



Alleviation of poverty as a priority for socio-economic development in Russia

1.1. POVERTY IN THE PERSPECTIVE OF THE MILLENNIUM DEVELOPMENT GOALS

Reduction of extreme poverty is defined as primary among the development goals formulated in the Millennium Declaration.

It is clear from consideration of the problem in an international context that poverty is, by its very nature, relative. In countries with a lower level of economic development poverty is mainly manifested in such phenomena as hunger, lack of potable water, illiteracy, high mortality from elementary diseases (e.g. diarrhea). In developed countries lack of means to

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buy a car or secure a mortgage loan may be defined as poverty, and most emerging markets include a wide range of durable goods in the minimum consumer basket for poor families.

But, despite significant differences in what is classed as low material welfare standards in countries with different levels of economic development, final analysis of the notion of poverty leads to a single set of goods, services and satisfied needs, lack of which is considered inadmissible in any country today.

Monitoring, which aims to measure prevalence of poverty, traditionally seeks answers to two questions: how many people or households are below the poverty line (the share of the poor) and how poor they are (the resource deficit of the poor, poverty gap). This is also the basis for targets to be addressed by states implementing the Millennium Declaration and for indicators measuring progress in attainment of MDG Goal 1.

Target 1. To halve the number of people living in extreme poverty by 2015. The following indicators are suggested for appraising efforts to achieve that goal:

- the share of people with current consumption resources below one dollar (USD 1) a day¹;
- poverty gap dynamics based on a poverty line of USD 1 a day;
- the share of consumption by the poorest 20% of people in overall consumption.

Target 2. To halve by 2015 the number of people suffering hunger. Achievements in meeting this target will be measured by:

- prevalence of weight deficiency among children under 5 years of age;
- the share of people with calorie consumption levels below the minimum.

The share of the Russian population in extreme poverty is much less than 20%, so Target 1 can be viewed as largely achieved.

Monitoring and indicators relating to the share of people with income below USD 1 a day (and

to the respective poverty gap) concern alleviation of extreme poverty. There are no relevant official data for Russia, since the Federal State Statistics Service measures poverty on the basis of the official subsistence minimum, which is much higher than one dollar. The World Bank uses a poverty line equal to USD 2.15 daily income to define extremely low living standards in the region which includes Russia, since cold climates require additional essential spending on heating, winter clothing and foodstuffs².

The World Bank calculates that 6.1% of the Russian population were in extreme poverty in 2000, based on a poverty line of USD 2.15 per day. Data for 2003 available from the National Survey of Welfare and Participation of the Population in Social Programs (NOBUS)³ allow us to give more up to date expert estimates of extreme poverty in Russia. The results suggest that 1% of the Russian population was in extreme poverty by the Millennium Declaration definition (poverty line of USD 1 per day) in 2003, and 5% were in extreme poverty by the World Bank definition (USD 2.15).

For countries with a low level of economic development the share of the poorest 20% of the population in total consumption is a measure of extreme poverty. But in Russian conditions this share approximates to official poverty levels with an overlap to families, who are not officially classified as poor: in 2004 the Russian official definition of the poverty line classified 17.8% of the population as poor. We should note that the official Russian subsistence minimum (poverty line) is 5–6 times higher in price terms than the extreme poverty line of USD 1. In what follows we will use the World Bank poverty line of USD 2.15 a day to define extreme poverty (Box 1.1).

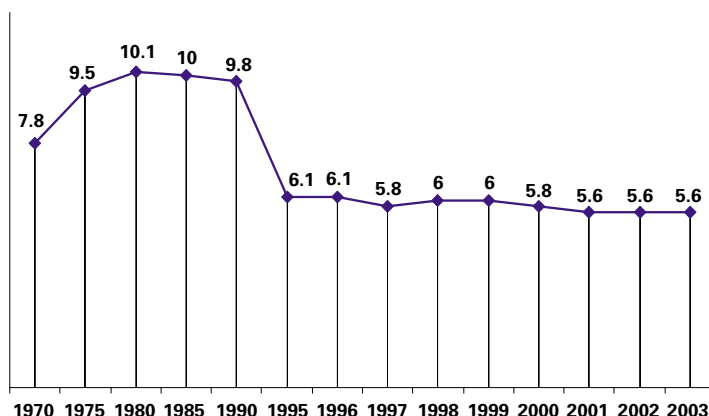
It is important to emphasize that resources of the poorest 20% of society are a measure

