal wages for state and private sectors is quite acceptable. This will allow, from one side, to consider financial capacity of the state to rise wage rates in the budget industries, and from the other – will result in greater income and labour relations transparency in the private sector.

### ***8.2.3. Measures to Reduce Poverty Through Promotion of Employment***

✓ *Other than investment factors of the economic growth are to be maximally activated in order to generate new working places.* The economy sectors that are to provide fast increase of the working places with minimal possible investments are to be stimulated. Thus, the effective working places are to be promptly created. In our opinion, these are, first of all, small businesses, and, secondly, a number of labour-consuming traditional industries aimed to satisfy wide consumer demand, with high capital turnover – light and food industries, manufacture of building materials, “repair and assembly” sector of the machinery building.

To stimulate the development of the industries, that are of primary importance to promote employment, the following other than investment factors of economic growth are to be applied:

- Reasonable, consumer non-discriminative protectionism of the national manufacturer (price rise for the imported goods due to the August crisis gave, in our observations, a positive impulse for many of the Russian enterprises of refining industry);
- There should be pursued active foreign policy to promote Russian goods to the exterior markets. At the same time bureaucratic procedures of foreign deals drafting are to be simplified;
- The system of loan lending to small businesses is to be improved. Thus, small businesses are to be provided easier access to commercial loans. There should be expanded the circle of financial institutions and companies rendering preferential crediting, such as: low rates, long crediting period, less requirements on pledged security, free consulting, etc.

Insufficient financing is one of the major reasons to obstruct any federal and regional programs to support small businesses. Thus, it is more expedient to introduce not the measures of direct subsidizing of small enterprises, but the ones to promote their infrastructure development. The registration procedures of newly established small enterprises are to be simplified, tax relief is to be rendered.

Here we should dwell on practice of imputed income tax application. Its worldwide application has always pursued the two main aims: first of all, to develop small business, and

secondly – to develop it within the frame of legal economic relations (the simplified tax scheme with rather low rates). But this tax failed to perform such functions in Russia, for it was mainly aimed to expand taxation for regional budgets. Amendments, introduced to the Law “On Uniformed Imputed Income Tax for Certain Activities” in March, 1999, transformed it into a regional one, while the regional authorities were granted wide opportunities to regulate the tax amount. As a result, the majority of the regions set the tax at its maximal rate, thus making it unattractive for small business and the Law on the impute income tax practically ineffective.

As it is indicated by calculations, small business engages substantial number of the population and creates a rather stable self-reproductive net of social and economic relations, including the labour ones. This is proved by the stable demand for labour force from this economy sector. There exist a statistically meaningful regressive relation between the number of those engaged in small business and the level of unemployment, both registered and general.

It is necessary to reform traditional industries – in order to create new working places – through “*sharply-pointed*” investment policy, that is through accumulation of means at certain, the most relevant directions only. The priority “points of growth” are to be chosen with the emphasis on the most labour-consuming industries. Restoration of traditional manufactures, presently in decline, but essential to provide continuous technological cycle and to make national enterprises independent from imported supplies, - is another perspective direction.

✓ *An effective mechanism to finance active and passive programs is to be developed. An effective passive policy is to be shaped, emerging as the main priority of the state policy at the labour market. It means that efficient and adequate to the current stage of market reforms system of material support to the unemployed is to be established.*

In Russia since 1991 and up to now there still exist a double criteria system of unemployment benefits. From one side it is partly alike to the system of insurance against unemployment - for the amount of the benefit paid is determined by the amount of the former wages and by the period of paid employment. However, in practice the principle of social aid is a dominant one. It roots in the “leveling” ideology of the Soviet system: for any citizen of a active age and applying to the employment service has the right for a minimal unemployment benefit, independently from his previous employment or lack of it, from family income, etc. Instead of developing a complex differentiated system of benefits, in Russia the old well-known scheme was applied: nobody should be left out, the state pays a tiny amount (for example, 83 roubles a month), but to the maximum possible number of people. Thus, current amounts of unemployment benefits fail its main function, that is to support living standards of the unemployed (here we mean economically active citizens of active age) at the socially acceptable level in order to allow them to focus on active job-search. The effective system of material support to the unemployed is to be shaped as follows:

- The main provisions of the Law on the Employment concerning the right for unemployment benefit are to be revised. In the new version of the Law on the Employment unemployment benefit payments are to be based on the insurance principles. Thus, compulsory insurance payments for the working citizen and employers are to be introduced. Secondly, the status of the unemployed is to be separated from the right for the unemployment benefit. It means, that any citizen, out

of job, looking for a job and ready to start working can get registered as an unemployed one, while the right for the unemployment benefit is granted exclusively to the citizens, formerly employed (with wages or income) and who had made payments to the Employment Fund;

- The system of Employment Fund formation is to be changed, the existing provision of the Law on the Employment on the introduction of compulsory insurance payment for the working citizens is to be implemented as well as the insurance premiums made by the employers are to be recurred;
- The Employment Fund is to be centralized, at the same time there should be introduced a unified – for all the Russian Federation subjects - system of criteria of distribution of the Employment Fund means;

We underline here, that passive labour market policy is to be integrated in the context of the development of the whole support system to the vulnerable groups of population, including – under the market economy conditions – the unemployed.

While the development of a viable system of unemployment benefit payments and, in particular the provision of ongoing payments, is one of the main tactic tasks, the strategic priority is laid on the **active policy** to adjust various categories of unemployed to the labour market requirements. In this context the development of the Federal Target Program to encourage employment is certainly of great importance. Meanwhile, 1 guidelines, listed in the Program to encourage employment, can be seen only as the most general strategic priorities.

Growing deficit of the Employment Fund and objective necessity to allocate bigger and bigger means for material aid to the unemployed highlight the issue on the rational choice of current priorities of active policy. The first step here was the substantial reduction of expenses on so-called active measures, that are not directly provided by the Law on the Employment. The share of the expenses allocated to render financial aid to the enterprises, to buy securities fell 5 times at the period from 1995 to 1997, and is 9 times smaller as compared with 1993. As a result, the expense structure of the Employment Fund was changed: the share of the expenses on the active measures, directly provided by the Employment Law (that is retraining and social works) grew from 2% in 1993 to 8,5% in 1997; and for the so-called active measures it diminished from 45% to 5% at the same period.

✓ Thus, we observe natural and rational redistribution of means in favour of retraining and social works. Training of young people, who do not have qualifications and initially<sup>154</sup> enter labour market, - is to become an important part of it. The expenses on such programs are to be covered not only by the Employment Fund, but by federal and local budgets as well by the entries on social programs expenditures. A contract between the employment service and a particular enterprise or municipal authorities to train a group of unemployed for certain professions in demand is one of the options of training development. In this case, the expenses can be completely or partially borne by the employment service. But in each case the contract is to be drawn without participation of the unemployed.

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<sup>154</sup> Through in many countries the right for retraining is granted only to those paid insurance premiums, in our situation such a discrimination is not to take place.

✓ As we understand, a clear-cut borderlines are to be drawn between the two components of the active policy: social works and introduction of temporal working places - for they target different categories of the unemployed.

As it is indicated by the experience of many countries, social works are organized for a prolonged period of time and offers to participate are mostly extended to persistently unemployed, who had lost the qualifications and skills of regular labour activity. The percentage of those getting employed upon the end of social works is small due to the special profile of the participating unemployed. Temporal working places are organized for those, recently out of job, and for young people, initially entering the labour market. As practice shows, frequently such working places are an “effective” bridge to the successive employment.

Regional and local budgets are logically to become the main source to finance social works, and only then comes the Employment Fund which is to cover unemployment benefits for citizen participating in social works and registered at the employment services. The works are to be organized by municipal or other than state institutions, as it is widely practiced in the developed countries.

In case temporal working places are created, the expenses are borne by employers, and in some cases, - by the Employment Fund, but on the repayment basis.

Along with retraining and social works, the following activities of employment services are to be of priority:

✓ To develop the system of automated information on labour market in the regions, first of all, the bank of vacancies. Presently, in most of the cases even neighbouring district employment services in most of the cases do not have opportunity to exchange information on vacancies in the real-time format. Such an information is even of harder access to the unemployed. The computerized system is to be initiated with ramified data banks on the vacancies in the several districts and with information exchange on the route “regional capital – districts”. Further on such a system is to be expanded over all the territory of the Russian Federation.

✓ The work methods of proven efficiency under the Russian realities are to be activated. This means to redirect the unemployed for an independent job-search and to direct all the experts of the employment services to assist the unemployed in their individual job-search. Such programs, being implemented, call to revise the priorities of the employment services themselves: to shift the emphasis from the passive procedures (to register and to reregister the unemployed) to the active services, such as professional counseling, career guidance and psychological help;

✓ Interregional (and inter-district) migration of the population, including the unemployed citizens, is to be encouraged. In this case, along with the Employment Fund means, such measures are to be financed by budget means allocated to the Federal Migration Service. Up to now the Federal Migration Service practically does not have contacts with the employment service system, however, both institutions have a common aim – to relieve tension at labour market.

✓ Active ongoing cooperation with local employers is to become a promising trend of employment services work style. The experience of the Eastern European countries proves this work to be an effective one, while in some of these countries vacancy search is a legally imposed commitment of employment services.

As shown by practical experience of Russian regions, various ways of cooperation with employers are possible to strengthen their ties with employment services. The links between employment services and the employers range from seminars and consultations on labour and social legislation for enterprise directors and management to assistance in finding the required specialists, sometimes even among those not being the clients of the service. All these steps result in higher status and significance of the district employment service.

*It is not expedient to spend means allocated to employment services to create and preserve working places, for:*

- it is rather expensive to create working places (as estimated by directors of enterprises, the cost of one working place equals to annual wage fund per a worker);
- it is extremely hard to execute control over the means spent by this entry. It is difficult - even theoretically – to answer the question on the margin between the effect brought by additional financing and the outcome to have been reached without it, that is whether particular working places would have been retained in case there had been no financing;
- retaining and stimulation of artificial employment (including the steps to finance - by means of the Employment Fund - expenses of the enterprises to pay to the workers sent to administrative leaves) preserves the out-of-date working place structure and hinders manufacture restructuring. Consequently, it works as a factor to lower economic efficiency.

As it is proved by world experience, additional working places and employment expansion do not automatically translate into lower unemployment rate. Such working places are most probably to be filled by the most competitive candidates, that have less problems to find a job. Thus, in world practice such a measure is applied with caution. Working places are to be created and preserved for target employment of previously specified labour groups in risk, most frequently for disabled, handicapped and persistently unemployed.

We acknowledge the importance of new working places to be created, but emphasize that this task is to be settled not by employment services and not by their means, but within the frame of investment programs and development programs in regions, in close cooperation with other economic institutions. Functional substitution is not acceptable here.

### **8.3. Measures to Reduce Poverty Among Socially Vulnerable Groups of Population**

The set of following measures is essential to draw socially vulnerable groups out of poverty:

- to raise addressed nature of social allowances and benefits;
- to increase the amount of social payments and privileges for the poor.

### ***8.3.1. Measures to Improve Social Legislation***

✓ The principle of addressed aid is to be developed. To redirect social programs to support the population categories of the poor is feasible only in case priority access of the poor to such programs is to be adhered. This is to be provided by the principle of addressed aid. However, there is no legislative, or, at least, commonly accepted definition of the principle of addressed aid. Thus, even social workers hold various and often vague notions on principle of the addressed aid.

The mechanism to ensure the principle of addressed aid is built by the following components:

- aid is rendered not to certain categories, but to particular citizens and families (households);
- grounds to receive aid - per capita income below the poverty line;
- social aid recipient is responsible for documents and information submitted be trustworthy;
- there exist the system of identification and registration of low-income families;
- examination of neediness, surveys on low-income families and separately residing citizens are to be carried out.

It is worth noting that general context of social policy to a great extent determines the particular forms the principle of addressed social aid is implemented. In general, the addressed support is to be fit for both: the system of social preferences of population and the capacities of the social policy. To have a paid job is the best, but if such an opportunity is absent one participates into active employment programs; in case it is not possible (there are no active programs or due to poor health, dependants in the family - disabled, handicapped, etc.) - to become a participant of the program of addressed social aid.

The barriers to limit access to programs of addressed social aid are to be determined by the ratio between the advantages of employment, participation in social (or temporal) works or participation in programs of addressed social aid.

This process is to be regulated both by poverty line moving and by explicit prohibition for particular categories of citizens and households to become subjects of addressed social aid (for example, for the citizens of active age).

✓ Social legislation is to be adequate to the priorities and aims of the social policy. Being a priority of social policy, the addressed social aid to the poor is feasible only in case the old priorities are abandoned. At the same time it is impossible and insensible to discontinue a number of benefits for certain categories of population unless corresponding compensations are provided. In such a situation, the following balance of priorities is possible:

- To enhance social protection of the categories of the poor.
- In such cases when the population of those granted benefits and privileges tends to expand and to renew, for there come new recipients (due to professional, social and demographic affinity, privileged categories, etc.), the benefits and privileges are to be

discontinued. Depending on the type of privileges and categories of recipients compensations may be provided.

- It is expedient to preserve existing social payments and benefits for certain categories of the privileged - independently from the amount of their per capita incomes. These categories are not growing due to objective reasons and they obviously need to be compensated for the loss of privileges. Here are the Heroes of the Russian Federation; the Heroes of the Soviet Union, bearers of the complete set of Orders of Glory; the handicapped and the participants of the Great Patriotic War; the liquidators of the accident at the Chernobyl atomic power station; those injured, while defending the constitutional and legal order; the former prisoners of the fascist concentration camps. Thus, we talk about the transition to the addressed social aid rendering while at the same time there should be preserved the division in specific population categories, receiving benefits and allowances that by nature are more of compensations, than of aid.

✓ Social benefits are to be revised and gradually cut. The acting legislation does not constitute a coherent system and, consequently, is not efficient. Inconsistent and colliding acts result in a huge number of reiterated categories of population eligible for benefits and allowances. The system of social legislation is to be made consistent, some of the norms are to be diminished or eliminated, especially the ones of so-called “corporate” acts, thus the number of duplicated population categories receiving social aid is to be reduced. Allowances and benefits payments are to be put in order. Target payments and benefits are to be cancelled or replaced by another forms (compensations, vouchers, stamps, cheques, tickets, etc); in case the benefits are preserved they are to be temporal and strictly targeted.

✓ Hidden privileges are to be cancelled. Along with the orientation at the addressed social support, the reforms of the system of social protection are not to be effective in case the reforms miss the hidden social benefits on housing provision, coverage for medical services, sanatorium and resort treatment. Such benefits serve not only unequal distribution of quality social services, but cover ineffective management (in the absence of competitive environment) of the budget expenses of the organizations providing such services. As it takes place with the housing and communal companies, such services are to be covered by population, while the resources allocated to maintain such companies are to be redistributed through the wage system.

✓ The authorities of state power bodies of the Russian Federation and of the state power bodies of the subjects of the Russian Federation are to be divided, the frame legislation is to be introduced. The issues on the authority division between the state power bodies of the Russian Federation and the state power bodies of the subjects of the Russian Federation are closely interconnected with the issues of federal frame legislation development. The frame legislation will hardly be effective unless the authorities of the federal center and the regions are to be clearly divided. Consequently, the weak system of social protection is brought about by the vague division of the sources to finance social aid. This is illustrated by practically inefficient Federal Law “On State Social Aid” (1999).

Division of authorities is one of the most complex issues. There should be clearly pronounced authorities of the federal center, as well as the joint authorities of the Russian Federation and the subjects of the Russian Federation and the authorities of subjects of the Russian Federation in the field of social protection and social aid rendering. Regional regulative and

legal acts to be developed are to define the authorities of the self-administrations. The means to carry out the above-mentioned authorities are to be simultaneously transferred to these bodies in case they are granted the state authorities on the social protection.

According to part 1, p.1 ж) of the Article 72 of the Constitution of the Russian Federation the state power bodies of the Russian Federation are to establish general principles, provisions, legal and organizational forms of social aid rendering and of functioning of the social protection system, the regions are to be granted discretionary authorities within their competence.

Profuse commitments undertaken by the federal center result in numerous failures of social functions. Frame laws that establish general principles and provisions for all the subjects of the Russian Federation allow for regional and local peculiarities, economic, social, political, demographic, cultural and other factors and traditions.

Inefficiency of the acting legislation is mainly brought about by the detailed regulation coming from the center and combined with the insufficient independence in the regions. Besides, the main strain on social protection of the population is borne by the regions and municipal sector in particular.

Laws, adopted by the subjects of the Russian Federation, turn out to be more real and easier to execute for they take into consideration local peculiarities and the needs of the population. As a rule, activities of the municipal bodies are the most effective, for they stand close to population and are able to consider the demands and needs of the residents of a particular territory. However, the efficiency is cut down when they are given big and unbearable tasks on rendering social aid to population. In this case, material, financial means and resources become scattered.

