

RUSSIAN-EUROPEAN CENTRE FOR ECONOMIC POLICY

RESEARCH PAPER

What Kind of Poverty Alleviation Policy  
Does Russia Need?

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May 2001

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The range of problems that arise as poverty reduction policy is developed could be very broadly described as follows:

- poverty identification and measurement
- analysis of causes and factors of poverty
- adequate economic and social measures to reduce poverty rate

Only comprehensive and consistent consideration of these issues would allow a strategy of poverty rate reduction to be formulated.

## 1. Poverty rate indicators

### 1.1. Poverty line

According to the official methodology that is used in Russia for identifying and measuring poverty, the poverty line is defined as the value of the minimum market basket (basket of goods and services). The methodology of calculating the value of such a basket, which is normally adopted as part of the relevant RF laws, changed twice from 1991 to 2000. It first happened in November 1992, when following the price liberalization, the income of 70% of the Russians fell below the subsistence level of the Soviet times. The choice of the conceptual approach to measuring the subsistence level was predetermined by the economic crisis. Thus, the value of the minimal market basket of 1992 turned out to be 2 times as low as the similar basket of the Soviet period. It should be noted that its composition was calculated based on the following methodological principles:

Based on the analysis of expenditures of 20% of the poorest group the share of population's spending on food and non-food items, services and compulsory payments was estimated<sup>1</sup>.

Nutritionists estimated the value of a food basket that would guarantee compliance with contemporary standards of the consumption of proteins, fats, carbohydrates, and mineral substances.

The subsistence level was established based on the value of the minimum food basket in the structure of minimum consumer expenditures that were evaluated by a statistical method.

After that the structure of the subsistence level value has remained unchanged, which allowed the poverty line to be estimated through monitoring only the change in the value of the minimum food basket.

In **Addendum 1** the average value of subsistence level is estimated for the Russian population as a whole. In the value of the subsistence level in 1992, food accounted for 68.3%, non-food items – for 19.1%, paid services – for 7.4% and taxes and payments – for 5.2% of expenditures. It should also be noted that the subsistence level was estimated separately for children under 6, for children aged 7 to 15, for the working age population and old-age pensioners.

From the first quarter of 2000 onwards, the subsistence level has been calculated based on a new methodology introduced by the regulation of the Labour Ministry and Goskomstat in April 2000. The new value of the subsistence level is based on higher expenditures on non-food items and services. As a result, the new subsistence level value exceeds that of 1992 by 15%-20%. The new (2000) subsistence level is measured only using the consumption standards-based methodology. This means that a new list of goods and services constituting the minimum market basket is

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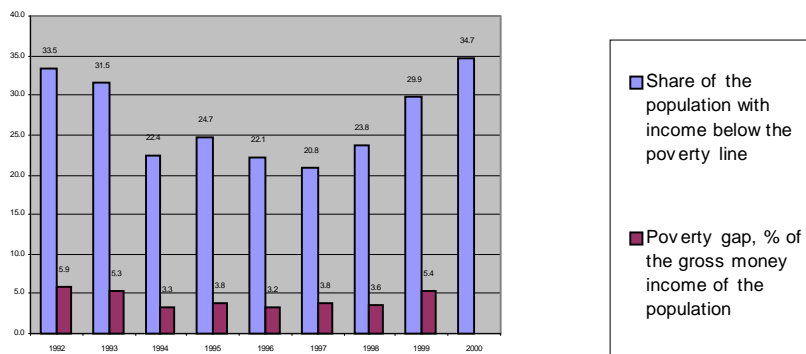
<sup>1</sup> In 1992 food accounted for 70% of expenditures of the 20% of the poorest group.

established and the value of this basket is calculated. From now on the structure of the subsistence level is not fixed. It changes with the change in prices for all the components of the subsistence level value (food and non-food items, services and compulsory payments).<sup>2</sup> For example, in the first quarter of 2000, when the value of the newly-established subsistence level was found to be R1,138, the share of expenditures on food in the overall structure of the subsistence level value was 53%, while in the second quarter of 2000 the subsistence level value was 1,185 rub, with food accounting for 52% of total expenditures.

## 1.2. Poverty rate indicators

Under the official methodology of determining the number of the poor, this group includes the entire number of people with income below the subsistence level. As regards the poverty rate over the entire post-Soviet period, the worst years were 1992, 1993, 1999 and 2000 (see fig.1). In 1992-93 this was due to the price liberalization, which resulted in the decline of real personal income by 40%. In 1999, the high poverty rate resulted from the 1998 financial crisis.

**Fig.1. Share of population with income below the poverty line and the difference between the actual income and the subsistence level (poverty gap) in 1992-2000.**



In analyzing the performance of the official figure of the share of the poor, one should focus on the years 1994 and 2000. In 1994 the share of the poor declined dramatically (from 31.5% to 22.4%). In fact at this time Goskomstat changed the methodology of estimating household incomes. Prior to 1994, incomes were estimated based on the statistics of the population's incomes based on household budget surveys. However, given that in the situation of transition a high share of incomes comes from the unofficial sector of the economy and wage arrears are wide-spread, since 1994 the annual poverty rate has been estimated by comparing annual household expenditures and the value of the annual subsistence level. If the old system of income estimation had been used in 1994, then

<sup>2</sup> To calculate the subsistence level value in 2000, monitoring of prices for the **fixed range of goods and services** comprised of 156 items should be carried out, which, in the situation of constantly changing range of goods and services, makes it very hard to calculate the regional subsistence levels. For that reason, Goskomstat has stopped publishing the values of regional subsistence levels calculated using the new methodology.

the share of the poor would have been estimated at 34%. Thus, the change of the poverty rate estimation technique decreased the poverty rate dramatically. Conversely, in 2000 the change in the subsistence level calculation technique resulted in an increased in the poverty rate. If the methodology of estimating the share of the poor based on the 1992 subsistence level value had been applied to the 2000 data, then in the second quarter of 2000 the share of the poor would have been estimated at 27.6% (with the 2000 subsistence level it was 34.7%). It should also be noted that the estimation of the number of the poor in the situation of the Russia's transition remains a controversial issue. Information on the most important issues of identifying and measuring poverty are provided in Addendum 8.

In addition to the share of the poor in the population, an important indicator of the poverty rate is the poverty gap, which shows the difference between the income of the poor and the subsistence level (see fig. 1). To estimate the poverty rate, we use the poverty gap measured as a percentage of total income, which enables the impact of inflation to be assessed. Analysis of the performance of the share of the poor figure together with the value of the income gap makes it possible to estimate changes within the poor group. For example, the comparison of these indicators in 1993 and 1999 paints the following picture: in 1999 the share of the poor was lower (29.9% versus 31.5%) but the poverty gap value was higher (5.4% compared to 5.3%). This means that in 1999 there was a decline in the poverty rate compared to 1993 but the living standards of those who remained in the poor group became lower, as considerable financial resources are needed to overcome poverty. It is also noteworthy that the poverty gap indicator enables the most important socio-demographic groups within the poor to be identified, thus helping to allocate resources in such a way as to reduce the poverty rate more effectively. Policy measures to reduce the poverty rate will be effective if they:

1. help the broadest possible groups to get out poverty
2. raise the living standards of the most needy

The most effective indicator to be used in identifying both groups is the poverty gap.

## 2. Causes and factors of poverty

### 2.1. Real income decline and poverty rate

The main factor of an increase in the poverty rate was decline in the average real income. In 1992 real income was 52% of the previous year level. In 1993 pension increases, which outran inflation by far, helped to raise real income of the population, thus reducing the share of population in poverty. The following two years, however, saw a resumption of real income decline, and it was only in 1996 that a trend towards an increase in monetary income and a poverty rate decline emerged. It is noteworthy that in this case income growth was going on in parallel with an increase in wages and pensions. The 1998 financial crisis reversed this trend.