Russia experienced a major redistribution of resources in favor of the medium- and high-income strata of society as it entered the phase of economic crisis and market transformation in the early 1990s.

of both poverty and inequality: the lower the resources of the poorest 20%, the higher both poverty and inequality. Data presented in Figure 1.1 show that Russia experienced a major redistribution of resources in favor of the medium- and high-income strata of society as it entered the phase of economic crisis and market transformation in the early 1990s. The indicator varied in a range of 5.8–6.1% from the mid 1990s until 2000, which we take as the start point for Russian economic growth, when it settled at a level of 5.6%. That shows that the poor have not received priority access to the fruits of economic growth, and suggests potential for poverty reduction.

The criteria of calorific value of food and weight deficiency among infants serve to identify undernourishment and hunger. Calorie consumption data, unlike data on daily incomes below USD 1 or USD 2.15, are regularly published in Russian official statistics. These statistics can be compared with calorific norms of the official Russian mini-

Figure 1.1. Share of the poorest 20% of the Russian population in total income, 1970–2003, %



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imum consumer basket to estimate what proportion of the population is undernourished. By this standard, **nearly 40% of the Russian population is undernourished in calorie terms and 60% of Russians do not eat enough protein.** However, the average Russian daily consumption level of 2684 calories means that Russia does not qualify as malnourished by international standards⁴.

Official data on calorie consumption do not take account of eating away from home, which adds about 20% to consumption levels. After this adjustment the percentage of Russians, who are undernourished by standards of the minimum consumer basket, declines to 10-15%. In any case, the calorie consumption standard implied by Russia's official minimum consumer basket is well above the

The current Russian social security system includes targeted assistance to vulnerable groups, but does not treat the poor as a priority group for social programs.

required daily calorie intake for normal metabolic functioning (1500 calories)⁵, which serves as a calorie criterion for malnutrition. The data available to us suggest that 1-3% of the Russian population are affected by this form of extreme poverty, but we should stress again that official statistics do not keep track of it.

Incidence of weight deficiency among children under 5 in Russia is measured by anthropometric research on nutrition. The only source of information is research organized by the Institute of Nutrition⁶, which has found that cases of acute and chronic undernourishment do exist in Russia and are concentrated among families with lowest incomes. Abnormally low height and weight suggesting chronic nutrition deficiencies are most common among infants (usually low weight) and in the 7-10 age group (usually

insufficient height). Incidence of undernourishment among Russian children differs little from its incidence in developed countries, and the indicator is much better than in developing countries⁷, but the very existence of such an extreme form of poverty is sufficient grounds for monitoring it and designing measures to overcome it.

In conclusion, an overview of official statistics, results of alternative research, and our own calculations indicate that:

1. Incidence of extreme poverty in Russia, measured by criteria defined in the Millennium Development Goals, is in a range of 1-5% of the population. However, an account of the marginalized groups would increase the overall incidence of extreme poverty.
2. Malnutrition is a relevant aspect of poverty in modern Russia.
3. Standards, which are used to measure poverty in Russia, do not allow monitoring in full compliance with the indicators set out in the Millennium Development Goals.
4. Tracking of poverty dynamics in compliance with the Millennium Development Goals would require modernization of the entire system of indicators used by Russian poverty monitoring.
5. The current Russian social security system includes targeted assistance to vulnerable groups, but does not treat the poor as a priority group for social programs.

1.2. SPECIFIC ASPECTS OF POVERTY IN RUSSIA AND MEASURES FOR ITS ALLEVIATION

Poverty is a distinctive feature of Russia today, and has inevitably attracted the attention of executive and legislative branches of power, and of society as a whole. Halving the incidence of poverty is a declared priority goal of the Medium term Program for

A review of the problems of poverty in Russia should start with a brief description of general trends in the level and structure of personal incomes. Price liberalization in 1992 cut real personal incomes by half, and reduced real wages and pensions by even more. There was a recovery in subsequent years, but the 1998 crisis brought real incomes back to their level in 1992. For the household sector as a whole **cumulative changes in per-capita income during the reform years have not brought incomes back to their prereform level.** That is despite a fairly high rate of income growth since the crisis of August 1998 (Figure 1.2). It is true both for incomes as a whole and for the two main sources of money income for households: wages and pensions.