✓ Law making is to be improved. As it was mentioned above, social laws are usually adopted at the time of election campaigns and are mostly aimed not at social protection of the most vulnerable groups of population, but at winning of the voices. The substitution of objectives results in a number of violations of law-making process:

- The time schedule (plan) of law making is absent or disregarded. Consequently the laws of primary order turn out to be the last to be adopted. That is why the two laws regulating practically the same issues on social protection were adopted simultaneously. The time schedule of law-making is to be observed, thus cutting down the opportunities to manipulate social legislation;
- It is not practiced to consider and adopt “law packets”, but it is of special importance to develop social legislation. By adopting a “law packet” one avoids repetitions, duplicating norms of various laws, collision of notions, blank spots. The absence (or ignoring) of such a practice of considering and adoption of laws brings about the situation when the same relations are regulated by several laws while some other issues remain unregulated. As a result, the adopted social laws are not interconnected and often contradict the already acting legislation;

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For example, there come one straight after another the Laws “On Social Services to the Senior and the Handicapped” and “On Social Protection of the Disabled”, while the Law “On the Guidelines of Social Services to the Population in the Russian Federation” was adopted later, though it would be only logical to start with as it is the basic law in the field.

- The provision of the Constitution that “the law drafts that demand for the expenditures covered by the Federal Budget, are to be brought for adoption only upon the Conclusion of the Russian Federation Government” (Art.104, p.3. of the Constitution) is often violated at the very discussion and adoption of the social laws – and one doesn’t need to point out to the importance to observe the provisions of the Constitution.
- The quality of the laws is not the best in case laws are submitted in by the deputies, for they, as a rule, are motivated by minor reasons. To avoid such a practice the law-making initiative of the Government is to become stronger.

### ***8.3.2. Measures to Create Effective Metodological Provision for the Addressed Aid***

Tests of several methods to identify the most needy households, being carried out in several regions of Russia, indicated that such a complex task is not to be unified within the whole country, for the living conditions and poverty factors are too much different across the regions. However, there are general methodological issues to be settled at the state level prior to the application of addressed support:

- The level starting which the family may be considered poor. Adopted in April 2000, the new methodics of subsistence minimum calculation expanded the circle of those formally considered poor. Thus, it is harder to identify those in real need. In the context of addressed social aid, the poverty line is to be set with the consideration of real capacities of the state.
- Who is the subject for the social aid - a family (a household) or particular categories of citizens? This issue has not yet been settled, and family composition is viewed differently when various types of social aid are granted. For example, only parents and minor children are taken into consideration when a monthly child's allowance is provided. In this case the incomes of jointly residing (grand)parents and grown up children are not included in the total family income. Subsidies to cover housing rent and communal services are rendered not to families, but to particular citizens, registered at this residence. We consider it expedient to apply a unified methodics to define a household, for example, the one applied in budget surveys that provide grounds for conclusions on poverty scale and structure. This methodics considers two parameters: shared residence and joint budget. We also emphasize that aid rendered to certain categories of population, unless it is not strictly targeted (wheelchair, medicines) gets assimilated and redistributed within the family.
- Declarative character of addressed aid calls for wide informative coverage even in the most remote parts of the country, in order to prevent geographical twists of aid rendering.
- Valuation survey is undoubtedly to be done for all currently rendered privileges, corporate ones in particular, for they are frequently inclined to support the most well-to-do population. But the resource restructuring is to be carefully devised, grounded and gradual. As with any social reform, benefit reform is to be studied as for its social

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These violations are caused by the temporal short-lived aspirations of the deputies at the time of the adoption. They either ignore this provision or adopt such laws that with a negative conclusion form the Government. In case such laws pass through all the “filters” – The Federation Council, the Administration of the President – the outcome is naturally negative for financial and material provision is absent..

consequences. This means that the reform components that are to bring growing number of the poor may be introduced only in case a guaranteed (with clearly defined sources of financing) compensation is provided. In this particular case, for example, poverty estimation criteria is not to be limited to the subsistence minimum amount. A special compensative procedure is to be set for each particular benefit to be discontinued. Meanwhile, in Russia a decisive termination of social aid in kind may only aggravate the situation of the families of the poor. For example, for senior rural pensioners kindling provided turns out to be more useful than cash due to the totally immature services, transport and communications in the rural areas.

### ***8.3.3. Exclusive Measures to Reduce Poverty Among Particular Socially Vulnerable Population Groups***

✓ All traditionally poor categories of population. A low level of all state social transfers (pensions, including the disability ones, stipends, unemployment benefits, children's allowances for the low-income families) is an important poverty factor for all traditionally poor categories of population. The ratio between these payments and the amount of subsistence minimum indicates they are capable neither to prevent poverty, nor to help out of it. Thus, to raise the amount of pensions and social benefits is a primary and strategic task. Here the strategy supposes these payments to be raised up to the subsistence minimum amount, while the tactics call for a gradual process.

✓ The disabled and the handicapped. For this population group the strategy is to transfer main emphasis from the material support to the disabled and the handicapped to the prevention of these conditions. Friendly environment, as well as medical, social and labour rehabilitation are to be provided as well. In the frame of such policy new working places for the disabled and the handicapped are to be created, as well as training for such occupations that will enable them to occupy their niche at the labour market - with the adequate state and social support rendered.

Legislative, organizational and financial conditions for further development of rehabilitation industry are to be ensured. One of the urgent measures in this context is to put into effect the provisions of the Law "On Social Protection of the Disabled and Handicapped in the Russian Federation", for it stipulates the right of the disabled and the handicapped for an unobstructed access to the objects of social infrastructure and to information.

Disability prevention is connected not only with the exclusive measures for the disabled and handicapped. Better care is to be taken of the overall population health (including reproduction); substance abuse, smoking, road accidents and technogenic catastrophes are to be prevented or fought; labour conditions, ecology and medical services are to be improved, accompanied by promotion of healthy lifestyle. All these steps are to prevent disabilities.

✓ Single parent families. Better living standards for such families are connected - along with growing social transfers - with to be yet created conditions to promote professional realization for women and with putting in order private transfer payments, that is alimonies.

✓ Measures to counteract discrimination of women at labour market are most probably seen as perspective ones. Such measures include investments in the industries with prevailing feminine employment, development of adequate to modern life social and everyday services. Development of this sphere from one side generates new working places for women and from the other - allows working mothers to combine career and family. This is also to be achieved

through professional training (rendered by employment services), that is particularly targeted at socially weak categories of working mothers (single mothers, mothers with many children, mothers of handicapped children, etc.) as well through measures to encourage employers to hire working mothers. However, such measures are unlikely to be implemented under stagnant economy.

✓ To ensure gender neutral state active programs of employment promotion is one of the urgent measures to reduce poverty. Presently, the list of social works is mainly aimed at masculine employment. An improved family legislation is to be developed as well in order to provide regular alimonies be paid by father and in the amount to meet interests of a child. For Russia it means that the controlling mechanism over the already adopted law is to be established. It is determined by the ways the already mentioned problems are to be settled - uncontrolled shadow incomes, unofficial employment, overdue wages, growing unemployment. The amount of the alimonies is to be raised together with the general wage rise, in the budget sector in particular. Different from many countries, where the amount of alimonies is set by court, in Russia the law determines the exact percentage of father's income to be paid to children left with mothers (99% of cases). However, while previously this sum was automatically extracted from father's earnings straight at the enterprise he was employed and was transferred to his children, presently a special mechanism is needed to consider the total income and to transfer the set percentage for children's upbringing. Initially, tax services are very possible authorities to deal with such issues. General wage rise will have a positive influence at the amount of pensions paid to children due to the loss of the provider, for such an amount is determined by the last wages of the father.

✓ Lonely pensioners of senior age. Their neediness is determined, first of all, by demographic characteristics (age, health, incapacity) and by low level of pensions. The paradox here is that in case criteria to estimate neediness is applied, access of pensioners to addressed social aid pensioners get limited.

The reason is that the majority of the regions use more "strict" poverty lines for addressed aid rendering than it is stipulated by the Law on the Addressed Aid Rendering (half of the subsistence minimum, minimal guaranteed income, etc.). Such practice is determined by high level of unofficial incomes, and in case it is ignored results in a greater number of the poor. However, for the poor lonely pensioners of senior age pension constitutes a sole source of income. The practice of complete income estimation is a positive measure, but the procedures applied are not to exclude lonely residing pensioners with incomes below the subsistence minimum from the number of addressed aid recipients.

The second step here is to introduce a set of measures to provide this population group with adequate medical and social services. Presently, discrimination of senior age citizens in their access to free medical services is a mostly frequent practice. And here two types of social policy are possible.

The first option accepts the priority of paid medical and social services. Thus, the subsistence minimum of a pensioner is to reflect the actual needs in medical and social services. The pension is to be 2-3 times higher, allowing pensioners - even if the strict budget is observed - to pay for such services according to real norms of consumption for this population category.

The second option presumes the system of institutional and finance measures to really provide free (or insured, according to the system of compulsory medical insurance) medical

services for the senior citizens. The second option is seen as less expensive and more effective. But we emphasize once again that the population consumption norms of medical and social services should be set according to real needs of the senior, at the level of accepted social norm for the society at a given stage of development.

#### ***8.3.4. Guarantees of the Access of the Poor to the Minimally Essential Medical Services***

Guarantees that medical services be rendered to all the citizens is the main way to overcome discrimination of the poor in their access to free medicine. Such guaranteed services are to correspond – in their quality and volume – to the Russian standards of medical services. These standards are to be adopted by the Healthcare Ministry. Such guarantees are to become real only in case medical expenditures are increased and fair distribution of the resources between the medical institutions of the similar medical services profile is observed.

To promote this process part of “corporate” medicine of high level is to be switched for the voluntary insurance or for paid services. Besides, means of the Medical Insurance Funds are to be increased for the premiums are to be gathered in full, including the payments for the non-working population (today less than a half of such payments are contributed to the Fund, because the state does not pay for the non-working citizens).

The taxes on private and semi-legal medical services are to become another source of additional means. Meanwhile, the already possessed means are to be carefully used, expensive in-patient aid is to be cut down, while the treatment is to be intensified. Out-patient and polyclinic services, as well as procedures “to adequately substitute in-patient treatment” are to be better developed.

Privileges to obtain free medical services (for example, subsidies) and free medicines may be regulated through mechanisms of addressed social aid, for the citizens with low incomes are the priority groups of social support.

To break a vicious circle, entangling “poverty-poor health”, maternity health is to become a priority within the poverty reduction strategy, and to be more precise – better care should be taken of health of pregnant and lactating women. The latter group needs urgent support in getting adequate nutrition. This problem is to be settled the way the nutrition of young children is organized. The corresponding decision is to be made urgently.

#### ***8.3.5. Sources to Finance Poverty Reduction Strategy Among Socially Vulnerable Groups***

- Stable economy growth, that allows to increase the amount of social transfers;
- There should be cancelled priority financing of privileged institutions that render free or subsidized social services;
- Budget subsidies to goods and services manufacturers (first of all, subsidies to housing and communal services and public transportation) are to be reduced and gradually replaced by addressed payments to the needy population categories.

#### **8.4. Levels of Decision Making**

With the poverty reduction measures, there should be precisely set levels of administration responsible to settle particular tasks in order to prevent and to reduce poverty.

##### **Federal Authorities:**

- To rise minimal wages of budget-workers to reduce poverty among employed population;
- To create institutional environment that promotes self-employment of population (laws, normative acts, provisions to aid small business);
- To optimize mechanisms of distribution of means through the Fund of Financial Aid to the regions, to execute better control over the expenditures, - in weak, heavily subsidized regions in particular;
- Migration programs from Northern Territories (first of all from industrial settlements around closed town-forming enterprises) as well as programs to support population and to create new working places in depressed towns of traditionally developed territories are to be included in the direct expenditures of Federal Budget. Regional budgets do not have sufficient means for such programs that are aimed to reduce poverty level of pensioners and families of unemployed.
- Effective technologies to adapt population to new market conditions (personnel retraining, starting own business) are to be developed and handed over to the regions;
- Employment policy in the administration field is to be differentiated: in Moscow and in regional capitals reduction of the number of federal state officers accompanied by wage rise for this category is to be done at a faster pace than at a municipal level, for it hard to find alternative employment in small district centers.

##### **Regional Authorities:**

- To promote development of small and mid-size businesses in order to preserve and generate new working places; regional taxes on small business are to be minimized;
- To preserve services and supportive functions to the financed from the budget industries in local (district) centers; thus, a stable and transparent mechanism of redistribution the means of Fund of Financial Support of the Municipal Bodies is needed;
- To make additional payments – from regional budget - to the workers of budget sphere in the most well-to-do subjects of the Russian Federation;
- To assist economy restructuring and inter settlement mobility in depressed towns of traditionally developed territories;
- To change investment policy, to cut down subsidies to the real sector, agriculture in particular, to redistribute means in order to create working places in efficient industries;
- Regional retraining and training centers are to be used to initiate such programs for municipal bodies, taking into account typical for them labour market peculiarities (for depressed mono-towns and territories in particular);
- To introduce methods to estimate living standards, with regional specifics considered.

### **Municipal Authorities:**

- To cut down budget expenditures on the housing and communal services and to redistribute them to education and healthcare, that are financed mainly from municipal budgets as well;
- To encourage development of subsidiary farms, to grant land pieces for subsidiary farms to all comers;
- To invest in the infrastructure for private subsidiary farms produce trade, to render dealer's assistance at the initial stage;
- To attract investors to the agri-business as well to produce processing. It is of particular importance for local centers and rural administration, for the regional authorities are not interested in such.
- To register those in need of social aid, to execute control over incomes, to distribute aid.
- To encourage interfamily and inter neighbourhood support in the areas where it still works (rural areas and towns of less urbanized territories); to establish neighbourhood or rural community patronage over senior incapable residents with services being partially paid for. It is much less expensive and of more effect than nursery homes.

### **8.5. Poverty Reduction Strategy Under the Conditions of Sharp Regional Differences**

As it was mentioned above, in Russia it is obviously insufficient to work out only the general federal strategy on poverty reduction, for there exist huge differences in conditions and factors of social and economic development. The specific components of poverty reduction strategy in various types of regions and settlements were considered above (see Chapter 6). Here we are to dwell only on possible measures within the policy to level out regions in order to promote poverty reduction.

Poor coordination of social policy is the main problem of social expenditures in the regions. Redistribution of incomes between the territories within the federal budget frame and non-budget funds is carried out independently; the same holds true about practically independent from each other expenditures of federal and regional consolidated budgets.

A particular attention is to be paid to the federal expenditures in the regions with the less adequate distribution. While the ratio between maximal and minimal meanings of per capita expenses (subsistence minimum considered) for social non-budget funds is a bit more than 7, it is 14 times for consolidated regional budgets, and it amounts up to 30 times for federal budget social expenditures – Moscow excluded, and to more than 70 times for federal expenditures for social policy. More than half of total expenditures of social policy (allowance payments to children and those with low-income) is done through the federal budget, thus objective and formalized mechanism to distribute social expenditures of federal budget in the regions is to be developed and to become an urgent priority.

Unless the issue of expense authorities inadequate to income base of municipal budgets is settled, poverty reduction programs of wide scale will be impossible to implement, for financial and legal uncertainty of local budgets is to be of destructive influence on any system of addressed social aid.

The most important task for the non-budget funds is to change territorial policy for the Employment Fund. Besides, a more strict redistribution mechanism is to be developed for the existing system of revenue concentration in more well-to-do regions makes problems stagnant for other regions, does not provide opportunities for personnel retraining and creation of new working places.

There may be used – for redistribution of means of the Pension Fund and setting the amount of pensions - a mechanism to consider the regional cost of livings differences. However, any changes are to be cautiously introduced: there is no economic sense to retain the senior pensioners in the northern regions. Thus, it takes a lengthy legal adoption to introduce any changes in the amounts of pensions and is not always sensible due to interregional differences in the cost of consumer basket. Besides there are alternative ways out – in the biggest cities pension allowances can be financed not from the federal budget, but by municipal budgets provided there exists a more tolerant system of revenue extraction.

# Appendices

## Appendix 1.1

**Table 1.1.1. The Number and Gender-Age Composition of the Population With Per Capita Money Incomes Below the Subsistence Minimum (Based on the Complete Income Estimation)**

	Mln people				% of the total number of the population of the poor				% of the total number of corresponding gender and age group			
	1992	1997	1998	1999	1992	1997	1998	1999	1992	1997	1998	1999
All the population with money incomes below the SM	49.7	30.7	34.3	43.8	100	100	100	100	33.5	20.8	23.4	29.9
Including: Children under the age of 6 years old	4.9	2.5	2.6	2.8	9.8	8.2	7.4	6.4	31.6	22.9	25.1	29.2
From 7 to 15 years old	9.2	6.7	7.0	8.1	18.5	21.9	20.4	18.6	45.9	31.3	32.9	39.3
Young people from 16 to 30 years old	8.8	6.0	6.9	9.0	17.7	19.4	20.1	20.5	28.6	19.5	22.3	28.4
Women at the age from 31 to 54 years old	8.6	6.7	7.2	9.5	17.4	21.9	20.9	21.6	34.4	26.6	28.1	36.2
Men at the age from 31 to 59 years old	8.3	5.8	6.3	8.1	16.8	18.7	18.5	18.4	30.6	20.4	22.5	28.9
Women older than 55 years old	7.6	2.4	3.3	4.7	15.2	7.9	9.6	10.8	36.8	10.9	15.1	22.2
Men older than 60 years old	2.3	0.6	1.0	1.6	4.6	2.0	3.1	3.7	29.0	7.1	12.0	18.0

**Source:** Social Situation and Living Standards of the Population of Russia, Statistics Collected/Goskomstat of Russia. M., 2000. – p. 183.