The main reason for decline in the real income is low wages. Unlike most of the East European countries, Russia, which at the start of the reforms had redundant employment equal to about 30%, decided against using the strategy of massive unemployment, which resulted in the retention of the majority of inefficient jobs and wage cuts. As a result, the minimum wage in 1992 was 33% (see **Addendum 1**) of the subsistence level of the working age population, dropping to 14% in 1992 and rising again in the subsequent years. In 1998 the minimum wage level again showed a trend towards decline in relation to the subsistence level. In 1999 it was 8% of the subsistence level, and the share of workers with income below the subsistence level was 30% of all workers, while in such sectors as agriculture, health, education and culture it was 60% (see **Addendum 1**). At the same time the

average wage is 160% of the subsistence level. The share of wages in GDP dropped from 44.1% in 1990 to 20.6% in 1999<sup>3</sup>.

It should be noted that the above data refer to the official wages, while currently there is a widespread practice of paying wages unofficially, under a tacit agreement between the employer and the employee. Even at officially registered enterprises one fifth of the workers earn wages that are higher than the those formally written up in the contract, with the difference ranging from two to twenty times<sup>4</sup>. To a large extent, unofficial wage payment is a way to evade the excessively heavy payroll tax bill. According to very conservative estimates<sup>5</sup>, 12% to 15% of the workers' paid time is "in the shadow", which increases workers' income by an average of 13%. Overall, from 25% (according to Goskomstat's estimate) to 50% of Russia's GNP comes from the shadow sector. Such a scale of hidden employment and hidden wages makes it much harder to identify families in need of additional social support.

## 2.2. Social transfers

For the purposes of this study social transfers mean all social benefits provided to the population, including:

- payments from the extrabudgetary funds (pensions, allowances, stipends, benefits. etc)
- payments from the budgets of all levels (benefits, financial aid, etc.)

Overall, social transfers account for 8%-10% of GDP and 13-15% of population's total income (see Table 1 and **Addendum 5**). The share of pensions in the total social transfers is over 80% (**Addendum 6**).

**Table 1. Social transfers<sup>6</sup>**

	1994	1995	1996	1997	1998
Total social transfers. bln rub. (1998 – mln rub)	4,9402.2	11,9494.0	18,9615.9	24,5484.1	23,9858.8
Share of social transfers in GDP, %:	8.1	7.5	8.6	9.7	8.9
Share in money income of the population	13.5	13.1	14.2	14.9	14.1
Change in social transfers <sup>7</sup> , % to the previous year	100.8	81.3	107.4	112.8	76.5

Source: *Social situation and living standards of Russian population: Statistical Digest/ Goskomstat of Russia, Moscow, 1999. – p. 189*

Throughout the reform period the minimum pension benefit was lower than the pensioner's subsistence level. In 1992 (**Addendum 1**) the minimum pension benefit was 85% of the pensioners'

<sup>3</sup> The RF government report *On a step-by-step increase of the minimum wages*

<sup>4</sup> Ibid, p.24

<sup>5</sup> L. Kosals. Between chaos and social order. Shadow economy. Periodical "Pro et Contra". Volume 4. №1.

<sup>6</sup> Pensions, allowances, stipends and other monetary benefits are included.

<sup>7</sup> Adjusted for the Consumer Price Index.

subsistence level, in 1998 it dropped to 48% and 1999 saw the worst ratio of the minimum pension benefit to the subsistence level - 45%.

Before the August 1998 crisis the average pension benefit had not fallen lower than the pensioners' subsistence level, but after the crisis it did. In 1999 the average pension benefit was 70% of the pensioners' subsistence level. This means that over 60% of the old age pensioners may find themselves in the high poverty risk zone. In this case one should bear in mind that about 20% of pensioners keep working after retiring (those are mainly "young" (under 65) pensioners. In addition, the majority of pensioners live within families, where all household income is redistributed. As a result, according to the Goskomstat data, pensioners are the low risk group with respect to poverty. However, according to the results of surveys conducted by the Institute for Socio-Economic Issues of the Population under the Russian Academy of Sciences, pensioners aged over 65 who live by themselves belong to the poorest group<sup>8</sup>. It is these families together with single-parent families that should be the top priority targets of social support by the government.

Despite the great variety of social benefits, so far they have not played an important role in overcoming poverty. Their share of total population's income is no more than 3% (**Addendum 6**). Moreover, 36.7% of total benefits due failed to be paid out in 1998. In 1998, three types of benefits accounted for 72% of all benefits due: medical benefits (36.5%), monthly child support benefits (23.7%) and unemployment benefits (12%).

**Table 2. The number of recipients of monthly social benefits and compensation payments on 1 January 1999, thousand people**

<b>Types of benefits and compensation</b>	<b>Number of recipients</b>
Monthly benefit for each child under 16 years of age	31,800
Monthly compensation (child care) payments to mothers employed by enterprises and organizations	4,600
Monthly child support benefit for children under 16 paid to single mothers, for children whose parents evade alimony payment, and the military personnel's children)	2,340
Unemployment benefit	2,258
Monthly child care benefit paid to parents of children under 1.5 years of age	2,100
Benefit to women with early pregnancy complications	600
Monthly compensation paid to women laid off due to liquidation of enterprises if they have children under 3 years of age and were on child care leave when dismissed	300
<b>Total for 7 types of benefits and compensation</b>	<b>43,998</b>

*Source: Data of the RF Labour Ministry Income and Social Insurance Department*

Data on the number of recipients of monthly social benefits (see Table 2) suggest that the most wide-spread benefit is one paid monthly for child support. It should be added that 1.2 mln people received a lump-sum benefit upon child birth in 1998. According to the data of the Social Insurance Fund, 485 mln man-days were paid by the medical (temporary disability) benefit in 1998 and 76 mln man-days by the maternity benefit<sup>9</sup>.

<sup>8</sup> "Feminization of Poverty in Russia", World Bank, M.,2000

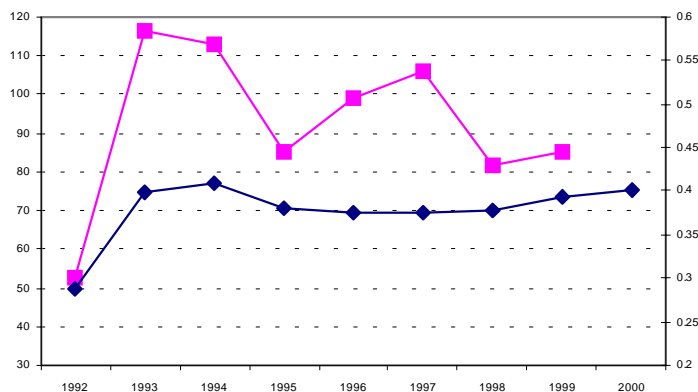
<sup>9</sup> Review on economic policy in Russia for 1999. Bureau of Economic Analysis. – Moscow, 2000, p.338.

Throughout the 1990s, the size of all social benefits was kept at a very low level (**Addendum 7**). The situation became especially grave after the August 1998 crisis. For example, in 1999, the child support benefit was 6% of the subsistence level. Given the considerable social benefit arrears, it could be stated that the established social benefit system fails to address the issue of reducing poverty rate and food-related risks.

### 2.3. Rise in income inequality as a factor of the poverty rate increase

The beginning of reforms in Russia was accompanied by a drop in the per capita real income of the population as well as rising income inequality. We use two indicators for evaluating income inequality: the decile funds coefficient of differentiation (see **Addendum 1**) and the Gini coefficient (see fig.2). The Gini coefficient has been used in Russia to evaluate income inequality for only as long as the recent ten years, while the funds differentiation decile coefficient was also used in the Soviet times. Immediately before the beginning of the reforms, the difference in the incomes of 10% of the richest and 10% of the poorest population was estimated at 8 times. The Gini coefficient is of greater interest from the perspective of the impact of inequality on the poverty rate, as, unlike the funds differentiation decile coefficient, it takes account of income distribution in all decile groups.