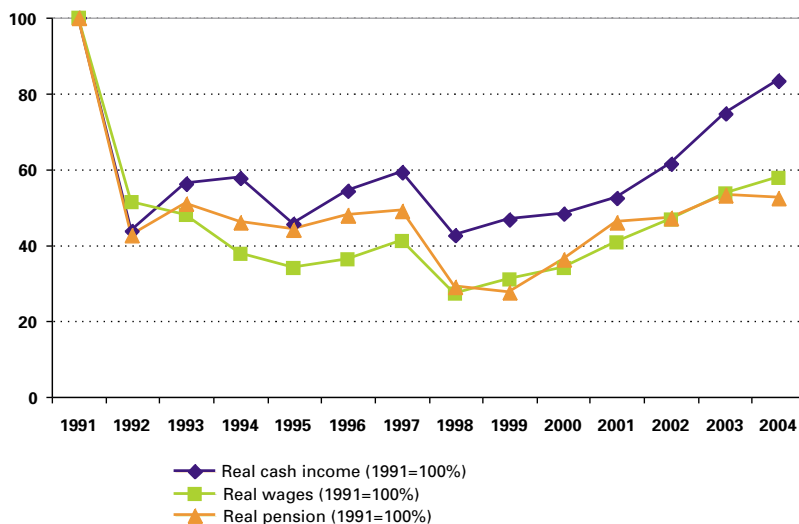
These changes have been accompanied by the appearance of new sources of money income in Russia: from entrepreneurial activity and from property. The share of these new sources in overall income has been growing, while the share of wages has been steadily declining.

Data of the Federal State Statistics Service concerning inequality in distribution of revenues and labor compensation in Russia show how redistribution of overall cash income has taken place (Figure 1.3). Main trends in development of the Gini coefficient have been as follows:

- threefold growth in the initial transition period (from 1992);
- decline (due to the 1998 crisis), followed by new growth;
- high and steady levels of inequality in recent years.

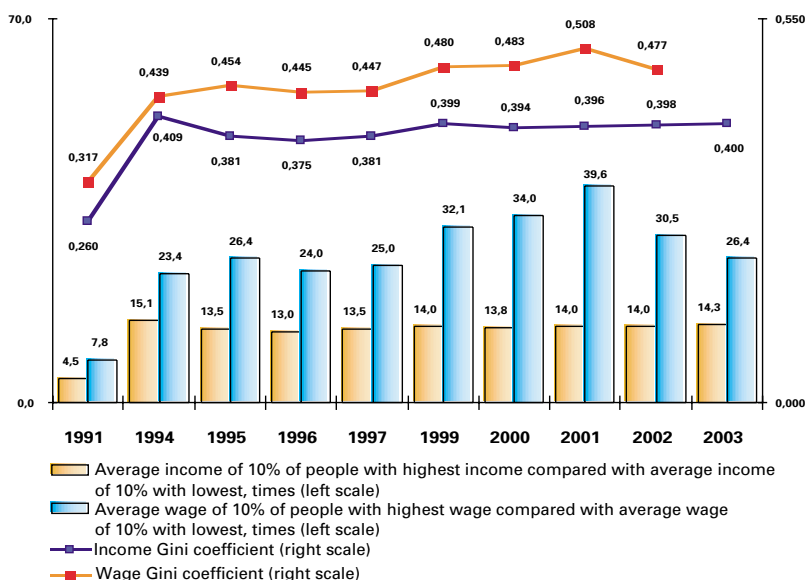
Thus, in 1999-2003 nearly a half of total money incomes was taken by the wealthiest part of the population.

Figure 1.2. Household income dynamics, 1991 = 100%



Trends in income levels and income inequality have effectively determined trends in the scale and depth of Russian poverty. However, income volumes and principles of income distribution are not the only factors that regulate poverty (measured in money terms): the choice of conceptual approaches in defining the poverty line and adequacy of income are just as important.