**Table 1.2. Percentage of the Poor Among the Households of Various Social and Demographic Types in 1999, %**

Social and demographic types of households	Poverty	Severe poverty**	Distribution of the total number of low-income households
All the households	42,3	12,7	100,0
Including			
Spouses without children	26,4	4,4	10,4
Spouses with children			
under 18 years old	56,1	19,7	38,5
- with 1-2 children	54,9	18,4	34,7
- with 3 and more children	77,2	41,9	3,8
Single parent families with children under 18 y.o.	62,8	23,6	13,6
- with 1-2 children	62,2	22,9	12,9
- with 3 and more children	85,5	53,2	0,7
The Single			
Of active age	17,5	3,2	4,2
Of non active age	16,7	1,8	7,1
Households with recipients of unemployment benefits	69,2	29,3	3,4
Households of non-working pensioners	26,7	4,5	15,1

\* The percentage of households with the amount of possessed resources below the subsistence minimum. Calculations are based on the data of the budget surveys of the Goskomstat RF prior to complete income estimation (Household Incomes, Expenses and Consumption in 1999. M., Goskomstat, 2000 p.37, 39). The complete income estimation, made by the Goskomstat, results in lower poverty indexes, however it does not change the ratio between the poverty level of the households of various social and demographic types.

\*\* The percentage of the households with possessed resources twice or more times below the subsistence minimum.

**Table 1.1.3. The Deficit of per Capita Possessed Resources in the Households of Various Social and Demographic Types in 1999**

Social and demographic types of households	Deficit of the possessed resources (roubles a month)		Distribution of total volume of deficit, %
	Per a household	Per a household member	
All households	1213,9	361,8	100,0
Including:			
Spouses without children	509,3	244,3	4,9
Spouses with children			
under 18 years old	1561,2	376,1	57,5
- with 1-2 children	1503,3	371,2	49,5
- with 3 and more children	2556,8	459,8	8,0
Single parent families with children under 18 years old	1237,6	394,6	14,3
- with 1-2 children	1202,3	391,8	12,8
- with 3 and more children	2671,2	508,4	1,5
The Single			
Of active age	309,2	309,2	0,8
Of non active age	153,5	153,5	0,7
Households with recipients of unemployment benefits	1595,8	432,8	4,3
Households with non-working pensioners	396,6	224,9	4,4

The Source: Social Situation and the Living Standards of the Population of Russia, 2000. M., Goskomstat of Russia, 2000, p.189.

**Table 1.1.4. The Percentage of the Poor Among the Pensioners As Determined by Demographic Type of a Household and Gender, RMESH (November, 1998)**

	The number of pensioners* (B %)	Among them those with incomes below the subsistence minimum ( %)
The total number of pensioners	<b>100,0</b> (2280)	46,5
Including		
- men	29,2	43,2
- women	70,8	47,8
Separately residing pensioners,	<b>61,8</b> (1409)	49,4
Including		
- men	30,7	46,1
- Women	69,3	50,9
- Among them		
The single – total number, including:	22,8 (519)	47,4
- men	14,1	37,0
- women	85,9	49,1
the single pensioners at the age of 70 y.o. and older including:	11,1 (254)	50,8
- Men	11,4	27,6
- Women	88,6	53,8
Pensioners living in families together with working relatives, including:	<b>38,2</b> (871)	41,6
- men	26,9	37,6
- women	73,1	43,0

\* The data includes those of already retirement age.

**Table 1.1.5. The Percentage of the Poor Among Households of Various Demographic Types, as Calculated with Three Methods of Poverty Estimation Applied**

	Poverty as revealed by at least one parameter			Poverty as revealed by two parameters			Poverty as revealed by all three parameters
	1-by income	2- by subjective estimation	3- by deprivation	1+2	1+3	2+3	
The single people of active age	12,7	37,2	29,1	9,1	9,1	18,2	5,5
The single people of the retirement age	60,6	62,0	53,5	46,5	38,0	46,5	35,2
Spouses without children	24,5	29,9	23,8	12,9	10,9	17,7	9,5
Families with children at the age under 18 y.o., including:							
:							
Two-parent	32,7	22,8	21,1	14,8	11,5	12,5	7,6
Single-parent	50,9	38,6	47,4	29,8	30,7	30,7	23,7
All the households	33,2	30,0	28,8	18,4	16,3	18,9	12,7

\* The survey of 900 households in Saint-Petersburg within the program "Poverty in Russia: Deprivation and Social Exclusion" (1997)

**Table 1.1.6. Poverty in the Families as Determined by Age\*, %**

Family age, years	1989**	1997**			
	Poverty by income	Poverty by income	Poverty by subjective estimation	Poverty by deprivation	Poverty by the three parameters
Under 5	20,2	34,9	22,3	20,2	2,4
<i>Including</i>					
<i>Without children</i>	10,7	26,1	17,4	18,4	-
<i>With children</i>	27,9	42,1	26,3	21,7	5,3
5-9	16,3	32,4	25,4	21,1	11,3
10-14	21,3	30,6	21,2	23,5	8,2
15-19	19,6	32,3	23,7	17,2	8,6
20 and more	8,0	21,8	21,8	21,0	5,7

\* Duration of two-parent marriages

\*\* The data of the survey of 1100 households in the city of Taganrog in 1989 (within the project "Taganrog-3) and of 900 households in the city of Saint-Petersburg in 1997 within the pilot project "Poverty in Russia: Deprivation and Social Exclusion".

**Table 1.1.7. Percentage of the Poor\* Among Various Population Groups, %**

Social and demographic population groups	1999		2000 (2nd quarter)	
	Poverty	Severe poverty**	Poverty	Severe poverty**
The total population surveyed	50,2	16,8	42,6	11,7
Including:				
Hired workers	46,3	14,2	38,3	9,5
Engaged in entrepreneurial business	41,8	15,6	20,0	5,2
Temporarily non-working	64,5	29,1	60,8	22,4
Non-working pensioners	39,5	10,1	32,8	6,5
Working pensioners	25,0	5,2	19,5	3,2
Old-age pensioners	35,1	8,2	28,2	5,1
<i>Disability pensioners</i>	53,7	18,1	46,7	12,3
<i>Pensioners due to the loss of the provider</i>	62,2	22,7	56,4	14,8
<i>Recipients of the social pensions</i>	45,4	14,5	49,5	17,3
Stipend recipients	51,0	13,5	44,9	9,2
Children under 16 y.o.	60,9	23,6	54,3	17,7

\* The percentage of population with the amount of possessed resources below the subsistence minimum. The data of the budget surveys of the Goskomstat of the RF without complete income estimation. (Household Incomes, Expenses and Consumption in 1999. M., Goskomstat, 2000, p.37).

\*\* The percentage of the population with possessed resources twice or more times below the subsistence minimum.

**Table 1.1.8. Percentage of the Poor Among the Disability Pensioners as Determined by Household Demographic Type, RMESH (November 1998), %**

	The number of disability pensioners (B %)	Among them those with incomes below the subsistence minimum (%)
All the disability pensioners	100,0 (327)	56,6
Separately residing disability pensioners	47,4 (155)	61,3
Disability pensioners, living in the family, together with working relatives	52,6 (172)	52,3

**Table 1.1.9. The Percentage of the Poor\* Among the Unemployed as Determined by Gender and Household Type of Residence, RMESH (November, 1998), %**

Household demographic types	Total	Men	Women
All the unemployed	62,3 (872)	56,9 (485)	43,1 (387)
Those living			
In two-parent families	61,2	62,9	58,8
Including those with children under 18 y.o.	63,7	65,3	61,3
In single-parent families	68,0	70,8	66,0
Including those with children under 18 y.o.	68,4	69,2	67,7

\* Income level below the subsistence minimum

**Table 1.1.10. The Percentage of the Poor Among Households of Various Demographic Types, as Calculated with Three Methods of Poverty Estimation Applied\*, %.**

	Poverty as revealed by at least one parameter			Poverty as revealed by all the three parameters
	By income	By subjective estimation	By deprivation	
Big megalopolis				
Households with unemployed members	57,4	47,1	42,7	26,5
Households without unemployed members	31,3	28,6	27,6	11,5
All the households	33,2	30,0	28,8	12,7
A Town				
Households with unemployed members	72,3	63,8	46,8	40,4
Households without unemployed members	32,9	49,8	37,7	15,9
All the households	40,2	52,4	40,6	20,5

\* The survey of 900 households in the city of Saint-Petersburg and in the town of Viazniki within the pilot project "Poverty in Russia: Deprivation and Social Exclusion" (1997).

**Table 1.1.11. The Percentage of the Poor Among Households of Various Dependant Strain, as Calculated with Three Methods of Poverty Estimation Applied\*, %.**

	Poverty as revealed by at least one parameter			Poverty as revealed by all the tree parameters
	By income	By subjective estimation	By deprivation	
Households with a working member	26,2	24,5	24,5	7,4
Among them:				
With family dependants (children, non-working adults)	32,2	24,3	24,9	9,0
Including with a number of dependants per 1 working family member:				
- less than 1	16,8	18,9	18,9	4,9
- 1-2	35,8	27,1	27,1	9,6
- more than 2	50,9	27,4	30,2	15,1
With only state dependants (pensioners)	15,1	23,3	27,9	4,7
Without dependants	9,2	26,2	20,8	2,3
Households without working-members	67,3	56,9	49,7	38,6

\* The survey of 900 households in the city of Saint-Petersburg and in the town of Viazniki within the pilot project "Poverty in Russia: Deprivation and Social Exclusion" (1997).

**Table 1.1.12. Career type of mothers as determined by the number of children in the family, %**

Family type	Mother's career type				Mobility index (3+4)-1	<i>(Number observed)</i>
	Descending (1)	Flat (2)	Low ascending (3)	Ascending (4)		
With small number of children (1-2)	18,8	45,5	25,6	10,1	+16,9	<i>(590)</i>
With many children (4 and more)	48,9	36,7	10,0	4,4	-34,5	<i>(250)</i>

The Source: The Survey of the Living Standards of a City (the project "Taganrog-3, 1989), and a Special Survey of Families with Many Children, carried out in the same city in 1990.

**Table 1.1.13. Career Type of Men and Women of Various Age Groups, %**

Age at the moment of survey (y.o.)	Labour Career Type:				Mobility Index (3+4)-1	<i>(Number observed)</i>
	Descending (1)	Flat (2)	Low Ascending (3)	Ascending (4)		
1989 – WOMEN						
Under 30	18,7	58,2	16,5	6,6	+4,4	<i>(182)</i>
30 – 40	19,3	43,6	29,1	8,0	+17,8	<i>(275)</i>
40 – 50	16,4	36,3	31,8	15,4	+30,8	<i>(201)</i>
All the women	17,7	46,6	26,4	9,3	+18,0	<i>(863)</i>
1989 – MEN						
Under 30	15,6	40,0	34,8	9,6	+28,8	<i>(115)</i>
30 – 40	16,0	19,8	29,6	34,6	+48,2	<i>(237)</i>
40 – 50	6,2	18,6	26,0	49,2	+69,0	<i>(177)</i>
All the men	12,0	22,5	29,3	36,2	+53,5	<i>(724)</i>
1998 – WOMEN						
Under 30	20,6	57,8	17,7	3,9	+1,0	<i>(142)</i>
30 – 40	32,8	47,9	9,7	9,6	-13,5	<i>(207)</i>
40 – 50	32,0	41,5	12,5	14,0	-5,5	<i>(227)</i>
All women	29,4	47,8	11,9	10,9	-6,6	<i>(766)</i>
1998 – MEN						
Under 30	32,4	40,0	15,2	12,4	-4,8	<i>(171)</i>
30 – 40	30,2	34,2	16,0	19,6	+5,4	<i>(358)</i>
40 – 50	34,9	31,1	18,2	15,8	-0,9	<i>(309)</i>
All the men	31,3	34,1	17,4	17,2	+3,3	<i>(1097)</i>

The Source: The data of the survey of city families within the project "Taganrog".  
*(Economy Issues, 2000 № 3 p.76-77)*

**Table 1.1.14. Employment Structure of the Active Population of Russia in 1993 and in 2000\*, %**

	All the population	Men	Women
1993			
The employed	76,6	78,2	74,8
The Unemployed**	4,2	4,3	4,2
The rest of the unemployed (students, pensioners, housewives, etc.)	19,2	17,5	21,0
Total	100,0	100,0	100,0
<i>(The number observed – hundreds)</i>	<i>(83,7)</i>	<i>(43,5)</i>	<i>(40,2)</i>
2000			
The employed	69,5	70,9	67,9
The unemployed**	7,6	7,9	7,3
The rest of the unemployed (students pensioners, housewives, etc.),	22,9	21,2	24,8
Total	100,0	100,0	100,0
<i>(The number observed – hundreds)</i>	<i>(84,7)</i>	<i>(44,2)</i>	<i>(40,5)</i>

\*) The data of the population survey on employment issues, carried out by the Goskomstat of Russia in October, 1993 and May, 2000.

\*\*\*) Students, as well as pensioners, looking for a job, were not included in the present calculations. These population categories were considered within the corresponding social groups.

**Table 1.1.15. Unemployed Men and Women Classified by the Duration of Job-Search in 1997-2000**

Indicator	1997 X	1998 X	1999 V	1999 VIII	1999 XI	2000 II	2000 V
Average duration of job-search, months							
Men	8,5	8,9	9,7	9,2	9,2	9,6	9,5
Women	9,1	9,3	10,4	9,5	10,2	10,5	10,7
Those looking for a job for longer than 12 months, %%							
Men	35,9	39,4	46,2	43,0	43,5	46,0	46,1
Women	40,8	42,7	53,0	46,3	51,5	53,2	55,3

*The Source: Population Survey on Employment Issues, May, 2000, p.207.*

**Table 1.1.16. Unemployed Men and Women Classified by Job-Search Ways in 1997-2000, %**

Ways of Job-Search	1997 X	1998 X	1999 V	1999 VIII	1999 XI	2000 II	2000 V
To apply to the State Employment Service							
Men	34,9	32,8	30,4	27,8	25,2	26,6	21,3
Women	45,7	42,3	38,1	37,8	34,2	35,7	31,3
To apply to a commercial employment service:							
Men	2,5	2,2	2,8	2,3	1,2	2,6	1,4
Women	2,3	2,7	2,9	2,5	1,8	2,6	2,0
To submit newspaper ads, to respond at employment ads:							
Men	15,8	17,9	19,7	18,3	17,6	20,2	19,3
Women	16,8	19,4	21,3	19,0	18,5	20,7	20,5
To turn to friends, relatives and acquaintances:							
Men	56,9	59,4	56,6	61,4	55,6	58,6	60,5
Women	52,8	55,9	54,3	58,9	53,4	56,3	57,2
To directly apply to the administration, employer:							
Men	31,1	31,7	33,9	32,2	33,3	37,0	32,6
Women	26,0	26,9	29,1	29,0	30,2	30,5	28,3

*The Source: Population Survey on Employment Issues, May, 2000, p.220.*

**Table 1.1.17. Monthly Average Nominal and Accrued Wages of Women and Men Through Industries of the Economy in 1998**

Industries	Average Monthly Wages, roubles		The ratio (%) between the feminine wages and:	
	Of women	Of men	Masculine wages	Averages wages across the country
Total within the economy	885	1258	70	82
Including Industry	1003	1456	69	93
Agriculture	429	474	91	40
Construction	1257	1583	79	116
Transportation	1286	1664	77	119
Communications	1269	1804	70	117
Wholesale and Retail Trade	941	1284	73	87
IT Services	1428	2033	70	132
Housing and Communal Services	1009	1297	78	93
Healthcare, Physical Culture and Social Provision	684	871	79	63
Education	624	752	83	58
Culture and Arts	613	757	81	57
Science and Scientific Services	882	1192	74	82
Finance, Credit, Insurance	1986	2565	77	184
Management	1590	1901	84	147

*The Source: Men and Women of Russia. Goskomstat of the RF. 1999, p.71-73.*

### Alternative Approaches to Measure Poverty

As estimated by the data of the Goskomstat of Russia, poverty expansion scale indicates that the officially employed set of tools to measure poverty (that is incomes below the subsistence minimum) can not be accepted to render addressed social aid. For then there are no capacities to aid more than 30% of population and secondly, it is hard to reveal - by easily registered criteria - groups of elevated poverty risk. In other words, it is hard to single out the poorest among the poor, those to become a priority groups of addressed aid.