**Fig. 2. Pattern of poverty rate and income inequality in 1992-2000**



—■— Per capita money income, % to the previous year (left scale) " —◆— Gini Coefficient (right scale)

In 1992 both factors, i.e., income decline and rise in inequality, resulted in a massive increase in the share of the poor. To evaluate the impact of income inequality on the poverty rate in Russia we will study the period from 1994 onwards, as with regard to the poverty rate the 1993 and 1994 data are difficult to compare because the methodology of income estimation was changed. The analysis of the fluctuations of three indicators: the poverty rate, real income and the Gini coefficient, shows that a rise in the number of the poor did not always occur in parallel with the real per capita income decline and a rise in inequality.

- In 1995 the share of the poor showed an increase, which occurred as real per capita income was declining and inequality decreasing. This means that the all but forgotten 1995 financial crisis affected all the income groups, increasing the number of people with income lower than the subsistence level as well as paring the income of high income groups.

- In 1996 the incomes of the poor groups were rising faster than those of the wealthy, so the share of the poor declined in parallel with decline in income inequality.
- 1997 saw the continuation of decline in the share of the poor but the incomes of the rich were rising faster during this year, so the poverty rate reduction was accompanied by a rise in both average income and inequality.
- In 1998 the inequality factor had the worst effect. The middle income groups were hardest hit by the financial crisis and it was people from those groups who increased the numbers of the poor. At the same time, the rich who were earning dollar-denominated wages were the least affected by the crisis. For that reason the share of the poor increased as the average income fell and inequality rose.
- In 1999, the negative effect of the inequality rise on the poverty rate continued: though the average income increased somewhat, the number of the poor was still increasing. This means that it was the high income groups that accounted for most of the income increase, which is borne out by the Gini coefficient.

The economic foundation of income inequality is wage differentiation, which, as the Goskomstat data suggest, exceeds income differentiation twice, whereas social transfers and income redistribution within households iron out differentiation to a certain extent. Wage differentiation, in turn, results from inter- and intrasectoral wage inequality. In May 2000 the biggest wage difference in the economy was as big as 8.4 times (**Addendum 3**). The highest wages concentrate in the fuel and energy sector, non-ferrous metallurgy and the financial and insurance sector, while the lowest wages are paid in the budget-financed sectors, the light industry and agriculture. However, wage differentiation is even higher within individual sectors, being the highest in the banking industry, where the wages of the 10% of the highest-paid employees was 30 times as high as that of 10% of the lowest paid ones. Wage differentiation is also rather high in some of the low paying sectors. For example, in the agricultural sector the funds coefficient of wage differentiation is 24 times, in science and culture it is 19 times. Differentiation is lowest in the power industry, which is a high wage sector, with the funds coefficient of differentiation of 7.

Concentration of high wages in individual sectors and posts resulted in a sharp increase in regional inequality both with respect to wages and overall income. In 1998 the highest per capita income was earned in Moscow, which was 9.5 times as high as that in Republic of Ingushetiya, which had the lowest per capita income.

Since 1992 concentration of business income and income from property in a relatively small high income group has been an important factor of income inequality (**Addendum 1**). 20% of the wealthiest people accounted for 47% of total income, including 38% of total wages, 27% of social transfers, 7% of income from property and 62% of other income, including business income.

## 2.4. Poverty and employment

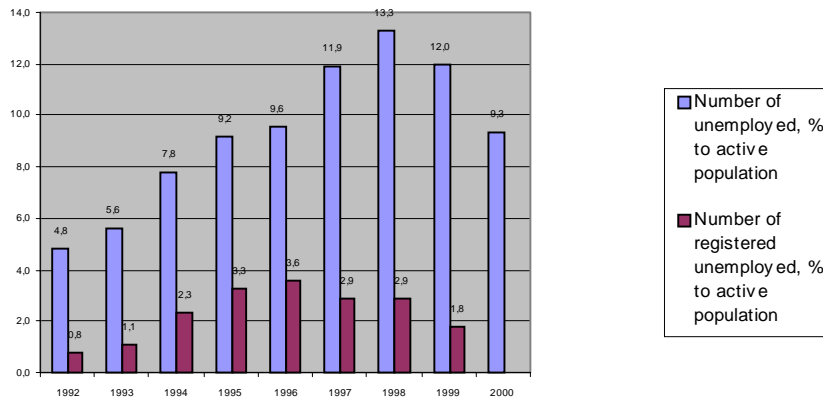
Even though market reforms open up new opportunities for using labour potential, the labour force participation rate was declining until the end of 1998. Prior to 1999, the reduction in the labour force participation rate was mainly caused by the macroeconomic decline. Alongside the well known negative effects, the 1998 financial crisis formed incentives for stepping up import substitution in the light and food-processing industries. For that reason, together with an increase in the labour force participation rate, 1999 saw an increase in employment in the economy, which is shown in Table 5. Increase in both labour demand and supply, the number of the economically active population in 1999-20000 increased by 3 mln people, while employment grew by 6.2 bln people.

The analysis of strategies of population's behaviour based on the RLMS surveys<sup>10</sup> shows that only a limited number of people were able to use innovative strategies of economic activity successfully.<sup>11</sup>

- 6% of respondents aged over 15 went into business
- 5.4% of respondents are combining full-time and part-time employment, which helps to get out of poverty<sup>12</sup>
- 2.4% successfully started a business of their own
- 8.7% got a new job, which helped to get out of poverty
- 3.9% got a new, higher-paid job in the private sector

At the same time, 10.8% of the sample implemented the strategy of stepping up work in their own land plots or household farms, which cannot be regarded as an innovative economic activity. Over 60%<sup>13</sup> could not undertake any activity at all to raise the living standards higher than the subsistence level.

**Fig. 3. Total (based on ILO definition) and registered unemployment in 1992-2000.**



The structure of economically active population has been changing considerably with the development of a market economy in Russia: the share of the employed was declining with the share of the unemployed rising. At the same time, after the massive transformation decline had stopped by 1995, these processes slowed down. Russia is characterised by considerable difference

<sup>10</sup> For description of the RLMS database see Addendum 9.

<sup>11</sup> For details see D. Popova's Working Paper

<sup>12</sup> The survey only covers full-time and regular additional employment. If the irregular additional employment is included, then the number of moonlighters increases. The data of a survey conducted by the Institute for Socio-Economic Problems of the Population of the Russian Academy of Sciences (for details of the database see Ye. Avraamova) suggest that over a 12 month period, about 20% of the economically active population had had additional employment at times

<sup>13</sup> One respondent could implement a number of strategies, so in this case the total of respondents is not equal to 100%. Some strategies are beyond the scope of this analysis

between the overall (ILO-defined) and registered unemployment (Fig. 3). This is mainly explainable by tight restrictions on registration with the Employment Service, the meagre unemployment benefit, and long-standing benefit arrears. As a result, 12% of the economically active population were unemployed and looking for a job, while only 1.8% were actually registered as unemployed. In addition, about 8% of economically active population are affected by the so-called hidden unemployment (are on long unpaid leave or working reduced hours).

## 2.5. Crisis of the social support system

In the Soviet times social support had three priorities:

- Support people who rendered prominent services to the State
- Make payments which can, as a rough approximation, be referred to as insurance (pensions, medical benefits, etc.)
- Provide social services to groups that are unable to work and do not get sufficient support from their families. This, among other things, includes payment of some types of benefits (child support benefits, benefits provided to the families with a large numbers of children and single-parent families, etc.).