Figure 1.3. Dynamics of income and wage differentiation indicators



1.2.1. POVERTY LEVEL AND DEPTH

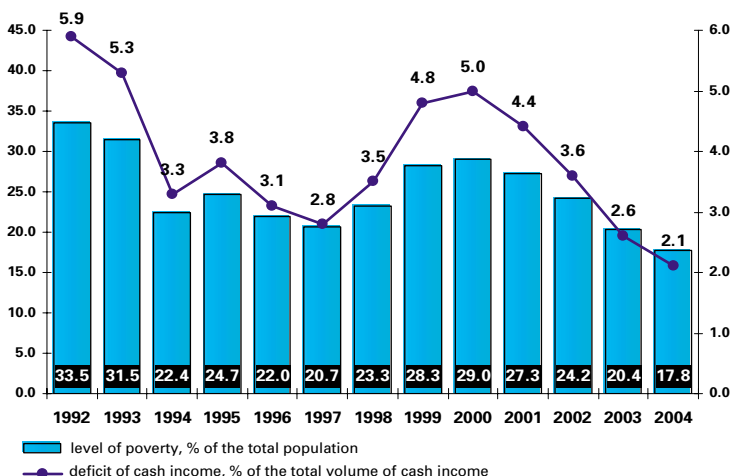
Official Russian statistics on the poverty level are based on the **index of the number of the poor**, calculated as the share of the population with income below the subsistence minimum. Figure 1.4 shows development of this indicator and reveals significant variation of index values in the years of reform. After a surge at the start of transformations, poverty indicators then declined steadily until 1995 with a particularly sharp decline in 1994. However, this had nothing to do with specifics of socio-economic policies or institutional change. The semblance of radical poverty reduction at that time was due to change in the methods used for constructing the income distribution series.

Poverty increased to some extent in 1995 due to a domestic banking crisis, after which the situation improved up to the crisis of August 1998. Following a painful aftermath in 1999, there has been a further steady reduction in poverty. This process started in 2000, but was not immediately visible: Russia established a new higher subsistence minimum in that year, so growth of real incomes did not produce a

reduction in numbers of people with incomes below the subsistence minimum. However, a steady trend towards poverty reduction has been clear since 2001, showing positive impact of economic growth on incomes.

Can a poverty headcount be treated as a reliable poverty indicator? In some instances the answer is yes: it is easy to understand and use in practice, and is a perfectly adequate analytical instrument for appraisal of general progress in poverty reduction. However, a poverty headcount is inadequate for some purposes, including analysis of the impact of some political measures on poverty. For example, a poverty relief program may be aimed at the very poorest, and may substantially raise their incomes without taking them out of the poverty group. In such cases the **poverty gap** indicator gives the most accurate estimate of trends. This indicator can be calculated in different ways. The official Russian statistics calculate it as the sum of additional income, which those below the poverty line would need in order to reach the line, expressed as a percentage of total income. Development of this indicator is presented in Figure 1.4. It shows that in 2003 eradication of poverty would have required redistribution of 2.6% of total incomes. However, in a situation where incomes of wellpaid social strata are increasing further, the poverty gap may shrink even when poverty is becoming more acute. If incomes of the poor do not change, but general income growth is observed, the poverty gap expressed as a percentage of total income shrinks.

Figure 1.4. Official estimates of the poverty level and poverty gap based on macroeconomic data⁸



The most informative indicator is the per-capita poverty gap, or income deficit. i.e. the difference between average income of those below the subsistence minimum and that minimum itself, expressed as a percentage of the minimum. Far-reaching conclusions can be based on the series of distributions for this income deficit. The indicator is not pub-

lished in official statistics, so we have to rely here on the NOBUS data. We find that estimates of poverty incidence based on these data do not tally with official estimates (Table 1.1). The discrepancies are due to use of different data to measure incomes (actual incomes, spending and available resources⁹), and use of different sources for the data (macroeconomic statistics or household surveys). NOBUS shows a higher poverty incidence than official estimates, and methodological inadequacies of the official estimates suggest that these differences should be taken seriously. Discussion of approaches to defining poverty is beyond the scope of this report, but the NOBUS results suggest that 26.0% of households, or 33.4% of the Russian population, are in poverty.

Let us consider now the income deficit indicator, calculated using the NOBUS data, and measured as a percentage of the subsistence minimum indicating how much should be additionally paid to the poor to raise their incomes to the subsistence minimum, i.e. to bring them out of poverty. The average income deficit of the poor is 28.7%. This justifies the conclusion that poverty in Russia does not run too deep. The income deficit in the majority of poor families does not exceed 20% of the subsistence minimum. Only 8.5% of poor families suffer a deficit in excess of 60%.

The implication is that a large share of poor Russian households are concentrated near the poverty line, and only about a tenth of them are in desperate want (lacking means for subsistence). The fact that poverty is not deep offers some reassurance about developments in Russian living standards, and the concentration of households near the poverty line suggests a large amount of temporary poverty.