A pilot project to test the poverty estimation method through relative deprivation was implemented in 1997 in two cities of European Russia.<sup>157</sup> The method of relative deprivation classifies as poor all those with substantial deviations (relative deprivation) - due to the lack of material resources - from socially prevailing consumption standards. The strong point of this method is that it measures consumption, but not incomes. It is worth noting, that the surveyed rated the medical services deprivation (for they are inaccessible) as a significant one. However, when poverty is measured through comparison of incomes with the subsistence minimum, such consumption limitations are not considered. Besides, applied in the survey a subjective method of poverty estimation is based on the answers to the question about what is covered by the current family income.<sup>158</sup>

The results of this project allow to estimate how accurate are all the three methodics to measure poverty. The main conclusions of the above-mentioned project are as follows: first of all, in the transitory period all the three approaches to measure poverty (an absolute, a relative and a subjective one) are not free from serious mistakes on inclusion and exclusion from the category of the poor; secondly, the families, persistent in a high poverty risk as indicated by all three methodics to measure poverty are to become a priority group within the system of addressed social support. A number of tables (1.1.5; 1.1.6; 1.1.10; 1.1.11) of Appendix 1.1. are calculated according to alternative approaches to measure poverty. From the point of view of poverty risk for various types of households, all the three methods indicate the same: single mother's families, along with separately residing pensioners, constitute the less protected population group – more than 1/3 of the single pensioners and ¼ of the one-parent families are classified as poor by all three parameters<sup>159</sup> (Appendix 1.1, Table 1.1.5). The families with unemployed members stand close the above-described group. Poverty level, as simultaneously revealed by all the three methodics, is twice higher as compared with the average across the total number of surveyed. (Appendix 1.1., Table 1.1.10)

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<sup>157</sup> The survey was carried out in a capital-like city (megapolis) – S.-Petersburg (900 households) and in a mono-industrial town of the Vladimir region (250 households)

<sup>158</sup> Poverty: Alternative Approaches to Definition and Measurement. M., Moscow Carnegie Center, 1998.

<sup>159</sup> The analysis of the families with many children is difficult to draw for there are not many of them among the urban population, especially in big cities.

### Elevated Poverty Risk Factors As Estimated by Logistic Regression Models

The main factors of elevated poverty risk are confirmed by econometric tests<sup>160</sup>. The analysis was to reveal the dependence of the respondent's chances to be "poor" from various independent variables. Thus, the logistic regression model was devised. The choice of the particular regression model is determined by the nature of a binary variable, that is it can acquire two meanings ("1" stands for poor<sup>161</sup> respondent, "0" stands for not poor). Being applied Logistic Regression Model, allows to reveal factors, both those enhancing and those reducing the respondent's chances to become poor. It also allows to estimate the probability of the event to take place due to chance calculation: relation between the probability of the event to take place to the probability of the event not to take place, drawn by the following formula:

$$\frac{\text{Prob}( \text{event} )}{\text{Prob}( \text{no\_event} )} = e^{b_0 + b_1 * x_1 + \dots + b_k * x_k}$$

When composing the list of independent variables, we analyzed both general family characteristics to differentiate the households according to living standards of the population (social and demographic characteristics, property in possession, the level of the possessions, interfamily ties) and the individual ones (professional and qualification status, the level of education of the respondents or the health of a family member).

The majority of the independent variables considered turned to be significant and work as factors to influence a respondent's wealth. The parameters of the regression equation are drawn in Table 1.3.1. of the present Appendix. The meaning of the exp (B) parameter appears as the degree of influence on the dependent variable. What are the factors to have turned significant and who turned to be poor due to the methodic chosen?

Here, first of all we meet the families of non-working pensioners, single parent families and families with many children, as well as the households with unemployed members. They are the very groups to inhabit a low-income category. Poverty is of high risk for the families with working members of low qualifications.<sup>162</sup>

From the other hand, the households, members of which are executives or professionals with higher education, are unlikely to be poor. Besides, poverty is not probable in the families, at least one member of which is employed in the private sector, is an entrepreneur or has additional earnings.

Probability of a family to be poor is also smaller in case two members of the family are working. This fact explains why the low poverty probability is typical for the two-parent families with 20-30 years of duration. This is the period within the family cycle when the parents are still of active age and, as a rule, on the top of their careers, while the children have

<sup>160</sup> The Calculations are based on the data on households in S.-Petersburg, obtained within the program "Poverty in Russia: Deprivation and Social Exclusion" (900 households surveyed, 2616 respondents)

<sup>161</sup> The respondent was considered poor, being classified as such simultaneously by the three parameters (income, subjective and deprivation), and it can be defined as severe poverty.

<sup>162</sup> The number of households with disabled members turned out to be insufficient in order to include this parameter in the model.

already grown up and are separated, or, if still living in a family, start working and contribute additional income to the family budget.

The analysis of the model indicates that household poverty risk is lower in case the family possesses a private subsidiary farm. This holds true even for such a megalopolis as S.-Petersburg, for the town and especially rural residents it emerges as a major factor of survival.

The results of the obtained model calculations indicate that the connection between the population income differentiation and housing provision is getting stronger. The size of a family residence, the second residence in possession indeed reflect the level of material wealth and lower the poverty risk. The connection between the household material provision and the variable “the number of prestige long-life appliances” also turned out to be significant for the model devised. The level of the accumulated wealth, not associated with poverty (a computer, a car, a motorcycle, a stationary garage) indicates that the accumulated wealth potential is typical for high living standards of a family in modern life. The results obtained confirm that it is promising to apply housing and property provision indexes in order to prevent incorrect inclusions in the category of the poor.

**Table 1.3.1. Parameters of logistic regression models to estimate factors and elevated poverty risk groups (1997, S.-Petersburg)**

Variables	B	Wald	Sig	Exp (B)
<i><u>Social and Demographic parameters:</u></i>				
Families with many children	1.05***	11.08	.0009	2.86
Single parent families with children under 18 y.o.	1.14***	19.32	.0000	3.14
Families of non-working pensioners	1.75***	45.10	.0000	5.78
Family Age:				
Respondents without families	ref			
From 1 to 9 y.o.	.178	0.44	.5050	1.19
From 10 to 19 y.o.	-.024	.007	.9329	.976
From 20 to 29 y.o.	-.755**	5.74	.0166	.470
Older than 30 y.o.	-.383	2.46	.1167	.681
<i><u>Education level:</u></i>				
High level of education (higher education)	-.57**	8.35	.0038	.563
Low level of education (primary)	.392	2.36	.1241	.6753
<i><u>Social and Professional Status</u></i>				
Executives	-2.55***	11.75	.0006	.078
Entrepreneurs	-1.38*	3.49	.0618	.250
Employed in the private sector	-.59**	3.99	.0457	.550
With additional earnings	-.39**	4.86	.0275	.673
The unemployed	1.04***	19.78	.0000	2.851
The number of working family members:				
- One worker or none	Ref			
- Two workers	-.03	.01	.9104	.966
- More than two	-.42*	.01	.0546	.653
Professionals of high qualifications	.104	.294	.5873	1.109
Those of low qualifications	.80**	6.22	.0126	2.245
<i><u>Provision with housing and property</u></i>				
The size of housing				
- Less than 5 meters per a person	Ref			
- From 5 to 9	-.30	1.66	.1965	.740
- From 10 to 15	-.66**	6.47	.0110	.514
- more than 15	-1.01**	9.74	.0018	.365
Additional housing in disposal	-.55**	4.27	.0386	.571
The level of property in possession (the concentration within the family of prestige long-life appliances)	-1.18***	24.73	.0000	.304
Private subsidiary farm	-.59**	10.04	.0015	.55
Material support provided by relatives	-.059	.12	.7255	.94
-2 Log Likelihood = 1095.43, Ci-Square = 407,45, Significance = .0000				

\*\*\* - significance level - 0.01; \*\* - 0.05; \* - 0.1

Within the table the poverty aggravating factors are of positive meanings, while poverty counteracting factors are of negative meaning with various level of significance.

## Appendix 2

**Table 2.1. Material Provision and Health. St.-Petersburg, 1997, the City of Taganrog – 1998.**

Material provision	% of those with poor health (1 and 2 points)		Weighted Average Estimation of Health	
	St.- Petersburg	Taganrog	St.- Petersburg	Taganrog
Very poor	45	28	2,45	2,97
Poor	33	22	2,81	3,08
Middle class	25	15	3,25	3,31
Upper middle class	10	5	3,94	3,68
The Rich (Elite)	-	-	5,0	4,13

**Table 2.2. Material Provision and Chronic Ailments. Taganrog, 1998**

Estimations of Material Provision	With Chronic Ailments		Do not know	No Ailments
	Several	1-2		
Very poor	21,9	47,4	3,3	25,3
Poor	20,4	43,5	3,8	34,7
Satisfactory	16,7	40,3	5,3	3,77
Good	7,1	28,3	8,7	55,9
Excellent	4,0	20,3	6,4	79,0

**Table 2. 3. Influence of Consumer Capacity of a Family on the Average Health Estimation. Taganrog, 1994**

Capacities of a family	%% of the responses	Average Estimation of Health
Even the food products have to be limited	21,0	3,07
Money sufficient to cover everyday expenses only, it is hard to buy clothes and other goods	46,9	3,25
Money sufficient to cover all the current expenses, but without luxuries	27,5	3,43
Money sufficient not to save on what I like	4,6	3,80

**Table 2.4. Household Food Consumption as Determined by the Level of Well-Being, in 1998**  
(average per a household member, kg a year)

	Bread and Cereals	Potatoes	Vegetables and Melons	Fruits and Berries	Meat and Meat Products	Dairy Products	Eggs, number	Fish and Fish Products	Sugar and Confectionaries	Plant oils and other fats
Consumption norms	131	124	94	19	27	212	151	12	21	10
Actual household consumption, across the 10-% groups of population surveyed										
The first group (with the least possessed resources)	71	68	35	8	20	109	96	6	14	5
The second	87	79	47	12	30	152	132	8	21	7
The third	96	88	55	16	38	180	155	10	26	8
The fourth	105	95	65	19	44	205	175	12	31	9
The fifth	115	105	75	23	51	233	196	14	38	10
The sixth	124	114	85	27	58	252	214	15	45	11
The seventh	132	132	92	31	71	274	227	17	53	11
The eighth	134	114	93	36	73	286	237	18	57	12
The ninth	160	152	117	43	89	327	263	22	76	14
The tenth (with the biggest possessed resources)	190	184	191	60	123	484	322	28	95	18

**Table 2.5. Share of the Expenses on Medical Goods and Services within the Possessed Resources of Households**

	Share of expenses on medical goods and services across the decile groups									
	1	2	3	4	5	6	7	8	9	10
Medical goods	4,2	3,9	3,8	3,7	3,5	3,4	3,5	3,3	3,3	2,9
Services	0,2	0,2	0,2	0,3	0,3	0,5	0,5	0,5	0,6	0,8
Total	4,4	4,1	4,0	4,0	3,8	3,9	4,0	3,8	3,9	3,7

*The Source: Random Household Survey, M. Goskomstat, September, 2000.*

**Table 2.6. Medicines and Medical Services Cancelled due to the Lack of Money Across Household Groups with Various Per Capita Monthly Money Incomes. %% of the Number of Households in Each Group**

Cancellations	Incomes (thousands of roubles)			
	Below 400	401-800	801-2000	More than 2000
Medicines, recommended by doctor	50,2	35,8	21,3	20,0
Medical Check Testing	36,2	25,6	17,5	18,2
Stomatological Assistance	42,8	32,1	19,4	12,7
In-hospital stay for medical treatment	17,8	9,3	3,6	3,6

**Table 3.1. The Ratio Between the Minimal Unemployment Benefit and Some of the Indexes of Living Standards of Population**<sup>163</sup>

Year	Percentage of the unemployed, receiving the minimal benefit out of the total number of registered unemployed*)	Ratio (%%) between the minimal unemployment benefit to:		
		Subsistence minimum, calculated for a active age person	Average wages	Average per capita incomes
1993	-	26,9	10,4	13,5
1994	-	20,3	8,0	8,5
1995	49,2	16,1	9,0	8,2
1996	47,3	19,7	9,2	9,6
1997	47,0	20,3	8,8	9,0
1998	47,6	16,9	7,9	8,6
1999	48,1	8,3	5,3	3,5

\*)Up to 1995such an index was not calculated

**Table 3. 2. Ratio Between the Average Payments per an Unemployed And the Main Social and Economic Indicators of Living Standards of the Population, in 1993-1999**<sup>164</sup>

Year	Ratio between the average payments per an unemployed and:		
	Subsistence minimum, calculated per a active person	Average wages	Average per capita incomes
1993	27,7	9,7	12,6
1994	47,0	18,5	19,7
1995	36,3	20,3	18,6
1996	42,4	19,8	20,6
1997	61,8	26,7	27,3
1998	68,3	32,1	34,7
1999	40,2	25,5	16,7

<sup>163</sup> Calculations are based on the 1999 data obtained in Goskomstat and the Ministry of Labour and Social Development of RF; Social Situation and Living Standards of the Population of Russia. Official edition. – M.,: Goskomstat of Russia, 1999, pp.20-21.

<sup>164</sup> Ibid calculations

Table 3.2.2. Wages as Distributed Through the Industries

	% out of average wage in the economy, 1999 <sup>165</sup>	% out of average wages in the economy, March, 2001 <sup>166</sup>	Ratio between minimal wages to the average wages in the industry, March, 2001 <sup>8</sup>
Total in the economy	100	100	6.7
Industry <sup>ь</sup>	121	130	5.2
Power energy	195	181	3.7
Fuel energy in general	271	376	1.8
Oil-extracting industry	339	482	1.4
Oil-refining industry	233	242	2.8
Natural gas extracting and processing industry	463	799	0.8
Coal Industry	195	171	3.9
Ferrous metallurgy	147	145	4.7
Non-ferrous metallurgy	259	243	2.8
Chemical and oil-chemical industry	122	113	6.0
Machinery building and metal processing industry	92	96	7.0
Wood, timber-processing, pulp and paper industries	92	95	7.1
Construction material manufacture	95	86	7.8
Light industry	54	55	12.2
Food industry	119	101	6.7
Agriculture	41	32	20.8
Forestry	62	58	11.6
Construction	118	120	5.6
Transport	151	141	4.8
Communications	138	125	5.4
Wholesale and retail trade, food catering	80	67	10.1
Housing and communal services, non-manufacture social services	91	90	7.5
Healthcare, physical culture and social protection	64	58	11.6
Education	58	55	12.3
Culture and arts	56	58	11.7
Science and scientific services	110	118	5.7
Credits, finance and insurance	231	284	2.4
Administration of executive institutions	123	119	5.7

<sup>165</sup> Social Situation and Living Standards of the Population of Russia. Collected Statistics./Goskomstat of Russia. – M., 2000. – p.160.

<sup>166</sup> Social and Economic Situation of Russia, January-April 2001, Collected Statistics/Goskomstat of Russia, - M., 2000. – p.211

**Table 3.2.3. Differentiation of the Accrued Wages<sup>167</sup>**

Industries	Coefficient of Fund Differentiation, times	
	October, 1997	October, 1998
Industry <sup>ь</sup>	17.9	21.5
Power energy	7.9	8.7
Fuel energy in general	14.3	13.9
Metallurgy	11.2	14.4
Chemical and Oil-Chemical industry	10.0	12.1
Machinery building and metal processing industry	14.0	16.9
Wood, timber-processing, pulp and paper industries	14.2	24.0
Construction material manufacture	11.1	13.8
Light industry	15.5	16.9
Food industry	15.0	20.4
Agriculture	24.4	31.6
Construction	22.2	25.5
Transport	13.1	16.4
Communications	16.9	18.7
Housing and communal services; non-manufacture social services	13.4	12.8
Healthcare, physical culture and social provision	13.3	15.1
Education	14.2	16.1
Culture and arts	19.4	28.8
Science and scientific services	19.5	23.0
Banking	29.5	40.1

<sup>167</sup> Social and Economic Situation of Russia, January-April 2001, Collected Statistics/Goskomstat of Russia, - M., 2000. – p.169.