The first of the above objectives was regarded as top priority. It was supposed to bring about differentiation of the Soviet society, since wages, in compliance with the ideological paradigms, were oriented to the egalitarian provision of wealth. As support for merited people performed the function of bringing about differentiation within the framework of a society that declared everyone's equality with regard to wealth, this function was fulfilled through hidden mechanisms that concentrated in the area of housing and quality service provision (health, recreation, transport, etc.). As a result, financing of this area of social support was non-transparent and secured support for the wealthiest segment of society. As Russia's well-being was increasing, the range of people included in the privileged group was expanding. The payments that were similar to insurance in nature were really based on insurance principles to the extent possible in a centralized economy (the amount of payments was a function of time worked). The third of the above objectives had the lowest priority and was financed according to a "residual principle".

After market reform started, the development of the social support system has mainly been based on the principle of prompt response to the aggravation of socio-economic problems (a rise in the numbers of the poor and the unemployed, the emergence of refugees and migrants, wage and pension arrears, etc.). This resulted in the establishment of new types of social benefits on the federal, regional and local levels. At the same time, all social commitments and principles of social support inherited from the Soviet days were retained.

This strategy of the system development resulted in an unfounded variety of forms and types of social support. On the federal level alone there are about 156 types of social benefits and subsidies provided to 236 groups. According to the Labour Ministry, the number of benefit recipients is about 1000 mln. Thus, over R250-300 mln is needed to finance benefit payment.

In most cases entitlement to social support depends on whether an individual belongs to an eligible social group, such as war veterans, certain groups of civil servants, war invalids, etc.). Subject to means testing are only two types of social support: housing subsidies for poor families and child support benefits. Even a very simple analysis suggests that the current system of social benefits and allowances has limited potential for redistributing resources in favour of those who are most in

need. Only one third of social spending that is captured by accounting goes to the needy, while two thirds of the amount are allocated to those who could do without it<sup>14</sup>.

The inevitable outcome of such development of the social support system was failure by the government to meet social commitments to the population. Thus, in 1999 the government's commitments with respect to federal benefits alone were 15% of GDP. Real expenditure of the consolidated budget under the budget items in the Social Policy section were 1.7% of GDP or 6% of total expenditure of the consolidated budget. Thus, the main flaw of the current social support system is that the government's commitments do not match its resources.

Before we move on to a brief review of individual components of social support, it should be pointed out that regional authorities are a key element in this system. Total expenditure on social support is financed from a number of sources:

- the federal budget (direct expenditures)
- regional (oblasts, krajs, republics) budgets
- federal off-budget funds (beginning January 2001 it has been finance from the unified social tax revenues)
- regional and local off-budget funds.

53.3% of expenditure under the Social Support item was financed in 1999 from the Federal budget and 46.7% - from the consolidated regional budget<sup>15</sup>. Distribution of social spending from the federal budget among the regions is extremely uneven. A single federal policy of social transfer allocation among the regions is nonexistent. It should also be mentioned that regions also vary considerably with respect to the share of expenditure on social support in the consolidated budgets.

#### Box 1

As part of the IBRD project of technical assistance to the budget system reform on the regional level, the Leontyev Centre (St Petersburg) analyzed the structure of social spending of 6 pilot regions. Based on the data of this project, in 1999 the share of spending on social support in the consolidated regional budget was

- 36% in Chelyabinsk oblast
- 33.6% in Vologda oblast
- 23.6% in Samara oblast
- 21.6% in Belgorod oblast
- 18.3% in Khabarovsk krai

As a result, there is a ten times difference in per capita social spending (adjusted for difference in the value of the subsistence level) of the regions. Top ten regions are Khanty Many okrug, Evenk okrug, Taimyr okrug, Yamal-Nenets okrug, Republic of Tatarstan, Republic of Sakha (Yakutiya), Belgorod oblast, Republic of Komi, Krasnoyarsk krai, The list of the regions with the lowest social

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<sup>14</sup> Speech by Prime Minister Mikhail Kasyanov, to the Duma on May 17, 2000 (published in Rossiyskaya Gazeta, 19 May 2000)

<sup>15</sup> RF Finance Ministry data

expenditures is as follows: Stavropol krai, Novosibirsk oblst, Amur oblast, Oust-Ardynsk-Buryatia okrug, Chita oblast, Republic of Ingushetia<sup>16</sup>. In 1999 spending of the consolidated regional budgets across Russia was 300 rubles per capita.

## 2.6. Social benefits

Social benefits are the core of the entire social support system. It is this component of social support that has been pinpointed as the central element of reform. The main arguments in favour of this strategy of reform are as follows:

- Formally, over 70% of the Russian population are entitled to social benefits
- The government does not have resources needed to meet all the commitment to the population as regards this mandate
- Households with low income exposed to high food-relate risks are not deemed to be a high priority group of benefit recipients, which runs counter to the principles of social support in a market economy

As Russia does not have a system of benefit provision accounting equivalent to the importance of this distribution, the budget statistics are the next best representation of the actual scale of benefit provision (see Tables 3-4). While over 70% of the population are formally entitled to all kinds of benefits, the data of the Goskomstat household budget surveys suggest that only 37% of households actually receive them (Table 3). It should be pointed out that a slight increase in the number of households receiving benefits is explainable by the improvement in accounting rather than expansion of the benefit system. The most common are transport and housing benefits. Food subsidies, which are directly related to the poverty issues, are provided to about 5% of households. Before we proceed to other benefit-related issues, it should be mentioned that benefit provision is mostly concentrated in urban areas (meaning both the amount and numbers of recipients). Rural population is exposed to discrimination in this respect, the number of food subsidy recipients being the only exception (Table 3).

**Table 3. The share of households with recipients of subsidies and benefits in the II quarter of 1999-2000**

	Total households		including			
	1999 Q2	2000 Q2	urban areas		rural areas	
			1999 Q2	2000 Q2	1999 Q2	2000 Q2
Households with subsidy recipients, % to the number of households of the relevant group	32.7	36.4	36.8	40.4	21.2	25.4
Including:						
food subsidies	3.9	5.2	3.5	4.7	5.0	6.5
transport subsidies	18.1	20.1	22.9	25.2	5.2	6.2
housing subsidies	17.5	19.2	20.3	21.8	10.1	12.3
subsidies for recreational facilities	1.5	2.2	1.9	2.5	0.6	1.2
health care subsidies	0.7	1.2	0.8	1.4	0.5	0.9
subsidized child care centers	3.1	3.4	3.5	3.9	1.9	2.1
subsidized purchases of goods	0.0	0.0	0.0	0.0	0.1	0.0
Gifts and gratuities from enterprises and foundations	0.5	1.4	0.4	1.3	0.9	1.8
others	3.6	4.7	3.8	5.1	2.9	3.8

Source: Surveys of household budgets in the II quarter of 2000.

<sup>16</sup> Report on human development in the Russian Federation (draft), (UNO), 2000.

Analysis of the benefit system suggests that from the standpoint of amount per recipient, subsidies for recreational facilities are clearly the leaders, while they are the least widespread. Comparison of average amounts of the most wide-spread benefits with households' average disposable resources showed the following ratios in the 4th quarter of 1998<sup>17</sup>: share of food subsidies is 2.8%, transport subsidies – 1.5%, housing subsidies – 1.4%.

This suggests that while social benefits are formally widespread, the role of actually received benefits in relation to total disposal incomes of the population is insignificant. It should be added that household budget statistics do not take account of the majority of hidden subsidies received by 20%-25% of the wealthiest group, as these benefits are not represented in the budget sample.