That suggests two completely different strategy options. First, programs to support people living near the poverty line could

Table 1.1. Poverty level in 2003, %

Data sources	Households		Population	
	Incomes (spending)	Available resources	Incomes (spending)	Available resources
Based on a distribution series model by spending*	-	-	-	20.4
Based on the Household Budgets Survey (HBS) for spending**	41.2	32.5	47.3	39.4
Based on NOBUS data	49.0	26.0	55.6	33.4

*Official poverty level estimate

**HBS – Household Budget Surveys, carried out quarterly by the Federal State Statistics Service

substantially reduce numbers of the poor at minimal cost. Second, about 8% of poor families will remain poor even if a considerable part of income is redistributed for their benefit, so they need special programs targeted at reducing the depth of poverty. The latter group should be the addressees of measures implemented under the First Development Goal in the Millennium Declaration, which targets eradication of extreme poverty.

1.2.2. PROFILE AND CAUSES OF RUSSIAN POVERTY

The poverty profile in Russia identifies three household categories:

- **Traditionally poor** (families with many children, families with less than two parents, and pensioners living alone), who represent **about 30% of total poverty and 35% of the total income deficit**. Pensioner families in this group are not usually in acute poverty, but families with many children or less than two parents may be.
- The largest poverty group consists of **two-parent families with 1 or 2 children**. They make up **40% of total poor families and account for 35% of total income deficit**.
- **Childless mixed sex families represent 25% of total poverty and account for 18% of income deficit**.

This profile shows that children are significantly affected by poverty in Russia: they

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are among traditional risk groups, but can also be drawn into poverty when they live in complete families, since parents with two or more children have to spend more.

The poverty profile also warrants the conclusion that traditional poverty factors, related primarily to a dependency burden from people who are incapacitated, are not of

Nearly every second poor family includes workers with wages below the subsistence minimum.

key importance in contemporary Russia. The main factors determining poverty are two-fold: wages below the subsistence minimum and unemployment among able-bodied household members.

Low wages are definitely the main factor: Nearly every second poor family includes workers with wages below the subsistence minimum. But unemployment is also a significant factor: every tenth poor family includes an able-bodied member, who is looking for work. However, it has to be pointed out that

The number of poor households with members who are jobless but not seeking work is much higher (30% of all poor households). So unemployment among the able-bodied is not only a consequence of labor market deformations, but is a part of the economic behavior strategy of households.

the number of poor households with members who are jobless but not seeking work is much higher (30% of all poor households). So unemployment among the able-bodied is not only a consequence of labor market deformations, but is a part of the economic behavior strategy of households. A model of economic behavior, where one parent receives a low wage and the other is not working or seeking

work, is a widespread life style among those who are in poverty for an extended period.

The most at risk among two-parent families with 1 or 2 children are young families, since birth of a child entails a double dependency burden: care of the child and maternity leave of at least a year and a half for the mother (although maternity leave is officially paid).

Families with many children, families with less than two parents, as well as pensioners and the disabled are traditionally **vulnerable household groups with higher poverty risks**. Vulnerability here is associated either with lack of a provider in the family or a high dependency burden, or limitations due to health.

Analysis of the profile and causes of poverty in Russia is incomplete without consideration of differences arising from **geographical location and settlement types**. Differences between poverty and household income levels due to geography (territorial disproportions in economic development) are characteristic of any country. But such territorial disproportions are strongest in countries experiencing catch-up growth, including transition economies. Issues of regional differentiation are reviewed in detail in a separate chapter of this Report, but it is important to emphasize here that location and settlement type are major contributors to income differentiation in Russia. The main point is that the share of Russia's rural population in total numbers of those in poverty (40%) is almost 1.5 times bigger than the share of rural dwellers in the total population.

The analysis so far in this Chapter of the level, profile and causes of poverty suggest a few conclusions about policies aiming to relieve poverty in Russia:

1. The peculiar feature of Russian poverty is that the "working poor" account for more than 50% of poor households, and that the

level of poverty in such households is usually not deep. These families are usually poor because of low levels of labor remuneration and unemployment of able-bodied members of the household.

2. Traditionally poor categories of the population are not the biggest group among the poor because of their low representation in the total population. However, they are most at risk of poverty and suffer the highest income deficit, so they are more likely to be in the poorest group. Children stand out among particularly high risk groups: their chances of being among the poorest group are very high.