**Table 3.2.4. Dynamics of the minimal wages, subsistence minimum and average wages**

Years	Subsistence minimum (average per capita), roubles monthly	Monthly average wages, roubles	The number of subsistence minimum sets to be bought with average wages	Minimal wages, roubles	Ratio between minimal wages and the amount of the subsistence minimum, %	Ratio between the minimal and average wages, %
1990	0,61	0,303	5,0	0,80	130	26,4
1991	0,154	0,548	3,6	0,093	60	16,9
1992	1,9	6,00	3,2	0,667	31 <sup>168</sup>	11,1
1993	20,6	58,7	2,8	6,07	26	10,3
1994	86,6	220,0	2,5	17,6	18	8,0
1995	264,1	472,4	1,8	42,5	15	9,0
1996	369,4	790,2	2,1	72,7	18	9,2
1997	411,2	950,0	2,3	80,8	18	8,5
1998	493,3	1051,0	2,1	83,5	15	7,9
1999	908,3	1582,0	1,74	83,5	8	5,2
2000	1180,4	2025,0	1,72	100,0	8	4,9

**Table 3.2 5 Dynamics of the Nominal and Real Wages**

Year	Monthly average wages, roubles	% to the previous year		
		Nominal wages	Consumer prices index	Real wages-
1990	0,303	-	-	-
1991	0,548	181,0	187,0	97,0
1992	6,00	1095,0	1627,0	67,0
1993	58,7	979,0	974,0	100,4
1994	220,0	376,0	408,0	92,0
1995	472,4	214,0	298,0	72,0
1996	790,2	157,0	148,0	106,0
1997	950,0	120,2	115,0	104,5
1998	1051,0	110,6	127,7	86,6
1999	1582,0	150,5	185,7	81,1
2000 <sup>1</sup>	2025,0	128,0	137,0	93,0
TOTAL FOR 1990-2000		6683	19923	0,34

<sup>168</sup>Since 1992 – to the subsistence minimum of the active population Collected Statistics.<sup>1</sup> Author's estimation

**Table 3.2.6. Dynamics of Wages and Money Incomes of the Population**

Years	Money incomes of the population, mln roubles	Wages and Salaries, bln roubles	Share of wages within the money incomes, % %	Percentage of shadow wage payments within money incomes, % %
1990	0,38	0,28	74,1	N/a
1991	0,83	0,50	59,7	N/a
1992	7,1	5,0	69,9	N/a
1993	79,9	46,4	58,0	N/a
1994	364,8	169,1	46,4	N/a
1995	910,7	341,2	37,8	22,6
1996	1346,8	545,5	40,5	24,3
1997	1629,3	655,0	40,2	24,9
1998	1705,3	685,5	41,5	23,4
1999	2737,0	1035,5	37,8	27,7
2000	3356,4	1312,3	39,1	24,8

**Table 3. 3. Dynamics of Excessive Employment Growth (panel, N=85)**

	1994	1995	1996	1997	2000
The growing number of labour-excessive enterprises (subjective estimation*)	45,2	36,9	44,0	36,5	29,4
Percentage of excessive workers (subjective estimation)**)	24,5	23,5	41,2	24,5	25,0
The growing number of labour-excessive (objective estimation – administrative leaves)*)	27,1	21,1	80,9	22,4	11,8
Percentage of excessive workers (objective estimation – workers in administrative leaves)***)	37,1	36,8	46,4	39,3	21,4
Accumulated share of labour-excessive enterprises *****)	56,4	47,1	89,3	51,8	36,5
Accumulated share of labour-excessive workers	27,1	28,4	43,8	28,9	24,3

\*) Percentage out of the 85 surveyed enterprises

\*\*) Percentage out of the employed at the enterprises the administration of which noted the excessive labour, %.

\*\*\*) Percentage out of the total number of the employed at the enterprise that practices administrative leaves, %.

\*\*\*\*\*) Obtained as a sum of the enterprises, administration of which noted the excessive labour, but practiced administrative leaves for the workers.

\*\*\*\*\*) Obtained as the average across the enterprises, mentioned in the previous point.

## Appendix 4

**Table 4.1. Expenditures of the Consolidated Budget of the Russian Federation on the Social and Cultural Activities, %% of the GDP<sup>169</sup>**

Expenditures	1997	1998	1999
Total	10,9	9,1	8,1
Including for the following:			
Education	4,6	3,7	3,3
Culture, Arts and Cinematography	0,5	0,4	0,4
Mass Media	0,1	0,1	0,1
Healthcare and Physical Culture	3,1	2,5	2,3
Social Policy	2,6	2,4	2,0

**Table 4.2 Expenditures of the Means of the State Non-Budget Social Funds, %% of the GDP**

	1995	1996	1997	1998	1999
Expenditures - Total	8,3	8,7	9,9	8,8	8,3

**Table 4.3. Social Transfers, %% of the GNP and of Money Incomes of the Population**

Social Transfers	1992	1995	1996	1997	1998	1999
%% of the GDP	5,3	7,5	8,6	9,9	8,8	8,4
%% of the money incomes of the population	14,3	13,1	14,0	15,0	13,6	13,7

**Table 4.4. Allowances, %% of the GDP and of the Money Incomes of the Population**

Allowances	1995	1996	1997	1998	1999
%% of the GDP	1,4	1,9	2,0	1,5	1,2
%% of the money incomes of the population	2,4	3,1	3,1	2,3	2,0

<sup>169</sup> Source for the tables 1 - 3: Social Situation and Living Standards of the Population of Russia. Collected Articles, the Goskomstat of Russia, M. 2000.

**Table 4.5. The Number of the Recipients of the Certain Types of Social Allowances and Compensation Payments for January 1<sup>st</sup>, 1999, thousands of people<sup>170</sup>**

Allowances, Compensation	Number of the recipients
Unemployment Benefit	2258
Burial Benefit	324,7
Lumpsum birth grant	1200
Monthly childcare allowance, paid up to the child is 18 months	2100
Monthly allowance for the child under 16 years old	31800
Monthly allowance for the single's mother children under 16, for children whose parents evade alimony payments, for children of the military men	2340
Monthly compensation childcare payments to mothers employed at enterprises and companies	4600
Monthly compensation payments to mothers with children under 3 y.o. and who have been fired due to the liquidation of an enterprise and and who have been in childcare leave at the moment of firing	300
Allowance paid to pregnant women provided the registration of pregnancy is done early	600
Total for 9 types of allowances and compensations	45522,7

**Table 4.6. Estimated Number of Paid Days for Certain Types of Social Allowances in 2001, mln days<sup>171</sup>**

Allowance	Number of Paid Days, mln.
Temporary Disability Allowance	381,19
Maternity and Birth Grant	59,57
Total:	440,76

**Table 4.7. Percentage of Households with Recipients of Subsidies and Benefits, in 1999<sup>172</sup>**

Households with recipients of subsidies and benefits, %% of the total number of households	33,8 <sup>173</sup>
Including:	
For nutrition	4,4

<sup>170</sup> Source: The data provided by the Income, Wages and Social Insurance Department of the Ministry of Labour of the Russian Federation.

<sup>171</sup> Source: Budget Calculations of the RF Fund of the Social Insurance for 2001.

<sup>172</sup> The RF Goskomstat.

<sup>173</sup> This figure is smaller than the sum of the shares of households as classified by the certain types of benefits, for there are recipients of various types of benefits within one household.

For transportation expenses	18,4
For housing payments	17,8
For vacations	0,7
For medical treatment	0,9
For preschool	2,9
Goods sold at discounted prices	0,1
Presents from enterprises, funds	2,3
Other	4,0

**Table 4.8. Level of Social Benefits, thousands of roubles. (1998 -1999гг. – roubles).<sup>174</sup>**

	1993 <sup>175</sup>	1994 <sup>176</sup>	1995	1996	1997 <sup>177</sup>	1998	1999
Lumpsum birth grant	21,4	102,5	550,0	1138,5	1252,4	1252,4	1252,4
Monthly childcare allowance, paid up to the child is 18 months <sup>178</sup>	2,4 <sup>179</sup>	20,5	55,0	151,8	167,0	167,0	167,0
Monthly allowance for the child under 16 years old <sup>180</sup>	1,9 <sup>181</sup>	14,4 <sup>182</sup> 12,3 <sup>183</sup>	38,5	53,1	58,4	58,4	58,4
Burial Benefit	21,4	102,5	275,0	759,0	834,9	834,9	834,9
Minimal amount of the unemployment benefit	4,3	20,5	55,0	75,9	83,5	83,5	83,5

<sup>174</sup> Source: Russian Annual Statistics. Collected Articles, the Goskomstat of Russia. M. 1996; Social Situation and Living Standards of the Population of Russia. Collected Articles, the Goskomstat of Russia. M. 1998 – 2000.

<sup>175</sup> 1993 and 1996, for the April 1.

<sup>176</sup> 1994 and 1995 гг. – for the October 1.

<sup>177</sup> The allowances remained the same at the period of 1997-1999 гг.

<sup>178</sup> Paid to the working women, who were full-time students, to those in contracted military services or to those replacing them.

<sup>179</sup> Paid to women, working for the period less than a year, the amount for the non-working women – 1900.

<sup>180</sup> For students – paid up to the graduation. The allowance amount was increased for the children of single mothers, for children whose parents evade alimony payments, for children whose parents evade alimony payments, for children of the conscripts.

<sup>181</sup> From 1,5 up to 6 y.o.

<sup>182</sup> Under 6 y.o.

<sup>183</sup> From 6 up to 16 y.o.

**Table 4.9. The Amount of Monthly Allowances for the Child under 16 y.o.,  
% of the subsistence minimum<sup>184</sup>**

	1993 <sup>185</sup>	1994 <sup>186</sup>	1995	1996 <sup>187</sup>	1997 <sup>188</sup>	1998 <sup>189</sup>	1999 <sup>190</sup>
Monthly allowance for a childr under 16 y.o.(70% of the minimal wages).	19 <sup>191</sup>	13 <sup>192</sup> 12 <sup>193</sup>	13	13	14	13,2	6,1

**Table 4.10. The Monthly Amount of Subsidies and Benefits, Average per a Recipient,  
Roubles, in 1999<sup>194</sup>**

Benefit Amount	All the Households	Households with average per capita possessed resources below the subsistence minimum
For nutrition	95,6	57,9
For transportation expenses	56,0	43,6
For housing rent	44,6	40,5
For vacations	716,6	285,8
For medical treatment	184,9	52,2
For preschool	294,1	167,9
Goods sold at discounted prices	48,2	78,7
Presents from enterprises and funds	57,8	35,7
Other	39,3	28,2

<sup>184</sup> Source: Russian Annual Statistics. Collected Articles, the Goskomstat of Russia. M. 1996; Social Situation and Living Standards of the Population of Russia. Collected Articles, the Goskomstat of Russia. M. 1998 – 2000.

<sup>185</sup> For April 1.

<sup>186</sup> From 1994 up to 1995 – for October, 1.

<sup>187</sup> For January 1.

<sup>188</sup> In 1997 and 1998 – for October,1.

<sup>189</sup> Estimated according to the RF Goskomstat data for July.

<sup>190</sup> Estimated according to the RF Goskomstat data for October.

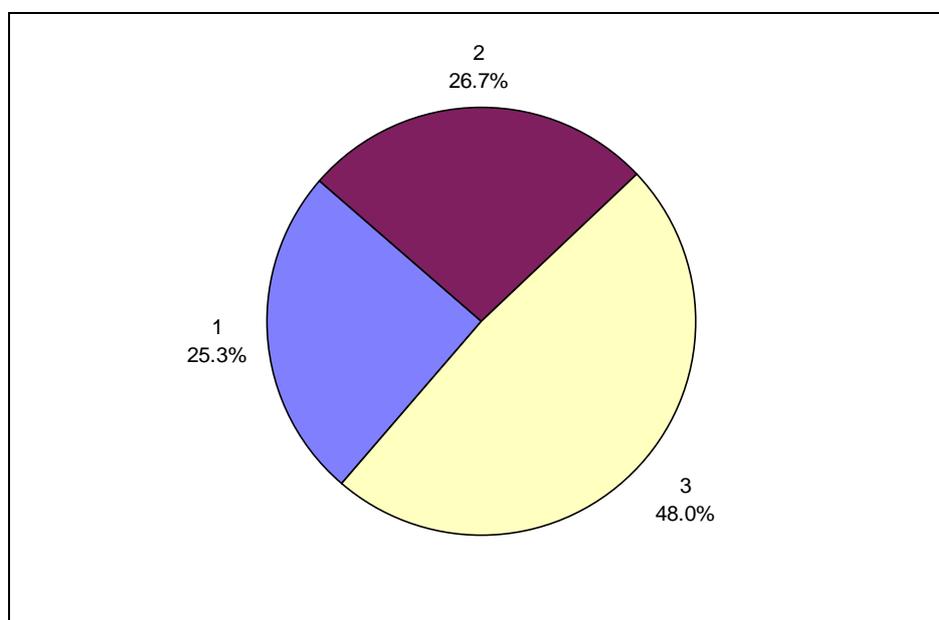
<sup>191</sup> From 1,5 up to 6 y.o.

<sup>192</sup> Under 6 y.o.

<sup>193</sup> From 6 up to 16 y.o.

<sup>194</sup> According to the RF Goskomstat.

**Diagram 1. Shares of the sum total of the social allowances, subsidies, doles and benefits, as distributed among certain population groups (%)**



**Notes:**

The sum total of social allowances, subsidies, doles and benefits, received and disposed by households constitute 100%.

1 – households with average income below the amount of household subsistence minimum (40% of the households)

2 – households with average income from 1 to 2 amounts of household subsistence minimum (30% of households)

3 – households with average income twice exceeding the amount of a household subsistence minimum (30% of households)

**Table 4.11. Children Who Received an Allowance as Distributed by Wealth Level, for the Second Quarter of 2000, %%**

	Out of total number of children who received an allowance		
	<i>The Poor</i>	The Extremely Poor	Not the Poor
The Khabarovsk Territory	72,7	31,3	27,3
The Belgorod Region	36,0	2,7	64,0
The Vologda Region	72,7	36,4	27,3
The Samara Region	44,3	14,3	55,7
The Chelyabinsk Region	66,1	23,5	33,9
The Chuvashi Republic	93,3	57,6	6,7

**Table 4.12. The Minimal<sup>195</sup> and the Average Amounts of Accrued Pensions, %% of the Subsistence Minimum of a Pensioner<sup>196</sup>**

	1992	1993	1994	1995	1996	1997	1998	1999
The Minimal Amount	82,5	78,7	66,7	48,1	73,1	76,6	67,3	45,4
The Average	116,9	138,1	128,6	101,0	116,0	113,2	114,7	70,2

**Table 4.13. The Average Amount of Accrued Penions, %% of the Subsistence Minimum of a Pensioner**

	1st Quarter	2nd Quarter	3rd Quarter	4 <sup>th</sup> quarter
1998	130,0	131,2	119,2	89,9
1999	68,9	67,1	68,7	-

**Table 4. 14. Receipts of Insurance Contributions to the RF Pension Fund**

	1993	1994	1995	1996	1997	1998	1999
Total, billions of roubles. <sup>197</sup>	10169	36124	73709	115109	151073	149102	250436
% of GDP	5,9	5,9	4,8	5,4	6,0	5,5	5,5
% as compared with the previous year <sup>198</sup>	86,8	87,1	68,5	105,8	114,3	77,3	90,5

<sup>195</sup> Paid due to old-age, with compensation.

<sup>196</sup> The Source for Tables 12-17: the RF Goskomstat.

<sup>197</sup> In 1998r. – millions of roubles here and further in the tables 15 and 16.

<sup>198</sup> Adjusted due to the consumer price index – here and further in the tables 15 and 16.



**Table 4.15. The Sum of the Pensions Paid out the Means of the RF Pension Fund**

	1993	1994	1995	1996	1997	1998	1999
Total, billions of roubles	8709,1	34219	82258	121639	166066	157606	249489
%% of the GDP	5,1	5,6	5,2	5,5	6,6	5,8	5,5
%% as compared with the previous year	-	96,4	80,8	100,1	118,9	74,3	85,2

**Table 4.16. Debt on the Late Payments of Pensions**

	1995	1996	1997	1998
Total, billions of roubles	700	15700	-	26300
%% of the total sum of the accrued pensions	10,0	193,8	-	203,9

**Table 4.17. Percentage of Population with Wealth Level Below the Amount of the Subsistence Minimum in 1998 –1999, %%**

	The Total Number of the Surveyed	Including those with per capita resources possessed below the amount of the subsistence minimum	
		1998	1999
The total number of the population surveyed	100	37,8	50,2
The non-working pensioners	100	25,4	39,5
The working pensioners	100	15,9	25,0
The old-age pensioners	100	21,7	35,1
The disabled pensioners	100	41,9	53,7
The pensioners due to the loss of the provider	100	48,6	62,2
The recipients of the social pensions	100	38,9	45,4

## On Hiring and Firing

**Labour agreement (contract)** signed between the employer and the worker is the main form for the right for labour to be executed in the Russian Federation.

“Labour agreement (contract) is the agreement between the worker and the employer (both a natural or a legal person), according to which the worker is to perform the job within a certain occupation, qualification or position in compliance with the rules of internal working code of an organization (enterprise). The employer must pay wages and provide labour conditions, as stipulated by the labour legislation, by a collective agreement and an agreement of the parties.”

Article 15 of the Labour Code

There might be included – along with *obligatory provisions* (the subject of the contract, the labour functions of the worker; mutual rights and commitments; parties’ responsibilities for the failure of the contracted terms, etc.) – *additional provisions* (the worker might be provided with accommodation or there might be compensated the following expenses: on housing purchase (rent), fares on transportation to the job, certain sums for lunches; there also can be set a longer - as compared with legally set – annual leave and other labour or everyday benefits or guarantees beyond the ones provided by the legislation).

However, in real life the employers frequently attempt not to expand the worker’s rights, but to force contracts without even the compulsory minimal guarantees, provided by the law.

It is not infrequently that the contracts include the following terms:

- The annual leave is shorter than 24 working days (starting 1992 such a duration is a minimal guarantee).
- A sick leave is covered only once within the working year and its duration should not be longer than a certain number of days (10 days, for example) of the working year.
- The worker is to perform any other work, not mentioned by the contract, at the week-ends or holidays as well, in case the necessity arises.<sup>199</sup>

The above-listed terms weaken worker’s position as provided by the acting legislature and are not valid even if the contract is signed by the worker (Article 5 of the Labour Code).

The following provisions of the labour agreement (contract) are not to be set by the contract even there is a mutual consent of the parties:

- Additional to the legally set grounds to fire workers;
- Disciplinary penalties not stipulated by legislature;
- The comprehensive material responsibility is not to be imposed on the worker, unless it is stipulated by the legislature (Article 121 of the Labour Code);

<sup>199</sup> The Labour Legislation sets certain limitations on the overtime works, works at the week-ends and holidays. The procedure of worker’s transfer due to the working necessity is clearly determined as well.