**Table 4. Amounts of subsidies and benefits received by households in the II quarter of 1999-2000**

	Total households		including			
	1999 Q2	2000 Q2	urban areas		rural areas	
			1999 Q2	2000 Q2	1999 Q2	2000 Q2
Average monthly amount of subsidies and benefits per recipient, roubles:						
Including:						
food subsidies	155.5	88.0	213.6	98.3	62.1	70.9
transport subsidies	56.0	80.1	57.7	83.2	32.0	39.7
housing subsidies	48.2	62.2	50.4	64.3	36.2	51.7
subsidies for recreational facilities	658.3	777.9	688.5	835.6	403.3	396.7
health care subsidies	144.7	310.7	148.8	308.4	125.9	192.5
subsidized child care centers	263.0	383.0	268.7	395.8	233.1	315.6
subsidized purchases of goods	46.1	174.2	154.8	195.7	24.2	105.5
Gifts and gratuities from enterprises and foundations	95.5	108.7	83.6	93.4	108.4	136.5
others	33.8	36.4	34.6	33.7	30.9	46.8

Source: Surveys of household budgets in the II quarter of 2000.

Under the Strategy of Russia's Economic Development until the Year 2010, the abolishment of unfounded benefits, inclusion the cash equivalent of a portion of the benefits in wages and reorientation of the social support system to providing benefits to the neediest groups (targeted social support), are the main areas of the social support reform. To improve the system of financing social support, the so-called non-financed mandates (commitments) are to be abolished.

## 2.7. Targeted social support

In the situation of the economic crisis and the budget constraints, targeted social support of the poorest groups is regarded as the highest short term priority.

According to the Strategy of Economic Development Until the Year 2010, the majority of social benefits, allowances and payments will be reoriented towards targeted provision. Even though the current social support system is mainly based on the principles of benefit provision to broad groups, regardless of resources available for that, most of the regions have gained experience of providing targeted support to the poor. Under presidential decree of 27.03.93 No 405 On urgent measures to stabilize living standards of the RF population in 1993, the regions were put in charge of social support for the poor groups. This document provided a very poor legal framework but it gave an impulse to organizing targeted aid to the poor. Leaving aside the entire history of developing the

<sup>17</sup> Review on economic policy in Russia for 1999. Bureau of Economic Analysis. – Moscow, 2000, p.337.

legal framework for targeted social support, we shall point out that the legislative and regulatory basis of such support is already in place by now. This includes:

- Federal Law On State Social Support
- Federal law On the Subsistence Level in the Russian Federation with amendments introduced in May 2000
- Guidelines for determining the minimum market basket for the main socio-demographic groups, approved by the RF Government decree in March 2000
- Decree of the RF Government On rules for calculating average per capita income of poor families and single-member households of 22 February 2000.
- Recommendations of the Ministry of Labour and Social Development for evaluating the poverty rate in implementing regional programs, March 2000. The recommendations were developed based on the results of a pilot program of targeted social support for poor families in three Russian regions (Republic of Komi, the Voronezh and Volgograd oblasts) in 1997-98.

According to the data of targeted support monitoring conducted by the RF Labour Ministry in 1999-2000, in 52 regions social support is provided to the poor on a regular basis, in 12 regions it is provided only if financial resources become available, in 9 regions (the Kaluga, Kursk, Ryazan, Tver and Tula oblasts, Buryatia autonomous okrug, Republic of Karachayev-Cherkessia, Republic of Ingushetia, Republic of Kalmykia) this type of support is not provided at all due to the lack of funds. In Russia as a whole regional budgets account for 41%, local budgets for 32% and other sources – for 21% of financing of social support programmes.

Social support for the poor is most commonly provided in the form of in kind-benefits, such as free meals, food packages, clothes and footwear (61 regions), subsidized housing, goods and services (53 regions). The welfare benefits as such are provided in 21 regions, of which only 17 provide pay them in the monetary form. In each region benefits are provided to 5%-6% of the population, while the share of the poor in all the benefit-paying regions exceeds 25%. Such a gap between the number of people who qualify for poverty benefits in theory and the actual number of their recipients is due to the fact that practically all the regions apply a “tough” definition of the poverty line (50%-70% of the subsistence level) and are willing to provide benefits only to the most socially disadvantaged groups. Practically all the regions shut out working age individuals. At the same time, the results of a pilot means-tested (targeted) programme implemented in the Vologda oblast suggest that if the working age individuals are deemed as entitled to benefits, they account for 40%-50% of recipients.

An average means-tested social benefit is R40-80 per person. Certain social support procedures (used, for example, in the Republic of Komi) are based on the principle of raising the level of the poor groups' incomes to the fixed guaranteed minimum. In some regions a fixed benefit is set for all applicants.

As most of the regions are seriously concerned about the big numbers of applicants for means-tested welfare benefits, they implement a variety of schemes to shut out the not-so-poor families. The Republic of Komi uses a procedure for additional, more accurate, evaluation of incomes based on the data on personal and real property owned by households as well as their employment potential based on professional skills and qualifications. The Volgograd oblast employs a method of calculating households' consumption based on the data of statistical evaluation of difference between the incomes and expenditures of households that differ in socio-demographic structure. The Voronezh oblast applies an ingenious technique for evaluating the share of produce from individually-owned land plots and household farms in income.

Most regions also provide aid in the form of inexpensive basic foodstuffs, which also reduces the number of individuals mistakenly included in the poorest group. This type of social support should be analyzed in more detail, for it is just this form that helps to reduce the poverty risks. It is worth repeating that this particular type of targeted social support for the poor has become the most widespread in the Russian regions. In spite of that, the Government is insisting on the abolishment of in-kind aid and its replacement by the monetary benefits. The following arguments are offered:

1. Targeted in-kind aid involves higher administrative costs, while distribution of monetary benefits is less costly
2. It is poor families themselves that can spend monetary benefits in the most rational way
3. There is ample evidence of the inefficiency of regional authorities in distributing in-kind social support. Unfortunately, in most cases regional authorities use for this purpose unmarketable goods that local producers supply by way of barter tax payments. This results in the provision of poor quality expensive goods that cannot be regarded as essential. In principle, such aid does not address the problem of support for the poor because of the inadequate nutritious balance of such food packages.

At the same time, the poor management of the distribution system does not mean that the system is bad in itself, for distribution of monetary benefits would entail even greater irregularities. Targeted social transfers have been misused, which resulted in considerable benefit arrears. Bearing in mind that most of the regions still persist in providing means-tested benefits in kind, this form of support probably suits the welfare authorities best.

To simplify the procedures of financing and administering targeted social support, it is proposed that the variety of social benefits provided to the poor should be replaced by a unified poverty benefit. As an alternative, the entire variety of benefits could be retained but authority to provide them would be concentrated within one agency (it probably should be a social support service), which would secure the flexibility of the system in the situation of ever changing system of social risks.

### **3. Who is deemed to be poor in today's Russia**

Combined impact of factors concentrated in the area of employment, allocation of social transfers and organization of social support has resulted in the emergence of socio-demographic types of households exposed to high poverty risks. Table 5 shows that rural households are more likely to get into poverty,<sup>18</sup> and their poverty is deeper (the per capita poverty gap is greater). At the same time, rural households only account for 31.4% of the total poverty gap. This means that the main resources of the poverty reduction programs should be oriented to urban households but the programs themselves should be different for urban and rural population, as poverty is deeper in the rural areas. Considerable regional differentiation of the poverty rate should also be mentioned.<sup>19</sup>

From the socio-demographic perspective, the highest poverty risk exposure is observed in traditionally poor groups of households, where poverty is due to the heavy burden of dependents as well as physiological and social limitations on active employment. Such households primarily include two-parent and single-parent families with three or more children, and households with unemployment benefit recipients. Single-parent families with one or two children should also be

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<sup>18</sup> In this case the poverty rate is evaluated using the figures of households' disposable resources, which include all the funds (money income and savings) spent over the accounting period and resources received in kind (in-kind benefits and produce from individually-owned land plots and household farms).

<sup>19</sup> Issues of the regional differentiation with respect to the poverty rate will be considered after the relevant data have been published.

deemed as part of this group. These household types also show the highest values of the per capita poverty gap. At the same time, these families account for no more than 25% of the total poverty gap. The most efficient poverty alleviation strategy for such families would be subsidiary social support, meaning direct targeted social transfers.