3. Russia already has a stagnant poverty group, consisting mainly of those in extreme poverty and totaling about 5% of the Russian population. The stagnant group includes traditional poverty categories, but also contains families with inactive able-bodied members who have lost touch with the labor market. Despite current economic growth in Russia, the extremely poor will not be able to improve their income status due to inadequacy of targeted social programs for the poor in general and lack of special programs for the extremely poor.

4. Pensioners are not particularly at risk of poverty and are unlikely to be in extreme poverty. This result is clearest when we use available resources (monetary and nonmonetary) as the criterion for level of current welfare. This is largely explained by the fact that pensioners are principal beneficiaries of benefit programs targeting specific population groups. Households with disabled members are at increased risk of poverty, but the risk varies significantly depending on severity of the disability. The poverty level is highest (56.1%) in cases where the disabled member receives an allowance as never having worked (i.e. is severely disabled), and is lowest (25.1%) among families, whose disabled member is a so called Level-3, Group-1 invalid, receiving an allowance associated with limited ability to work. It should be noted that the level of 25.1%

is even lower than the NOBUS poverty figure for all households. Pensioners may subjectively position themselves in the poverty group due to problems, which they currently experience with access to medical services.

5. Geographical location is the most important factor determining welfare inequality in Russia today (its significance increased in the period from 1992 to 2001)¹⁰. All other things being equal, the biggest contribution to general and extreme poverty comes from depressed regions and rural areas. The fact that stagnant poverty is also concentrated in such locations emphasizes the limited capacity of overall economic growth to overcome extreme forms of poverty. Targeted programs are the most effective way of dealing with such poverty but they need to be specially tailored to the scale, forms and causes of poverty in Russia.

1.3. STRATEGIES FOR POVERTY REDUCTION IN VARIOUS SOCIO-ECONOMIC DEVELOPMENT SCENARIOS

Whatever a country's macroeconomic conditions, measures for poverty alleviation always work in two directions:

- stimulating growth of economic activity and mobility of the able-bodied population to bring their families out of poverty;
- creating an effective system of support for socially vulnerable groups (the elderly, the disabled, families with a high dependency burden, families in a critical situation – refugees, etc.) and guaranteeing non discriminatory access to free or subsidized social services.

In Russia two key problems need to be solved before able-bodied people can escape from poverty by their own efforts: first, the number of workers with wages below the subsistence minimum needs to be reduced and, second,

legitimate employment needs to be expanded. Resources for increasing wages of low income workers, mainly employed in farming, construction, trade and the public sector, should come from sustainable economic growth and improvement of distributive relationships. Most experts, managers and politicians focus on the need to raise minimum wages to the level of the subsistence minimum. There is real opportunity for achieving that in Russia today, since numbers of people employed in the non market sector of the economy are declining and marketbased organization is expanding in traditionally public sectors of the economy.

Improvement of distribution relations is mainly a matter of reducing unofficial “flexible” forms of remuneration and reducing wage differentiation within and between sectors.

More targeted social aid and increase of allowances and subsidies for the poor can also help socially vulnerable groups to escape poverty. This part of the general poverty alleviation strategy contributes directly to implementation of the Millennium Development Goals, but we stress again that such programs will not have a decisive impact on Russian poverty incidence, and their key objective is to reduce the depth of poverty and eradicate extreme poverty.

Russia currently operates the following targeted social programs:

- Housing subsidies for the poor, which benefited 15.2% of all Russian families in 2003 and used 30.7 billion rubles of financing.
- Monthly children’s allowances for poor families, which were given to 63.9% of total children in the relevant age group in 2003.
- Targeted allowances for the poor, provided under the Federal Law “On State Social Assistance” and under various regional legislation.

How the targeting principle is realized depends on the general social policy context, but assistance should be based on the following system of social preferences: the best option is to be in paid employment; if that is impossible, to enroll in employment programs; if that is impossible (due to absence of such programs, poor health, disabled dependents, etc.), to enroll in a targeted social aid program. Depending on the relative benefits offered by employment, participation in public (temporary) works and target social aid programs, barriers should be built to restrict access to the latter. That can be achieved either by varying the poverty criterion, which decides access to aid programs, or by prohibiting access to targeted social aid for certain categories of people and households (e.g. for the ablebodied).