- There are not to be introduced amendments to the grounds and settlement procedures of the individual labour disputes under acting legislature.

Chapter XIV of the Labour Code, p.12.  
Recommendations on Written Labour Agreements (Contracts), adopted by the Statement of the  
RF Ministry of Labour, No 315, dated July 14, 1993.

## **Hiring Limitations and Guarantees**

The right for labour is one of the major human rights and it is protected by the law.

“It is prohibited to somehow directly or indirectly limit the right for labour, as well as to set direct or indirect advantages due to the gender, race, nationality, language, social origin, material wealth, place of residence, religion, views, membership in the social associations as well as due to other circumstances, not relevant to the qualifications of the worker.”

Article 16 of the Labour Code

The ungrounded denial in hiring is illegal. Moreover, there are legally set certain guarantees of hiring for certain population categories. Thus, the administration **must** sign a labour agreement (contract) in the following cases:

- With those, who have been offered a job, while being transferred from another enterprise (Article 18 of the Labour Code);
- With those under 18 y.o., sent by employment service to the job according to the junior employment quota, it in particular covers the most socially vulnerable category of young people (orphans; orphans old enough to leave and already left orphanages, etc.), Article 181 of the Labour Code;
- With junior workers upon graduation of the professional and trade schools, with junior graduates of high and professional schools, sent to the jobs in accordance with legislature, for example, as provided by contracts either between the enterprise and the educational institution, or between the enterprise and a graduate (junior professional) himself. (Article 182 of Labour Code);
- With those disabled in war (and those granted the equal status), as well as with labour-capable disabled and handicapped persons, sent to the job according to the quota reserved for this population category.

In a number of cases the administration must not only hire a person, but appoint him at the particular job, that was performed by him before firing. Such a guarantee is set for those, either enlisted to the military service, but later dismissed or retired, or to those whose recruitment had been postponed and they returned to the former working place. This guarantee is effective provided there elapsed not more than 3 months from the date of recruitment (excluding the transportation time). Such a guarantee also covers those, improperly fired and through court order rehabilitated at the former working place (Article 213 of Labour Code).

In some cases, when the former working place (position) is unavailable, for it was, for example, downsized, the administration must place the worker at another job (position) with the equal status. Such a guarantee is stipulated for the following population categories:

- For the workers upon the expiration of the elected position in the state institutions, as well as in trade union and other social organizations (Article 110, part 2 of the Article 235 of Labour Code);
- For those, improperly fired due to the erroneous conviction; as well as for military officers, enlisted for 2-3 years while being in reserve, upon the service expiration.

In case the employer fails to observe the above-listed guarantees, he can be sued. In case the hiring refusal is to be classified improper by court, to be issued court order obliges the employer to sign a labour agreement (contract) with the plaintiff. In case the worker was forced not to work for a certain period for the hiring was denied or the labour agreement (contract) was improperly timed, the court obliges the employer to cover for the above-mentioned period (the Statement of the High Court Plenary Session, No 16, dated December 22, 1992).

However, along with provision of guarantees, the Russian labour legislature imposes some **limitations** on hiring. Thus, the limitations due to health conditions are set for occupations (positions) put on a special List, adopted by the Healthcare Ministry. The labour agreement (contract) is to be drawn upon an initial medical check-up, and periodical, usually annual, medical examinations are to follow-up while in service.

Differences, exclusions and preferences in hiring are not considered improper, provided they are due to essential to particular occupations demands or are the subject of strong state patronage of those in need of special social and legal protection.

Article 16 of the Labour Code

A number of limitations in hiring are set in order to protect health of certain categories of workers. There exist lists of occupations closed for women and the junior. Besides, according to the Article 175 of Labour Code, it is prohibited to hire the minor for the works where manufacture, storage and sale of spirits, tobacco products, narcotic and toxic substances are involved. As for the women, for them there are no any other hiring limitations besides the above-mentioned List of Occupations. The RF Constitution and labour legislature prohibit any labour discrimination by gender.

The legislature also sets some *age-limitations* for the worker. Thus, the minimal hiring age is 15 y.o. (Article 173 of the Labour Code). The maximal age is not specified, the labour relations with the workers of retirement age are regulated on general grounds. The legislature imposes age qualification for certain positions only in strictly outlined cases (for example, for state officers, for train engineers, for civil aviation pilots, etc.). However, practically employers very frequently set certain age demands (both minimal and maximal) for particular positions. Lots of vacancy ads – along with qualifications and experience requirements – contain age demands, such as ‘the candidate for the position is to be younger...older... years old’. It is certainly improper from the legal point of view.

Unfortunately, many of local normative acts adopted at the enterprise level (charters, regulations and even collective agreements) contain provisions on workers' release upon retirement age. This is a bold violation of the constitutional right for labour. The rights of the senior workers are often violated when candidates for downsizing are selected.

There are set certain hiring limitations for particular persons and categories of workers. Thus, *the mutual service of close relatives* (parents, spouses, brothers, sisters, sons, daughters, as well as brothers-, sisters-, parents, and children-in-law) *is qualified as improper* at the same state or municipal enterprise in case their positions are in direct subordination.

Limitations can be imposed *by court* as an additional penalty measure (for example, some occupational positions – e.g. those with material responsibilities - might be prohibited for the period from 1 to 5 years for those convicted for mercenary crimes – i.e. embezzlement).

There also exist limitations incurred by *the demands in special knowledge and professional training*. As a rule, such demands are outlined in position regulations, that are developed by the enterprises and organizations in accordance with provisions of Chapter “On Professional and Qualification Requirements” of the Unified Tariff and Qualification Classifier (UTQC). For example, it is prohibited to hire a vehicle driver without a driver's license of particular grade, etc.

The frequent demands of employers for the candidate to present certain paperwork (certificates, recommendations, diplomas, etc.), while this is not required by law, can be also classified *as improper limitations of the right for labour*. The same holds true about the vacancy contest, not required by law. It is not infrequent when an employer strives to contribute to the company's prestige and sets inappropriate hiring requirements, such as certificates of computer class taken, filing or foreign language skills, etc. or the diploma only of certain prestigious educational institutions (e.g. Oxford diploma, or at least - Moscow University). In case such requirements are not specified for such a position by the UTQC, the above-rendered demands of the employer are improper.

In practice, employers apply various forms to test the qualifications and qualities of the candidates – personal meetings, tests, etc. The *trial period* serves the same aim. Contests are allowed as for certain types of vacancies. The legislature outlines both strict contest procedures and the list of the position categories subjects for vacancy contests. They are as follows: the high school teaching and professor positions, scientific workers and heads of scientific departments in the scientific and research institutions, creative theater and orchestra positions, etc. The contest procedures are clearly determined by particular regulations, adopted by the authoritative bodies.

The vacancy contests have recently become a wide practice in banks, hospitality and tourist firms, even in trade companies. The legislature does not set such contests, thus they can be qualified as improper limitation of the civil right for labour. Consequently, the denial of a job based on the negative outcome of such a contest is to be considered as ungrounded.

## **Trial Period**

*The trial period* is allowed by legislature for the qualifications and qualities of the worker to be tested. According to the general rule, the duration of the trial period is set at the point of hiring by mutual agreement of the parties of the labour agreement (contract), that is the worker and the employer. The duration period is usually up to three month, and in certain cases is might last for the period of 6 month as agreed with the elected trade union body of the given enterprise.

The trial period itself and its duration are regulated by the labour agreement (contract), must be mentioned in the contract as well as in the hiring order. In case this is not observed, the worker is considered to have been hired without a trial period.

It is **prohibited** to set trial periods for certain categories of workers. The same holds true about certain hiring cases, such as hiring of the minor (under 18 y.o.), hiring due to transfer from another enterprise, etc. (Article 21 of the Labour Code).

*The worker is fully covered by the labour legislation for the duration of the trial period*, thus the legal status of the workers, hired with the trial period, practically does not differ from the one of the other workers. They are appointed at the job according to their occupation, position and qualifications as provided by the contract; their labour is paid for in accordance with general norms, rates and position salaries at the given enterprise, bonuses included. They are to observe the rules of interior working code of the given enterprise; they are fully covered by the provisions of the collective agreement; they are subjects of the compulsory state insurance and have the right for the sick-leave benefits, etc.

The only difference of the legal status of the worker during his trial period is that the administration can fire him – in case his professional qualifications turn to be unsatisfactory – prior to the expiration of the trial period. In such a case a severance pay is not provided, while the lay off is not to be agreed with a trade union body (Article 23 of the Labour Code).

However, what do we witness in practice? Unfortunately, the rights of the workers during their trial periods are often violated: they are paid smaller, “conditional”, wages as compared with those set for a certain position (occupation), the sick-leaves are not covered, the social benefits are not provided (transportation fares, lunch compensation, medical treatment, etc.), despite the fact that they are set at the local level (by collective agreements, etc.).

### **Time-Period of the Labour Agreements (Contracts)**

As a rule, labour agreements (contracts) are to be drawn for an uncertain period of time, that is they are *permanent*. However, it is possible to draw a contract for a certain period of time (not exceeding five years) or for the period of the performance of a given work. The *temporary* labour agreements (contracts) are limited to the following cases:

- The to be done work or its conditions are of temporary nature;
- The worker himself initiates temporary labour relations;
- As provided by law (Part 2 of the Article 17 of Labour Code).

However, temporary labour contracts that impair worker’s right are a frequent practice. In most of the cases this happens for both the employers and even workers fail to have a proper

knowledge and to understand the labour legislative norms. The employer refers to the unstable economic status of an enterprise as the major grounds to draw a temporary contract.

The legal activity of population is low, still the court practice of the recent years indicates that the number of suits due to the improper duration of labour agreements (contracts) and consecutive firing is on the rise. When considering the suits of the fired workers, the court first of all clarifies the nature and conditions of the work, and *the employer* is to prove that they are of temporary, not permanent nature. In case the proofs are not convincing enough, the court orders to rehabilitate the worker at his position, this time with permanent status, as it should have been done from the very beginning.

Another reason for the employer to force not permanent, but temporary contracts is the desire to test professional and personal qualities of the worker, and this is time-consuming. Legally set duration of a trial period (usually, not longer than 3 month) is considered insufficient by many of the employers. Besides, it is extremely hard to fire a failed worker for it is practically impossible to prove unsatisfactory professional qualifications. It is usually prohibited to test professional skills within the first year upon hiring.

The only thing to be done is to register the misdeed or professional mistakes in written notice, signed by competent witnesses (their particular status is not determined by legislature), or to provide some other proofs (again not legally specified, the courts accept all kinds of proofs, including a witness testimony). However, the courts tend to consider practically any arguments of the employer unconvincing. The judges are usually of an opinion that if a worker made a couple of initial mistakes, that does not indicate that he/she is not capable to work at a certain position. Thus, it is quite understandable that an employer attempts to take all possible precautionary measures when hiring a new worker, for key positions in particular, and to draw temporary labour contracts, but, as a rule, this can be qualified as labour legislation mistreatment.

### **Discontinued Labour Relations (Lay Offs)**

Strictly regulated – for the employer in particular - procedure of the labour relations to be ceased is one of the ways to ensure guarantees on employment. According to the Labour Code, the labour agreement is possible to be cancelled *exclusively on the legally provided grounds* (e.g., Articles 23, 29, 31, 32, 33, 37, 254 of the Labour Code). It is *prohibited* to set own additional grounds to cancel labour agreements (contracts) with workers, either in local legal acts, nor in the individual contracts. The local legal acts include enterprise regulations, rules of the interior working code and collective agreements. The worker's desire (Article 31 of the Labour Code) or the initiative of the administration (Article 33 of the Labour Code) are the most common reasons for the labour relations to be discontinued.

The correspondent legal grounds to discontinue the labour agreement (contract) are qualified as proper ones only *in case all the legally established procedures are fully observed*. In a number of cases an employer is obliged to notify a worker beforehand about a lay off, to offer another job, to pay a severance benefit, to obtain a consent of the trade unions for the lay off, etc.

There is also legally set limitation on initiated by the employer firing of certain categories of workers (the minor workers under 18 y.o., the conscripts within the recruitment year, the members of the elected trade unions, etc.). In a number of cases it is directly prohibited to fire certain workers, such as pregnant women and mothers of children under 3 y.o.; single parents with minor children; the former members of the elected trade unions within 2 years upon expiration of their duties, etc.

## **Severance Pay**

In a number of cases of the discontinued labour relations the worker is to be paid a severance pay at the amount not smaller than the fortnight average wages (Article 36 of the Labour Code). This covers the following cases:

- The worker is recruited or joins the military services;
- The worker turns down a transfer due to the enterprise relocation. The worker refuses to continue his employment due to substantial changes in the meaningful labour conditions;
- The worker turns out to be unfit for the position held or the job to be performed due to insufficient qualifications, or due to health condition;
- Another worker, who formerly performed the given work, is restored to the job;
- Temporary labour agreement has been early discontinued for the administration violated the labour legislation or broke the provisions of the collective or labour agreement.

The severance pay amounts to *the average monthly wages* in case the worker is downsized, or the enterprise is liquidated (point 1 of the Article 33 of the Labour Code). Another money compensation is also provided in case the worker is fired due to such grounds. Average wages are paid for the second and the third month upon the lay off. Such a compensation is paid by the employer only for the time-period during which the fired worker remained unemployed, within the three month period after the lay off.

Severance pay is not provided in case a worker is fired from the second (combined) job (point 8 of the Regulations on the Secondary Employment). However, the provisions on the severance payments to the holders of secondary jobs can be included in the collective agreements of the organizations (enterprises). The amounts of such payments may be fixed at the level exceeding the one legally set.

### **On Workers Released due to Enterprise Liquidation, Downsizing or Staff Reduction**

Workers can be released (laid off) in case the enterprise comes to a full halt (liquidated), reorganized or downsized. Liquidation or reorganization of enterprises (companies) as juridical persons is regulated by the Civil Code of the Russian Federation (Articles 57-59, 61).

Lay offs due to the enterprise full liquidation – when all the workers are released – differ from the ones due to the enterprise downsizing. In the latter case the administration is to select candidates to be laid off with proper consideration of the existing limitations for certain categories of the workers (as described above).

Personnel selection and appointment is a sure prerogative of the employer. However, the legislature provides *a priority right* for certain categories of workers to be remained at the job, and this right is to be observed. *Such an advantage is first of all granted to those of higher efficiency and qualifications.*

Приложение 5.2.

	THE LABOUR AGREEMENT (CONTRACT)	TURNKEY CONTRACT	CONTRACT OF AGENCY	CONTRACT FOR PAID SERVICES
THE TITLES OF THE PARTIES	THE EMPLOYER; THE WORKER	CLIENT; CONTRACTOR	PRINCIPAL AGENT	CLIENT; PERFORMER
THE SUBJECT OF THE CONTRACT	The job is done within the frame of certain occupation, qualifications and position in compliance with the rules of internal working code of an organization (enterprise)	Manufacture, recycling, processing, other treatment of an object. The outcome is provided to the client	The agent acts on behalf of the trustee, at trustee's expense performs certain legal activities	Rendering of services, performance of a certain deeds, implementation of certain activities
THE LAWS	The RF Labour Code	The RF Civil Code, Ch.37	The RF Civil Code, Ch.49	The RF Civil Code, Ch 39
COORESPONDENCE BETWEEN THE RIGHTS AND COMMITMENTS OF THE PARTIES SETTLEMENT DUE TO THE CONTRACTS	Norms of labour legislation <b>are observed.</b> <b>The following is obeyed::</b> 1. The Rules of internal working subordination; 2. Provisions on wages and bonuses, etc. 3. Local legal acts of an organization (enterprise). <b>The worker</b> is paid wages in fixed time-periods as provided by the Labour Code (not less frequent than every fourtnight)	The rights and the commitments of the parties are determined and fixed immediately in the contract. The payments for the works performed are done, as a rule, after the work is accepted.	The rights and the commitments of the agent and the principal are determined by the agreement of the parties, including the amount, order and terms of commission payment.	The rights and the commitments of the client and the performer, including the terms of payments for the services rendered are determined immediately by the parties and are fixed in the contract.
PARTIES SUBORDINATION; OBSERVANCE OF MODE OF OPERATIONS (WORK SCHEDULE);  THE RISK OF ACCIDENTAL LOSS OF WORK OUTCOME	The worker must obey of the orders of the administration, observe labour discipline; he/she is joined in the staff of the organization (enterprise). The employer must to provide healthy and safe labour conditions, as provided by the labour legislation, collective agreement. He must provide the employer with necessary equipment, production means, basic materials for work. The risk of the accidental loss of the work outcome is borne by the employer.	The contractor performs the job as he/she considers proper, observing only the contract provisions on the time periods and quality. He/she is not included in the staff of the organization (enterprise). The client may, but is not obliged to provide assistance to the contractor in the implementation of the job. The risk of the accidental loss of work outcome is borne by the contractor in case it happens	The agent works in exact observance with principal's orders, he/she is not included in the staff of an organization (enterprise). The principal may compensate the expenses to the agent and provide with necessary means, in case it is agreed with the agent. The expected outcome may fail to follow. The loss is settled as agreed by the parties.	The performer renders services according to the time-periods specified by the contract and in the way he/she considers it proper. He/she is not included in the staff of an organization (enterprise). The parties agree on the settlement of the expenses incurred due to the rendering of services. The expected outcome may fail to follow. The loss is settled as agreed by the parties.

		before the job outcome is transferred to the client.		
	<b>LABOUR AGREEMENT (CONTRACT)</b>	<b>TURNKEY CONTRACT</b>	<b>CONTRACT OF AGENCY</b>	<b>CONTRACT FOR PAID SERVICES</b>
<b>RECORDS ON LENGTH OF SERVICE AND WAGES</b>	Length of service and wages are considered as the amount of pension or unemployment benefit is determined.	The time-period of the implementation of the contract is included in the occupational life service. The payment received is considered as a wage component, due to which the amount of pension or unemployment benefit is determined.	The time-period of the implementation of the contract is included in the occupational life service. The payment received is considered as a wage component, due to which the amount of pension is determined, but is not considered as such when the unemployment benefit is determined.	The time-period of the implementation of the contract is not included in the occupational life service. The payment received is not included in the wages, on which the amount of pension or unemployment benefit is based.
<b>RECORDS ON LENGTH OF SERVICE AND WAGES</b>	Length of service and wages are considered as the amount of pension or unemployment benefit is determined.	The time-period of the implementation of the contract is included in the occupational life service. The payment is considered as a wage component, due to which the amount of pension or unemployment benefit is determined.	The time-period of the implementation of the contract is included in the occupational life service The payment received is considered as a wage component, due to which the amount of pension is determined, but is not considered as such when the unemployment benefit is determined.	The time-period of the implementation of the contract is not included in the occupational life service. The payment received is not included in the wages, on which the amount of pension or unemployment benefit is based.