**Table 5. Poverty rate in 1999 based on household budget surveys**

	Share of households with disposable resources below subsistence level, %	Per capita monthly money income gap (poverty gap) (rubles)	Share of total income gap, %
Total households	42.3	361.8	100
Urban households	40.9	356.2	68.6
Rural households	46.2	374.7	31.4
Two-parent families			
Childless couples	25.4	239.7	3.8
Childless couples with other family members	46.4	334.6	0.9
Couples with 1-2 children	53.9	373.2	36.9
Couples with 1-2 children and other relations	58.4	364.2	14.0
Couples with 3 and more children	75.6	459.0	6.3
Couples with 3 or more children and other relations	87.5	466.5	1.4
Single-parent families			
Single-parent families with 1-2 children	56.9	394.2	5.8
Single-parent families 1-2 children and other relations	71.4	387.2	6.4
Single-parent families with 3 and more children	86.1	512.4	0.7
Single-parent families with 3 and more and other relations	84.8	500.3	0.6
Widows with children	59.5	382.5	1.7
Households with unemployment benefit recipients	69.2	432.8	4.1
Non-working pensioners households	26.7	224.9	4.1
Working age singles	17.5	309.2	0.7
Non-working age singles	16.7	153.5	0.6

The largest poor group is the “new poor” families, including, in the first place, childless couples or couples with 1-2 children. Though these families show relatively low values of the per capita poverty gap, they account for 55% of the total poverty gap. Moreover, the majority of working age members of these households have a certain skills and training potential, which suggests that poverty reduction measures targeting these groups will be effective only if they affect the labour market and promote employment

#### 4. Priority measures of poverty alleviation policy

While the poverty rate increase results from a variety of socio-economic factors, priority measures of the government policy aimed at poverty rate reduction should be as follows:

1. Develop national strategy of poverty alleviation. This strategy should envisage long-term and short-term objectives, provide for division of powers between federal, regional and local authorities, define financing sources for poverty reduction programs, identify the high poverty risk group and forms of social support for them, establish adequate legal framework.
2. Promote establishment of an active labour market. In addressing this problem, three key goals could be identified: support for proactive employment programs, increasing minimum wages and legalization of unofficial income. It should be emphasized that the solution of these problems should not only be associated with high rates of growth. Redistribution of income in favour of low-paid groups and legalization of unofficial income can also be achieved in the situation of economic stagnation. It is important that inequality decline and reduction of the shadow sector of the labour market can themselves give an impact to economic growth.
3. Change social support priorities. Currently most of the social programs in Russia aim to support privileged groups that rendered special services to the State. As in the Soviet times benefits and privileges helped socio-economic stratification of society, the majority of social benefits are provided to individuals and families that are not poor. In the situation of the high poverty rate and budget constraints, the poor should become a priority social support group.
4. Reform of the system of social services. Implementation of the planned strategy of reforming the system of social services (housing, education and health care) will increase their share in household expenditures. If population income fails to increase in parallel with increases in tariffs and service prices, then the share of families unable to pay the essential services will rise.

Poverty can only be reduced if effective social support for the poor is combined with proactive employment programs.

**Addendum 1****Performance of Some Basic Indicators of Income and Poverty in 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999
1.Consumer price index, % to the previous year	2608.8	939.9	315.1	231.3	121.8	111.0	184.4	136.5
2.Per capita money income, rubles	4.0	45.2	206.3	515.4	760.0	934.7	968.6	1563
3.Disposable money income, % to the previous year	52.5	116.4	112.9	84.9	99.3	106.3	81.5	84.9
4.Real wages due per worker, % to the previous year	67	100.4	92	72	106	105	87	76.8
5.Real monthly pensions, % to the previous year	52	131	97	81	109	95	95	60.6
6.Real monthly pensions, % to the previous year	41.5	93.3	70.9	81.4	115.8	100.0	78.3	53.9
7. Average monthly wages of those employed in the economy, rubles	6.0	58.7	220.4	472.4	790.2	950.2	1100.7	1575
8.Average monthly pensions, rubles	1.6	19.9	78.5	118.1	302.2	328.1	399.0	448.7
9.The average monthly overall subsistence level per capita, rubles	...	20.6	86.6	264.1	369.4	411.2	493.3	908
10.Number of population with money incomes below the subsistence level, % of total population	33.5	31.5	22.4	24.7	22.1	20.8	23.8	29.9
11.Poverty gap, % of total money income of the population	5.9	5.3	3.3	3.8	3.2	3.8	3.6	5.4
12.Ratio of per capita money income to the subsistence level, %	210	219	238	195	206	227	202	174
13. Ratio of average monthly wages due to the subsistence level, %	281	254	226	159	190	206	189	158
14. Ratio of average monthly pension to the subsistence level, %	117	138	129	101	116	113	115	70
15.Coefficient of funds (the ratio of money income of 10% of the wealthiest to that of 10% of the poorest population), times	8.0	11.2	15.1	13.5	13.0	13.5	13.4	13.9
16.Minimum wages, % to subsistence minimum of the working age population	33	26	18	14	17	18	15	8
17. Minimum guaranteed monthly pensions due, % to the subsistence level of pensioners	85	78	67	48	73	77	67	45

## Addendum 2

Distribution of total money income of the population

	1992	1993	1994	1995	1996	1997	1998	1999	1 trim. 2000
Gross income *	100	100	100	100	100	100	100	100	100
Including groups of population (20% each)									
First (those with the lowest Incomes)	6.0	5.8	5.3	5.5	6.2	6.2	6.2	6.2	5.9
Second	11.6	11.1	10.2	10.2	10.7	10.6	10.5	10.6	10.1
Third	17.6	16.7	15.2	15.0	15.2	15.1	14.9	14.9	14.5
Fourth	26.5	24.8	23.0	22.4	21.5	21.4	21.0	21.0	20.9
Fifth (those with the highest incomes)	38.3	41.6	46.3	49.9	46.7	47.4	47.3	47.3	48.6
Gini coefficient (index of income concentration)**	0.289	0.398	0.409	0.381	0.375	0.375	0.379	0.394	0.401

\* Before 1993 – Aggregate income (cost of net production of private supplementary farms considered)

\*\* Illustrates the extent of uneven distribution of population classified by money income levels. The coefficient index may vary from 0 to 1, the higher is the index meaning the more uneven is the social distribution of income.

Source: Goskomstat of Russia. Statistical Almanac "Social Situation and the Living Standard of the Population in Russia" for the relevant years Goskomstat of Russia. Almanac "Socio-Economic Situation in Russia" for the relevant years.

**Addendum 3**

**Average national wages and monthly wages due at enterprises and organizations in various sectors of the economy (% of the total)**

	1994	1995	1996	1997	1998	May 1999	May 2000
Total	100	100	100	100	100	100	100
Industries	104	112	110	111	115	119.4	128.4
Including							
Power industry	205	209	204	198	203	190.4	182.8
Fuel	237	256	242	244	237	258.2	300.2
Iron and steel	121	136	146	140	136	133.5	155.4
Non-ferrous metallurgy	197	224	207	202	220	216.1	119.0
Petrochemical	94	108	106	109	116	117.9	119.0
Machinery and metal-working	80	85	83	85	89	89.2	95.2
Forestry, woodworking, pulp and paper	83	95	87	85	84	96.3	93.4
Construction materials	114	III	103	102	101	86.5	92.4
Light (textile) industry	54	56	50	51	51	48.8	53.3
Food processing industry	122	118	117	115	116	120.0	118.8
Agriculture	50	50	48	46	45	36.8	35.5
Construction	129	126	122	128	125	107.5	111.9
Transport	150	156	144	141	144	148.4	143.2
Communications	123	124	130	143	140	147.1	131.3
Wholesale and retail trade, public catering	79	76	77	79	80		71.3
Information services and Computer industry	106	87	99	122	125		
Geology, geodesy and weather forecasting	138	145	148	162	172		
Housing, utilities and general services	96	102	106	107	105		90.9
Health care, sports and social support	76	74	77	70	69	67.3	65.4
Education	69	65	70	65	63	62.4	61.7
Culture and arts	62	61	65	62	62	59.6	61.0
Science and science-related services	78	77	83	94	99	100.6	114.1
Finance, investments and insurance	208	163	193	177	199	213.2	205.5
Administration and management	117	107	120	131	129	126.3	129.6

Source: Goskomstat of Russia. *Statistical almanac Social Situation and the Living Standard of the Population in Russia for the relevant years* Goskomstat of Russia. *Almanac Socio-Economic Situation in Russia for the relevant years.*

**Addendum 4****Share of workers with wages at or below the subsistence level at enterprises and organizations in various sectors of the economy (%)**

	April 1995	May 1996	October 1997	October 1999
Industries	32.5	28.7	17.5	26.5
including				
Power industry	8.2	4.8	3.6	8.0
Fuel	8.9	7.6	4.6	5.0
Metallurgy	15.8	10.1	6.6	13.1
Petrochemical	27.2	24.1	13.8	23.4
Machinery and metal-working	45.9	45.5	28.5	39.6
Forestry, woodworking, pulp and paper	37.5	37.4	24.2	37.4
Construction materials	26.1	24.3	15.3	31.1
Light (textile) industry	65.4	61.1	43.6	58.0
Food processing industry	29.6	21.7	15.1	30.3
Agriculture	80.2	70.4	65.5	82.0
Construction	27.8	24.7	14.8	29.3
Transport	15.5	12.0	8.7	19.2
Communications	30.5	24.9	18.8	37.4
Housing, utilities and general services	35.7	28.2	18.5	38.9
Health care, sports and social support	63.7	48.7	47.8	67.2
Education	64.6	49.7	49.4	70.5
Culture and arts	70.8	58.0	56.9	72.2
Science and science-related services	53.7	44.1	31.6	46.6

Source: Goskomstat of Russia. Statistical almanac *Social Situation and the Living Standard of the Population in Russia, M.I 999*, data of the Department of Labour Statistics

**Addendum 5****Change in the structure of money income, %**

	1990	1991	1992	1994	1995	1996	1997	1998	1999	2000 *
Total money income	100	100	100	100	100	100	100	100	100	100
Wages, including unofficial wages	74.1	69.7	73.6	64.5	62.8	65.9	65.7	64.9	65.5	64.5
Social transfers	14.7	16.3	14.3	13.5	13.1	14.0	15.0	13.6	13.2	13.9
Income from property	2.5	2.8	1.0	4.5	6.5	5.4	5.7	5.5	7.2	7.3
Business income	3.7	4.1	8.4	16.0	16.4	13.6	13.0	14.2	13.2	13.1
Other income *	5.0	7.1	2.7	1.5	1.2	1.1	0.6	1.8	0.9	1.2

\* Data for III quarter of 2000

**Addendum 6****Expenditure on benefit payment, % to total**

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Total expenditure on benefit payment	100	100	100	100	100
Including					
Temporary disability (medical) benefit <sup>20</sup>	38.9	32.3	34.3	33.6	36.5
Including injuries and occupational diseases	...	0.5	0.5	0.5	0.6
Family and maternity benefits	52.4	53.6	49.6	46.7	37.2
Including					
Maternity benefits <sup>20</sup>	5.2	4.1	4.0	3.7	4.8
Benefits granted upon birth of a child	1.1	1.5	2.9	3.2	3.9
Child care benefit until 1,5 years of age <sup>20</sup>	2.7	2.6	4.4	4.3	4.7
Disabled child care benefit <sup>20</sup>	0.06	0.07	0.1	0.11	0.16
Monthly benefits for every child <sup>21</sup>	43.4	45.3	38.3	35.5	23.7
Benefits and payments to women in the rural areas <sup>21</sup>	-	0.01	-	-	-
Subsidies for podiatric shoes <sup>21</sup>	-	-	0.6	0.5	...
Benefits and social support for people who suffered from severe radiation exposure and other accidents <sup>21</sup>	0.2	0.7	3.8	5.5	9.3
Compensation paid to individuals providing care to disabled individuals <sup>22</sup>	-	0.1	0.1	0.3	0.3
Financial aid <sup>23 24 25</sup>	2.4	3.1	1.0	0.9	1.2
Unemployment benefits <sup>24</sup>	4.4	8.3	8.0	9.7	12.0
Lump-sum benefit paid to refugees and resettled individuals	0.02	0.02	0.01	0.02	0.03
Travel expenses of refugees and resettled people	0.01	0.01	0.01	-	-
Funeral benefit	1.6	1.8	2.6	2.8	3.5
Share of expenditures on benefit payment in GDP, %:					
in total expenditures of the population	2.6	2.4	3.2	3.1	2.4
Change in expenditures on family and maternity benefit payment.% to the previous year.	119.0	79.1	128.7	103.1	64.2
Monthly benefit child care benefit arrears as of yearend, % to total benefits due	...	...	...	...	36.7

<sup>20</sup> Resources of the Social Insurance Fund<sup>21</sup> Resources of the Federal and Regional Budget<sup>22</sup> Resources of the Pension Fund<sup>23</sup> Resources of the Federation of Independent and other trade unions<sup>24</sup> Resources of the Federal Fund for employment of population<sup>25</sup> Resources of the Federal migration service

**Addendum 7****Minimum social guarantees relative to the subsistence level**

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Minimum wages	13	16	19	18
Wage rate under the Unified Wage Rate Schedule for Government Employees 1st category workers	19	21	18	19
Minimum pensions benefits: (old age pensions)	27	26	25	29
disability pensions:				
1 category disability	38	37	35	40
2 category disability	19	18	18	20
3 category disability	13	12	12	13
pension paid upon the loss of household income earner	13	12	12	13
social pensions:				
disability since childhood:				
1 category disability	38	37	35	40
2 category disability	19	18	18	20
individuals above 65 (60) without employment record	18	17	17	19
monthly benefits for each child aged:				
under 6	8	-	-	-
6 to 16, from 1996 a unified benefit for children under 16 has been paid	7	13	15	14
Minimum stipends paid to:				
university students	10	16	38	36
technical college and vocational school students	7	11	13	13

## Addendum 8

### Controversial issues of the poverty rate determination

Market reforms have changed distribution mechanisms radically. If summarized, these changes were as follows:

- simultaneous employment at a number of jobs has become widespread
- informal employment has become much more massive
- irregularity of payments of all kinds of income has become the norm
- payments in kind have been vigorously introduced into the real practice of distribution
- a rise in importance of individually-owned land plots and household farms as one of the sources of food for the household has been observed

As these changes occurred, the expansion of the Russian people's rights and liberties has made it impossible to select respondents in the national living standards surveys on an involuntary basis. All these circumstances have called for more complicated methods of monitoring expenditures, and some of those features have become insurmountable obstacles. That is why practically all the researchers and organizers of mass household surveys began to point out a high level of disbalance between incomes and expenditures: the level of average income level has become one and a half - two times lower than that of the consumer expenditure. In other words, monetary expenditures captured by statistics have no longer reflected the actual level of consumption by the Russia households.

In this situation, the figure of consumer expenditures by the Russian households has become the first priority indicator. As is known, since 1994, Goskomstat has been using the procedure of additional evaluation of per capita household income based on the data balance of incomes and expenditures. In 1998 the figure of consumer expenditure became the main statistical parameter in household budget surveys conducted by Goskomstat.

In this process, the official figure of the share of the poor was calculated based on the modelled distribution series (see line 1 of Table 8.1), the main parameters of which are:

- per capita income calculated from the balance of average money income and expenditures over the month (year, quarter) preceding the accounting month (year, quarter)
- Dispersion of average monthly income estimated based on the results of household budget surveys.