### Appendix 5.3.

**Table 5.3.1. The Real Provision of Guarantees - Legally Provided and Fixed by the Labour Contracts at the Enterprises of Various Types of Ownership (As Provided by the Workers), %**

<b>The Percentage of the Workers</b>	<b>State</b>	<b>Privatized</b>	<b>Private</b>
<b>Regularity of the Wage Payments</b>			
Wages are paid more seldom than twice a month	51,4	61,8	64,9
<b>Annual Leave</b>			
Is not paid for or is paid below the legally set level	1,6	2,3	22,6
Including			
Workers for whom the paid leave is additionally guaranteed by the contract	1,1	1,4	8,4
<b>Temporal Labour Disability</b>			
Is not covered or is covered below the legally set level	8,0	8,8	37,8
Including			
Workers for whom the coverage is guaranteed by the contract	5,9	6,5	16,1
<b>Overtime works</b>			
Are not paid for or paid below the legally set level	29,6	47,3	50,1
Including			
Workers for whom the coverage is additionally guaranteed by the contract	6,6	10,1	6,1
	N=558	N=771	N=884

N – the number of the workers surveyed. The data provided by the Center for Labour Market Research of the Russian Academy of Sciences, 2000.

## **Appendix 6**

### **Limitations as for Methodics and Tools to Draw a Typology of Regions Due to Poverty Levels**

In our analysis the regional poverty estimations are to be based on several index groups:

- *Poverty level indexes* (percentage of population with incomes below the subsistence minimum) are calculated through various methodics;
- *Basic economic indicators*, having impact on poverty indexes (per capita GRP, the relation between per capita money incomes and the subsistence minimum, unemployment level);
- *Demographic and geographic factors*, of indirect impact (demographic structure, family composition and the peculiarities of settlement distribution).

Each index is to be expertly estimated and the most weighty and verified ones are to be circled out in order to draw an adequate estimation of the poverty level in regions and to determine the way it is interconnected with major factors of social and economic development.

#### **Poverty Level Indicators**

Poverty level is a calculated index, it is based on the data on the income amounts and subsistence minimum amount, as well as on population income structure.

*Population incomes* in the RF regions are calculated through budget surveys of 48 thousand households. In various RF subjects the selection size differs from 1,5 thousand in Moscow to 250 in the Ingushi Republic and to 450 in the loosely populated northern regions. The analysis on regional data of budget surveys made by the State Committee on Statistics allows to circle out a number of causes to lower the validity of results:

- the small size of selection in certain regions. It results in notable fluctuations of indicators of income volumes as well as of indicators of income and expense structure in case even a small number of surveyed families undergo some changes. In all regions where the selection size is less than 600 units there are serious validity problems of poverty indicators, as well as indicators on income structure and dynamics, on the consumption of the families of the poor.
- The selection is inclined towards the families of the poor, for the household with higher incomes, often earned in the informal sector, refuse to participate in budget surveys;
- Incomes of private supplementary farms are not precisely estimated. It has a notable impact on the regional indexes for there should be a considerable difference in the percentage of incomes of private supplementary farms in the regions with different natural and climate conditions as well as different levels of urbanization.

The State Committee on Statistics employs two approaches to estimate population incomes: a balance method (macroeconomic one) with further income estimation based on data on expenses, and a method of possessed resources (microeconomic one) by which there are

considered - along with money incomes - the natural income of private supplementary farm as well as savings in use (it was introduced in 1997). Neither of these methods is free from flaws when one sets to draw estimations on regional poverty.

When a balance method is employed, there are allowances for goods turnover and currency exchange, thus money incomes of the residents of the biggest urban centers, the capital city in particular<sup>200</sup>, are overstated. Besides, the differences in natural incomes from private supplementary farms are not considered. Thus, the incomes of those residing in southern, less urbanized regions with favourable conditions for PSF are understated. This holds true for the regions with high percentage of rural residents.<sup>201</sup>

The estimations by method of possessed resources are first of all characterized by strong inclination towards the survey of families of the poor (in 1999 according to the data provided by budget surveys, 50% of the population in Russia were classified as those with incomes below the subsistence minimum).

Secondly, natural PSF incomes are not completely estimated at the regional level. For example, percentage of PSR incomes in the structure of overall population incomes differed 1.5 (20% and 30%) for the population of the Chuvashi and the Republic of Mordovia. These are the neighbouring regions with the same natural and climate conditions, urbanization level (these factors play the most important part for PSR development), similar prices.<sup>202</sup> The most probable explanation here is that the differences emerge due to the defective selections.

*The subsistence minimum* is necessary to draw poverty margins, but its regional estimations are to be more precise. Thus, the subsistence minimum in the Ulyanovsk region is 40% less than the average in the RF. While per capita population incomes (calculated by balance method) are the same in both areas, in the Ulyanovsk region 31% of the population live below poverty margin, in the Republic of Mordovia – 68%.<sup>203</sup> Regional poverty level estimations become incorrect due to the under- or overstated subsistence minimum.

As a result, poverty level indicators drawn by two methodics differ a lot. In general they reflect the size of regional differences in per capita incomes and poverty levels. But when

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<sup>200</sup> When drawn by balance method, per capita money incomes of Moscow residents are 6 times higher than the subsistence minimum (average in RF – twice higher) and for November 2000 amount to 9,9 thousand roubles or about 350 USD (average income in Russia – 2,4 thousand roubles).

<sup>201</sup> For example, for the urbanized and deeply depressed Ivanovo region (Central Part) the percentage of the poor (29%) turns out to be considerably smaller than for the fertile southern Stavropol Territory (38%). This can be explained by understated incomes from PSF in the Territory, where half of the population are the rural residents.

<sup>202</sup> Such examples are not infrequent for budget surveys of 1998: the Republic of Daghestan and the Karachaevevo-Cherkessian Republic (12% and 34%); the Belgorod and the Lipetsk regions (25% and 11% correspondingly), the Orel and Kursk regions (27% and 16%); the Penza and the Ulyanovsk regions (24% and 12%), the Chita region and the Republic of Buryatia (23% and 13%).

<sup>203</sup> As compared with the same Republic of Mordovia, the subsistence minimum in the Tambov region is 20% below, though the per capita population incomes are higher. As for the natural conditions, urbanization level and per capita GRP both regions are close. But in the Tambov regions the percentage of the poor is 2.5 less (28%). There is more than a quarter difference between the subsistence minimums in the neighbouring the Novosibirsk and the Omsk regions (in the latter it is smaller while the economy is better there). Thus the poverty levels in these regions differ twice.

developing social programs it is advisable to compare several poverty level indicators,<sup>204</sup> for valid quantitative regional estimations are not produced by any of existing in the country ways of statistic registration and calculation techniques.

### Basic economic indicators

*Per capita GRP* is a basic characteristic of living standard differences, but its use to estimate poverty level is seriously limited. Along with relative validity of data (in Russia, according to various estimations, the percentage of shadow economy amount to 23-40%), this indicator does not reflect the real consumption level, for it does not consider the interregional redistribution of incomes through federal budget. Besides, it is necessary to make a price correction for per capita GRP indicator. The GRP is also ineffective to estimate income differences between various population groups within the region. This indicator can be relied upon when drawing general estimation of economic situation in the region.

*Per capita incomes and subsistence minimum ratio.* Despite the existing problems to register incomes and prices, for our task this indicator is the best tool, for it reflects regional differences more precisely than the per capita GRP indicator. This ratio can be used as the main indicator to estimate living standards level. Besides, the differences with the region are indirectly pointed out, for there is less polarization in the poor regions than in the richer ones.

Taking into consideration a great number of difficulties and conditionals in income registration in the countries with transitory economies we have tested how strong is the connection between the poverty level and the three indicators of living standards: money incomes, the volume of per capita retail turnover of goods and the volume of paid services (table 2.1.). Money incomes and regional poverty level are linked, though the connection is not so strong as between the percentage of the poor and the main consumption indicator – the volume of per capita retail turnover of goods (mainly constituted by the items of primary necessity). However, it is sensible to employ the money incomes indicator in case it is not possible to use turnover indicator (for example, when one should combine macro- and micro-levels).

It is worth noting, that the connection between the poverty level with the volume of per capita paid services is even weaker, for in the majority of the Russian regions with various percentage of the poor the share of expenses for services is similar low for there are no sufficient means to satisfy even the need in the goods of the primary necessity.

**Table 2.1. Correlation Coefficients of Regional Meanings of the Indicators\***

	1994	1995	1996	1997	1998
Percentage of the poor – money incomes	- 0,52	- 0,58	- 0,61	- 0,59	- 0,64
Percentage of the poor – goods turnover	- 0,57	- 0,57	- 0,66	- 0,67	- 0,75
Percentage of the poor – paid services	- 0,30	- 0,41	- 0,49	- 0,49 –	- 0,51

<sup>204</sup> Some of the methodics to further estimate poverty levels are rendered in Appendix 1.

\*Re-estimated due to allowances for the regional subsistence minimum for the indicators of money incomes, goods turnover and paid services

**Unemployment level** as a regional poverty indicator has a number of limitations as for methodic and tools. The limitations are linked, first of all, with the system of registration of the unemployed. In the first half of the 1990s the registered unemployment was a clear poverty indicator for the most depressed regions with low population incomes (the Ivanovo, the Pskov regions, etc.). Later the regional differences were – due to a number of reasons – straighten: under the economic recovery the unemployment level went really down; population became gradually adjusted to the new conditions, employment in the service sector increased (including the informal one); there were introduced more strict requirements for unemployment registration; the number of those applying to the employment offices became smaller due to the late payments of the benefits. As a result, the level of registered unemployment might be higher in the regions, capable to pay benefits and having smaller poverty scale.<sup>205</sup>

In the underdeveloped regions with growing population the indicators of the registered unemployment do not reflect the situation at the labour market. Only the estimations of general unemployment, done by the ILO methodic, renders the data how acute the employment problems are in these regions where 22-51% of overall population are unemployed, young people in particular.

High general unemployment is aggravated by the worst national indicators of per capita population incomes and the percentage of the poor. However, the minimal unemployment level, according to ILO classification, is not always combined with low poverty level: general unemployment is low not only in the rich capital (4%), but in the depressed Ryazan region (7%) as well, and in many poorly developed autonomous districts of the Siberia, and the Far East (4-8%) where the percentage of the poor is high. We can conclude, that the meaningful correlation is not provided by analysis of interconnections between the unemployment level and the regional poverty level, here some additional factors are to be considered.

### **Social and Geographic Factors**

**Demographic situation.** Poverty is more closely linked to demographic factors in the republics with unfinished demographic transition, for population incomes are lower due to unemployment of a great number of young people, entering labour-capable age, and due to a high percentage of families with many children. The regions with extended family size, the high percentage of young people (the Ingushi Republic, the Republic of Daghestan, the Republic of Tuva, the Republic of Kalmykia, the Ust-Ordyn Buryat and the Agisnk Buryat Autonomous Districts) are classified as the poorest RF subjects. But the poverty scale among the families with many children in these regions are not to be estimated the same way as for the small families of depopulating Central Russia.

It is advisable to use the scale of equivalent incomes, savings on big family size when drawing an estimation of poverty level for families with many children. Due to various

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<sup>205</sup> Oil and gas autonomous regions of the Western Siberia, the Krasnoyarsk Territory, the Republic of Komi.

equivalent scale per capita incomes of families with 3,8-4,5 members (this is an average family size in these republics, the average for Russia – 3,1 member) are 8-15% bigger.<sup>206</sup>

While the links between the regional poverty level and the family size and a number of dependent can be seen, the indicators of age structure can hardly be applied as indicators of poverty level. The rather high percentage of children is typical not only for the republics with unfinished demographic transition, but for northern regions of recent development with younger age structure and very different poverty indicators as well. The percentage of the poor is different in demographic regions of elder age structure. In general, we may say that the influence of age structure on the poverty level became less pronounced in critical years.<sup>207</sup>

**The settlement distribution** as poverty factor is of even less importance. The urbanization level is high enough both in the traditionally developed industrial center and in the northern regions of recent development, but the percentage of the poor and the buying capacity of the incomes might be very different.

The naturalization of household economy became a massive one in the less urbanized territories (Russian regions and republics in the South), the main incomes of rural residents and the residents of small towns come from the private supplementary farms, but the valid estimation of such incomes is still to be settled.

The type of the settlement and its economic and geographic location determines the main income differences. In the biggest urban agglomerations the poverty level is in general lower due to more broad, diverse and accessible labour market of the millionaire cities. In the regions with scattered settlements and a considerable number of small mono-functional towns (The European North, the Urals, the Siberia and the Far East) the depressed status of town-forming enterprises leads to mass unemployment, total impoverishment of the non-mobile population.

The impact of the settlement distribution and demographic situation on regional poverty level is of various inclinations and thus, is less, pronounced as compared with basic economic factors.

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<sup>206</sup> The scale to reevaluate the sum total family incomes into the equivalent ones, developed by OECD and the Luxemburg Center on Income Research are rendered in the book: I.Korchagina, L.Ovcharova, E.Turuntzev. The System of Poverty Level Indications in the Transitory Period in Russia / The Russian Program of Economic Research. Scientific Report No 98/04, april 1999. – p.16.

<sup>207</sup> It is considered that the percentage of the poor is higher in the regions with high percentage of the pensioners, for the pensions are smaller than the subsistence minimum. This holds true for the Northern regions and the towns and the cities in particular, where the households of pensioners suffer great need due to the necessity to pay for sky rocketing communal expenses and to buy the main part of food products. But in the rural areas of the Center and the South of the country the labour-capable pensioners became the most well-to-do age group for along with natural income of PSF produce they possessed stable money payments (pensions). In the mid 1990s pensions emerged as the only source of money incomes for many rural families, in which labour-capable family members, being employed in the agriculture, did not receive wages for many months or at best received them in kind. The same situation was typical for small mono-profile towns of the depressed enterprises where the pensions of the senior family members provided for the whole families.

Table 6.2.1. Regional Rating As for Per Capita Gross Regional Product (GRP), 1998.