Most researchers who find fault with this method of estimating the main living standards indicators think that the average per capita income arrived at in such a way is overestimated, while the share of the poor, is, conversely, underestimated. The main argument is that the part of income that fails to be captured by the surveys is mainly concentrated in wealthy groups, while the modelled distribution series is constructed in such a way that the additionally estimated income is evenly distributed along the entire distribution series. In addition, the entire statistic sample has a bias towards overrepresentation of the poor families, which is also a factor that brings down the share of the poor<sup>26</sup> as the sampled population is converted into the total population. That is why since 1993

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<sup>26</sup> A. Kiruta, A. Shevyakov. Socio-economic differentiation, real standard of living and poverty level of households in the Russian Federation. Analysis of dynamics and inter-regional comparison. In digest: Monitoring of socio-economic

Goskomstat has used the procedure of weighting the results of household budget samples and estimated per capita income based on weighted expenditures (see line 2 in table 4), The share of the poor families thus obtained twice exceeds the estimate calculated from the modelled income distribution series.

**Table 8.1. Share of the population with income below the subsistence level**

	1994	1995	1996	1997	1998	1999
Based on Goskomstat data, after additional estimation of average annual income	22.4	24.7	22.0	21.3	23.7	29.9
Goskomstat data based on household budget surveys, without additional estimation of average annual income including:		42.0	34.5	35.9	47.9 (50.0) <sup>27</sup>	58.8 III quarter
urban population					41.7 (43.9)	54.1
rural population					65.0 (66.6)	71.6
Share of the population with per capita income twice as low as the subsistence level or lower including:					19.3 (20.9)	25.7
urban population					13.6 (15.1)	20.5
rural population					34.9 (37.0)	39.8
Based on the budget statistics, the figure of households' disposable resources <sup>28</sup> including:				32.1	37.8(39.2)	49.5
urban population						47.3
rural population					34.6 (36.0) 46.7(47.9)	55.6
Based on the budget statistics the share of the population with per capita disposable income twice as low as the subsistence level or lower including:					9.8 (10.7)	15.5
urban population					9.8 (8.7)	13.8
rural population					8.0 (16.1)	20.1

Sources: *The standard of living of Russian population. Goskomstat of Russia. Statistical digest, Moscow, 1996; The main indicators of socio-economic situation for January-August 1999, Moscow, 1999.; Russia in figures: Short statistical digest, Moscow 1999; Monitoring of socio-economic potential of households. The RF Ministry of Social Protection and Goskomstat of Russia. Moscow 1996; Russia 2000: Statistical handbook. / Goskomstat of Russia. – Moscow 2000. – p. 51.*

At the same time, the peculiarities of distribution in transition also had a significant effect on the expenditures strategies and structure in the Russian households.

- Irregularity of income payment intensified interfamily cash flows. According to VCIOM estimates, 40% of households take loans from private persons to finance current expenditures.

potential of households. Statistical bulletin for II quarter of 1996. / Ed. By V.B. Korniyak, V.L. Sokolina. Moscow 1996, pp.231-274.

<sup>27</sup> Data in brackets refer to the III quarter of 1998, when the August crisis occurred

<sup>28</sup> Calculated based on data from Statistical bulletin № 5(51). The indicators of sample survey of household budgets in the Russian Federation in 1998. – Moscow. June 1999. Goskomstat of Russia.

- Surveys conducted by the Institute for Socio-Economic Problems<sup>29</sup> of the Population suggest that about 70% of households that have some savings draw on these to finance expenditures on the most essential goods and services. At the same time, such a priority as “a reserve to be used in case of a job loss, wage arrears and other contingencies” comes to the fore as the purpose of the savings spending. To most households savings are an essential reserve for future expenditures on daily needs rather than demand deferred due to the shortage of goods or funds to buy expensive goods.
- The increase in non-monetary income of households complicates measurement of the level of consumer expenditures in the same way as in the case of income estimation. Calculations suggest that rural households, which, on an average, spend on food an equivalent of about 50% of the value of the minimum food basket, still receive the necessary amount of proteins, fats and carbohydrates<sup>30</sup> from produce of their household farms. Thus, in terms of certain household complexes, household expenditures (as well as money income) inaccurately reflect the actual consumption level.

In such a situation, an objective characteristic of the current consumption is the value of **the current disposable resources that takes account of all monetary and non-monetary income of a household**. In economic terms, it is a certain combination of money income, expenditure and in-kind income that can determine the actual consumption level of a household. It includes the amount of a household's gross income, savings used for current consumption and in-kind subsidies and benefits. For our purposes food subsidies include cash payments and food bought at a discount. Housing subsidies include benefits established statutorily and employees' housing charges paid by enterprises and organizations. Subsidized use of all types of transport, as well as the use for personal needs of cars or other vehicles provided by enterprises is included in subsidized transport expenses. Health care benefits include benefits provided by enterprises and organizations and subsidized drugs. Recreation subsidies include the use of recreation facilities subsidized by the agencies of social insurance, enterprises and organizations. This indicator was introduced by Goskomstat in 1997 to evaluate consumer capacity of the Russian households.

Table 8.1 shows the estimates of the share of the poor based on three indicators of household wealth:

1. The figure of household average annual money income estimated using a modeled income distribution series.
2. The figure of household average annual money income estimated using weighted data (allowing for a sample bias) of household budget surveys
3. The figure of household average annual disposable resources estimated based on the weighted budget statistics.

The use of various indicators of household wealth results in considerable variation in estimates of the poverty rate. Thus, in 1998 the first estimation technique showed the share of the poor to be 23.8%, the second one - 74.9%, and the third one – 37.8%.

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<sup>29</sup> Savings of population of the Russian Federation. Analytical report. Moscow “Infograf”, 1997.

<sup>30</sup> In average in rural areas the real consumption of proteins is something below the norm of daily ration: 69 gram against 73.6 by the norm.

## Addendum 9

### Brief description of the Russian Longitudinal Monitoring Survey<sup>31</sup>

This survey has been conducted since 1992 with financial support from international organizations. It is a series of nation-wide representative samples. All told, there have been 8 survey rounds, the latest one conducted in November 1998. RLMS is based on a representative sample of 6.5 thousand households representing Russia's population as a whole. The data obtained in all rounds are weighted to secure representation when compared. The main merit of this database is that there is access to it on the Internet. Also, the database is constructed as a panel dataset, allowing household income mobility in the situation of transition to be monitored. One important constraint on analysis is the lack of regional representation of the data and a small (compared to the budget statistics) size of the sample, due to which the analysis of some socially disadvantaged groups (disabled people, the recipients of unemployment benefits, temporary disability (medical) benefits, and the subsidies for the use of recreation and health facilities. etc.) are unrepresentative.

After each round of the survey, the main results are published, including the share of households with income below the subsistence level (Table 7).

**Table 7. Poverty rate in Russia based on RLMS**<sup>32</sup>

	9/92	11/93	12/94	10/95	10/96	11/98
Share of households with income less than half of the subsistence level	3.0	5.6	6.9	11.5	20.0	16.6
Share of households with income ranging from half of the subsistence level to the subsistence level	8.1	7.5	10.3	18.0	16.3	22.4
Share of households with income below the subsistence level	11.1	13.1	17.2	29.5	36.3	39.0

<sup>31</sup> The latest report presented by the survey organizers is "T. Mroz, D. Mancini and B. Popcin " Monitoring Economic Condition in the in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-98" was presented to the USAID. The survey results are to be found at: <http://www.cpc.unc.edu/rlms>

<sup>32</sup> The data source is: "T. Mroz, D. Mancini and B. Popcin " Monitoring Economic Condition in the in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-98". he report provides data on households rather than population. The RLMS data also allow the poverty rate to be estimated with respect to the population but at the moment the general public does not yet have access to the data of the latest RLMS round.

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