	Per capita GRP (PPP <sup>208</sup> , \$)	The Ratio between the per capita GRP and the average meaning in the RF, %
The Tuymen Region.	10228	297
Moscow	6371	185
The Tatarstan Republic	5362	156
The Krasnoyarsk Territory	5218	152
The Samara Region	5153	150
The Komi Republic	4804	140
The Perm Region	4554	132
The Republic of Bashkortastan	4328	126
The Tomsk Region	4250	124
The Lipensk Region	4051	118
The Nizhny Novgorod Region	4031	117
The Vologda Region	3923	114
The Irkutsk Region	3913	114
The Ulyanovsk Region	3780	110
The Yaroslav Region	3771	110
The Belgorod Region	3770	110
The Kursk Region	3628	105
The Moscow Region	3553	103
The Murmansk Region	3544	103
The Orenburg Region	3517	102
The Khabarovsk Territory	3463	101
The Sverdlovsk Region	3443	100
<b>Russia</b>	<b>3439</b>	<b>100</b>
The Republic of Sakha (Yakutia)	3401	99
The Omsk Region	3333	97
The Kemerovo Region	3242	94
The Chelyabinsk Region	3197	93
S-Petersburg	3185	93
The Krasnodar Territory	3057	89
The Kamchatka Region	3038	88
The Orel Region	3032	88
The Novgorod Region	3004	87
The Kostroma Region	2996	87
The Tula Region	2896	84
The Ryazan Region	2890	84

<sup>208</sup> Purchasing Power Parity

	Per capita GRP (PPP <sup>208</sup> , \$)	The Ratio between the per capita GRP and the average meaning in the RF, %
The Smolensk Region	2851	83
The Republic of Udmurtia	2800	81
The Volgograd Region	2800	81
The Tver Region	2798	81
The Arkhangelsk Region	2742	80
The Voronezh Region	2740	80
The Rostov Region	2724	79
The Sakhalin Region	2706	79
The Stavropol Region	2684	78
The Saratov Region	2640	77
The Magadan Region	2632	77
The Amur Region	2605	76
The Republic of Khakasia	2598	76
The Vladimir Region	2596	75
The Republic of Mordovia	2585	75
The Primorie Territory	2557	74
The Kaluga Region	2553	74
The Leningrad Region	2553	74
The Republic of Buriatia	2552	74
The Tambov Region	2526	73
The Republic of Karelia	2510	73
The Kurgan Region	2437	71
The Republic of Chuvashi	2372	69
The Bryansk Region	2368	69
The Arkhangelsk Region	2366	69
The Novosibirsk Region	2289	67
The Kirov Region	2244	65
The Kaliningrad Region	2186	64
The Republic of Adygeia	2157	63
The Republic of Mary El	2062	60
The Ivanovo Region	2044	59
The Pskov Region	2039	59
The Altai Territory	2006	58
The Republic of Kabardino Balkaria	1983	58
The Chukotka Autonomous District	1951	57
The Republic of Altai	1896	55
The Karachaevo-Cherkess Republic	1827	53
The Evreisky Autonomous District	1767	51
The Chita Region	1758	51
The Penza Region	1697	49

	Per capity GRP (PPP <sup>208</sup> , \$)	The Ratio between the per capita GRP and the average meaning in the RF, %
The Republic of Northern Osetia	1450	42
The Republic of Kalmykia	1398	41
The Republic of Dagestan	1232	36
The Republic of Tuva	993	29
The Ingushi Republic	797	23

**Table 6.2.2. Regional Ratings<sup>B</sup> As for the Percentage of the Population of the Poor Throughout 1999  
(In Ascending Order)**

	Due to the percentage of the population with per capita incomes below the subsistence minimum amount (as estimated at the macroeconomic level)		Due to the percentage of the population with the possessed resources below the subsistence minimum amount (according to the data of the budget surveys)		Due to the percentage of the population with consolidated consumer expenses below the subsistence minimum amount (according to the budget statistics)	
	%	Rating	%	Rating	%	Rating
The Russian Federation	29,9	-	50,2	-	37,0	-
The Bryank Region	45,0	47	47,0	24	23,8	7
The Vladimir Region	40,8	43	54,1	42	34,2	30
The Ivanovo Region	64,9	68	64,3	66	46,1	60
The Kaluga Region	47,0	52	48,4	32	32,8	24
The Kostroma Region	38,1	40	55,1	45	37,4	43
The city of Moscow	23,2	4	28,8	2	29,2	12
The Moscow Region	27,6	16	53,2	39	42,4	55
The Orlov Region	35,9	35	35,9	7	13,7	2
The Ryazan Region	52,4	58	55,4	46	36,2	41
The Smolensk Region	27,2	14	63,1	63	38,3	46
The Tver Region	67,4	69	60,8	58	48,0	63
The Tula Region	31,2	23	56,9	51	32,4	21
The Yaroslavl Region	27,7	17	47,1	25	35,0	34
The Republic of Mary El	69,0	73	65,2	67	50,6	68
The Republic of Mordovia	68,1	70	66,2	68	50,8	69
The Chuvashi Republic	68,2	71	69,0	71	51,0	71
The Kirov Region	56,6	62	57,3	53	41,4	54
The Nizhnyi Novgorod Region	38,0	39	50,7	34	33,2	25
The Belgorod Region	26,9	13	28,1	1	13,5	1
The Voronezh Region	33,8	30	46,1	19	27,6	10
The Kursk Region	35,0	31	44,8	13	32,5	22
The Lipetzk Region	25,9	11	30,7	3	20,8	3
The Tambov Region	27,9	18	34,5	6	25,4	9
The Republic of Kalmykai	78,1	74	75,7	73	59,4	73
The Republic of Tatarstan	24,1	7	43,5	12	33,5	28
The Astrakhan Region	42,9	44	56,3	50	41,0	51
The Volgograd Region	58,1	63	66,9	69	45,8	59
The Penza Region	68,7	72	63,6	65	50,5	67
The Samara Region	23,4	5	44,9	15	34,6	31
The Saratov Region	43,0	45	53,3	40	32,2	19

	Due to the percentage of the population with per capita incomes below the subsistence minimum amount (as estimated at the macroeconomic level)		Due to the percentage of the population with the possessed resources below the subsistence minimum amount (according to the data of the budget surveys)		Due to the percentage of the population with consolidated consumer expenses below the subsistence minimum amount (according to the budget statistics)	
	%	Rating	%	Rating	%	Rating
The Ulianovsk Region	31,4	25	45,5	18	34,7	32
The Republic of Karelia	26,2	12	47,9	29	41,2	53
The Komi Republic	22,1	3	42,3	11	33,4	26
The Arkhangelsk Region	49,5	53	61,5	59	41,1	52
The Vologda Region	37,3	37	48,4	31	29,5	13
The Murmansk Region	19,8	2	31,0	4	24,3	8
The city of S.-Petersburg	33,2	27	57,0	52	31,7	18
The Leningrad Region	51,5	57	61,8	60	49,5	66
The Novgorod Region	24	6	48,8	33	35,7	37
The Pskov Region	51,2	56	54,7	43	36,1	39
The Republic of Adygeia	54,8	59	47,2	26	23,0	5
The Republic of Dagestan	63,2	66	75,1	72	58,5	72
The Ingushi Republic	95,1	77	99,4	77	Нет дан.	Нет дан.
The Republic of Kabardino-Balkaria	46,6	51	62,8	62	46,1	61
The Karachaevo-Cherkessian Republic	64,6	67	46,8	20	34,8	33
The Northern Osetia	31,2	24	44,8	14	30,0	14
The Krasnodar Territory	35,3	32	51,8	37	31,3	15
The Stavropol Territory	45,2	49	55,9	47	39,5	48
The Rostov Region	25,3	9	41,2	10	22,6	4
The Republic of Bashkortastan	30,3	22	45,1	16	33,5	27
The Republic of Udmurtia	49,5	54	52,1	38	40,2	50
The Kurgan Region	56,5	61	55,9	48	33,8	29
The Orenburg Region	35,6	33	48,2	30	35,9	38
The Perm Region	25,6	10	47,2	27	35,6	36
The Sverdlovsk Region	35,6	34	51,3	35	37,7	44
The Chelaybinsk Region	32,0	26	46,9	22	38,8	47
The Altai Republic	61,0	64	68,4	70	48,2	64
The Altai Territory	56,4	60	56,2	49	37,9	45
The Kemerovo Region	27,9	19	53,5	41	43,1	56
The Novosibirsk Region	61,1	65	63,3	64	39,8	49

	<b>Due to the percentage of the population with per capita incomes below the subsistence minimum amount (as estimated at the macroeconomic level)</b>		<b>Due to the percentage of the population with the possessed resources below the subsistence minimum amount (according to the data of the budget surveys)</b>		<b>Due to the percentage of the population with consolidated consumer expenses below the subsistence minimum amount (according to the budget statistics)</b>	
	%	Rating	%	Rating	%	Rating
The Omsk Region	38,5	41	51,3	36	32,6	23
The Tomsk Region	27,2	15	46,9	23	35,1	35
The Tyumen Region	17,8	1	34,3	5	23,4	6
The Republic of Buriatia	50,5	55	60,0	56	50,9	70
The Tuva Republic	78,6	75	83,1	76	64,3	75
The Republic of Khakasia	45,0	48	58,1	54	43,9	57
The Krasnoyarsk Territory	25,1	8	38,2	8	32,4	20
The Irkustsk Region	29,9	21	40,7	9	29,2	11
The Chita Region	88,8	76	81,1	75	65,6	76
The Republic of Sakha (Yakutia)	33,2	28	58,7	55	47,5	62
The Primorie Territory	39,8	42	45,1	17	31,4	16
The Khabarovsk Territory	28,2	20	47,8	28	36,1	40
The Amur Reion	44,9	46	62,6	61	44,3	58
The Kamchatka Region	33,6	29	60,3	57	49,1	65
The Magadan Region	46,3	50	77,3	74	62,4	74
The Sakhalin Region	36,5	36	54,7	44	37,2	42
The Kaliningrad Reion	37,4	38	46,8	21	31,6	17

**Table 6.2.3. Regions Compared by Poverty Indexes in 1999, %.**

Regions with substantial differencies			Homogeneous regions		
	The percentage of the poor as estimated through money incomes, %%	The percentage of the poor as estimated through possessed resources, %%		The percentage of the poor as estimated through money incomes, %%	The percentage of the poor as estimated through possessed resources, %%
The Russian Federation	29,9	50,2	The Russian Federation	29,9	50,2
S.-Petersburg	33,2	57	Moscow	23,2	28,8
The Moscow Region	27,6	53,2	The Kaluga Region	47	48,4
The Novgorod Region	24	48,8	The Pskov Region	51,2	54,7
The Smolensk Region	27,2	63,1	The Bryansk Region	45	47
The Vladimir Region	40,8	54,1	The Ivanovo Region	64,9	64,3
The Yaroslavl Region	27,7	47,1	The Tver Region	67,4	60,8
The Kostroma Region	38,1	55,1	The Kirov Region	56,6	57,3
The Tula Region	31,2	56,9	The Ryazan Region	52,4	55,4
			The Orel Region	35,9	35,9
The Nizhny Novgorod Region	38	50,7	The Republic of Mary El	69	65,2
The Republic of Tatarstan	24,1	43,5	The Chuvashi Republic	68,2	69
The Ulaynovsk Region	31,4	45,5	The Republic of Mordovia	68,1	66,2
The Samara Region	23,4	44,9	The Penza Region	68,7	63,6
The Volgograd Region	58,1	66,9	The Belgorod Region	26,9	28,1
The Astrakhan Region	42,9	56,3	The Lipetsk Region	25,9	30,7
			The Republic of Kalmykia	78,1	75,7
The Republic of Kabardino-Balkaria	46,6	62,8	The Republic of Adygeya	54,8	47,2
The Northern Osetia	31,2	44,8	The Ingushi Republic	95,1	99
The Krasnodar Territory	35,3	51,8	The Karachaevo-Cherkessian Republic	64,6	46,8
The Rostov Region	25,3	41,2			
The Perm Region	25,6	47,2	The Udmurtian Republic	49,5	52,1
The Kemerovo Region	27,9	53,5	The Kurgan Region	56,5	55,9
The Tyumen Region	17,8	34,3	The Altai Territory	56,4	56,2
The Omsk Region	38,5	51,3	The Novosibirsk Region	61,1	63,3

Regions with substantial differences			Homogeneous regions		
	The percentage of the poor as estimated through money incomes, %%	The percentage of the poor as estimated through possessed resources, %%		The percentage of the poor as estimated through money incomes, %%	The percentage of the poor as estimated through possessed resources, %%
The Republic of Sakha (Yakutia)	33,2	58,7	The Republic of Tuva	78,6	83,1
The Republic of Khakasia	45	58,1	The Chita Region	88,8	81,1





## Приложение 6.3.

**Table 6.4.1. The Ratio between the Amount of Wages and the Subsistence Minimum Amount in Some of Mono-Functional Cities and Towns, in 1997**

<b>Cities/Towns – “Outsiders”</b>	%%	The ratio between the wages and the subsistence minimum
With oil- and gas-extracting industry	31	4,8
Cities/towns with metallurgical industry	21	3,6
Cities/towns of electrical power industry located around the major hydro- and atomic power stations	18	4,0
With chemical and oil-processing industry	10	3,7
With coal-extracting industry	8	4,0
Other cities/towns	6	3,8
Total	100	4,1
<b>Cities/Towns-"Outsiders"</b>		
Located around mid-size machinery building plants	35	1,3
Cities/towns with food industry	24	1,4
With textile industry	16	1,4
Located around old metallurgical plants	12	1,4
With timber industry	10	1,4
Others	3	1,3
Total	100	1,4

The Source: Estimations according to the database “Mono-Profile Cities/Towns of the Russian Federation/Mono-Profile Cities/Towns and City/Town Formatting Enterprises. The General Report of the Institute of Expertise. 2000. pp. 227-235

**Table 6.4.2. Social Indexes of Cities and Towns in 1996**

	The Population Size, thousands of people							Federal Cities	
	Less than 20	20-50	50-100	100-250	250-500	500-1000	More than 1000	S.-Petersburg	Moscow
Average unemployment level, %%	8,9	7,8	6,0	4,8	4,2	2,8	2,2	2,4	1,1
Average wages, %% of the average in the RF	79	88	97	112	98	107	102	109*	131*

\* reestimated according to the 1998 data

The source: Nefedova T.G., Trayvish A.I. “Strong” and “Weak” Cities and Towns in Russia/ Poles and Points of Growth in the Regional Development. M., The Institute of Geography of the Russian Academy of Sciences, 1998, p.138.

## Appendix 6.5

### Appendix 6.5.1. Financial Sources of Social Allocations<sup>210</sup> in Russia in 1998-1999

Sources of Finances	1998 г.	1999 г.
<b>The State Budget, including</b>	<b>58,6%</b>	<b>56,6%</b>
The Federal Budget	9,9%	9,8%
The Consolidated Regional Budgets, including	48,7%	46,8%
The Regional Budgets	16,1%	н/д
The Local Budgets	32,6%	н/д
<b>Non-Budget Social Funds, including</b>	<b>41,4%</b>	<b>43,4%</b>
The RF Pension Fund	29,0%	31,4%
The Fund of Compulsory Medical Insurance	5,5%	5,5%
The RF Fund of Social Insurance	5,4%	5,1%
The State Fund of the Employment of the RF Population	1,5%	1,4%

The source: Report on the Human Potential Development in Russia, 2000. M.: Human Rights, 2001, p.115

Table 6.5.2. Shares of the Budgets of All Levels as for Financing of the Major Social Allocations in Russia in 1998-1999 (%)

Budget System Levels	Total	Education	Culture and Arts	Healthcare	Social Policy	Housing and Communal Services
<b>1998</b>						
The Federal Budget	16,9	13,2	10,2	8,7	56,3	0,0
The Consolidated Regional Budgets, including	83,1	86,8	89,8	91,3	43,7	100,0
Regional Budgets	27,4	20,7	37,3	38,5	23,3	28,0
Local Budgets	55,7	66,1	52,6	52,8	20,4	72,0
<b>1999</b>						
The Federal Budget	17,4	14,2	16,1	9,8	53,3	0,0
The Consolidated Regional Budgets,	82,6	85,8	83,9	90,2	46,7	100,0
<b>2000</b>						
The Federal Budget	18,4	17,8	19,3	11,3	52,7	0,0
The Consolidated Regional Budgets, including.	81,6	82,2	80,7	88,7	47,3	100,0
The Regional Budgets	30,3	21,0	35,0	40,0	29,8	31,9
The Local Budgets	51,3	61,2	45,7	44,7	17,5	68,1

The sources: the data provided by the RF Ministry of Finance, финансы РФ; Report on the Human Potential Development in Russia, 2000. M.: Human Rights, 2001, p.116

<sup>210</sup> Besides non-budgets funds there were considered budget allocations for housing and communal services (HCS), education, culture and arts, mass media (MM), healthcare and physical culture, social policy

**Table 6.5.3. Per Capita\* Social Expenditures in 1999, %% to the Average throughout the Regions of RF**

	Expenditures of the regional budgets		Expenditure sums of the regional budgets and non-budget funds
<b>REGIONS "THE LEADERS"</b>			
The Evenk Autonomous District	494,6	The Khanty-Mansijsk Autonomous District	296,2
The Khanty-Mansijsk Autonomous District	448,3	The Evenk Autonomous District	293,0
The Yamalo-Nenets Autonomous District	332,1	The Taimyr Autonomous District	248,7
The Nenets Autonomous District	270,9	The Yamalo-Nenets Autonomous District	238,0
The Taimyr Autonomous District	212,3	The Nenets Autonomous District	188,3
The Republic of Sakha (Yakutia)	207,4	The Republic of Tatarstan	149,9
The Republic of Tatarstan	163,1	The Republic of Sakha (Yakutia)	143,5
The city of Moscow	151,1	The Belgorod Region	131,2
The Murmansk Region	150,1	The Komi Republic	128,5
<b>REGIONS "THE OUTSIDERS"</b>			
The Bryansk Region	60,1	The Stavropol Territory	72,1
The Republic of Mordovia	56,6	The Novosibirsk Region	69,9
The Stavropol Territory	53,6	The Amur Region	68,4
The Penza Region	53,5	The Ust-Ordyn Buryat Autonomous District	63,6
The Aginsk Buryat Autonomous District	51,9	The Chita Region	51,7
The Chita Region	47,3	The Aginsk Buryat Autonomous Region	48,5
The Ingushi Republic	35,3	The Ingushi Republic	37,1

\* Regional subsistence minimum considered

The Source: The Report on the Development of the Human Potential in the RF in 2000. M.: Human Rights, 2001, p.117.