The Medium term Program for Socio-Economic Development of the Russian Federation (2005-2008) considers two possible scenarios for economic development. **The base scenario** reflects current trends in economic competitiveness and efficiency and does not envisage implementation of any new large scale national strategies or projects. However, it assumes growth of real per-capita income, wages and pensions. Under this scenario the average wage should reach 320% of the subsistence minimum for the ablebodied population by 2008, compared with 262% in 2004, while pensions should rise to 128% from 108%.

Government forecasts do not consider processes in the labor market and employment, or developments of income differentiation. Labor remuneration and employment levels are currently balanced at relatively low levels of remuneration. Any changes in remuneration will entail changes in employment levels, and the balance of losses and gains will not necessarily be to the benefit of the poor.

The evolutionary nature of changes in economic institutions makes rapid increase of the incomes of poorly paid and needy members of society unlikely. It is also a fact that Russia's raw materials economy stimulates inequality, so that fairer distribution of income is difficult to achieve. An inertial development scenario is bound to mean increase in the price of housing and utilities, education and healthcare for consumers of these goods. The outcome may even be an increase in poverty. Persistence of high inequality and poor conditions for creation of medium- and highly-paid jobs effectively block development of efficient target programs for those in extreme poverty, since less poor and better educated strata of society will ensure that they obtain priority access to social aid.

This situation is aggravated by a peculiar feature of the Russian social protection system – an extended social support system for certain categories of the population who are not poor. Modernization of the benefit system has not increased access of the genuinely poor to social support programs. Indeed, this reform has actually widened the gap between the problems of the poor and the priorities of social protection.

The Ministry of Economic Development and Trade believes that substantial poverty reduction (to 12% in 2008) is possible under the base scenario, but such an outcome looks unlikely in a situation of over-optimistic forecasts for the consumer price index (clear in 2005) and disregard of income differentiation trends. Efforts to stimulate the most efficient centers of economic growth are likely to increase inequality instead of reducing poverty.

The Medium range Program also considers an innovationintensive scenario based on major structural shifts towards hitech and information sectors of the economy with reduced dependence on exports of oil & gas

and other raw materials. But income forecasts under this scenario differ little from the base scenario: the difference is between 38.4% increase of real wages from 2004 to 2008 under the base scenario and 45% increase under the innovation scenario. Real incomes would grow by 33.9% or 40.4% respectively.

If we refer Russia to the second group of countries, with a USD 2.15 poverty line, the poor are those with monthly expenditures below 775 rubles (6-7% of the population), if Russia is given a poverty line of USD 4.3 the poor are those with monthly spending below 1550 rubles (30-33% of the population).

The innovation scenario is supposed to reduce poverty to 10.2%. We do not want to judge the feasibility of implementing the innovation scenario, but we would say that it makes measures to raise living standards and achievement of goals for living standards look more realistic: it calls for investment in sectors, which are decisive for poverty levels, countering inequality by encouraging a form of economic growth, which stimulates incomes of middle and low income social strata. The innovation scenario also includes measures to reduce interregional differences, which will also reduce inequality.

We would stress that the MDG tasks of reducing and eradicating extreme poverty do not figure in Russian statistical monitoring, action programs or development scenarios. That partly reflects confidence that hunger and extremely low living standards are not a problem in Russia.

The findings, which we have referred to, do not fully confirm that and suggest that the problem is not automatically solved by economic growth. But our analysis also suggests that Russia will be able to cope with

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extreme forms of poverty among nonmarginal groups of the population in the period up to 2015. The key instrument for that purpose would be a guaranteed minimum income for both the employed and those unfit to work. Its level would be below the applicable sub-

The 2005 reform of benefits in kind (based on replacement of such benefits by cash allowances) shifted the emphasis of social policy further towards nonpoor groups, since the poor had limited access to such benefits, and high costs of the reform have left scant resources available for programs targeting the poor.

sistence minimum, but not lower than USD 2.15 a day, converted into rubles by PPP linked to the consumption structure of the poorest social strata.

Hence, assuming the innovation-intensive development scenario and a guaranteed minimal income level for the poorest members of society, Russia should be able to achieve the following results by way of poverty alleviation:

- halving the level and depth of poverty;
- eradicating extreme forms of poverty.

The system of indicators describing progress in attaining this goal and dynamics of their values up to 2015 are presented in Appendix 1.1.

1.4. DEVELOPMENT OF OBJECTIVE INDICATORS FOR POVERTY MONITORING

If eradication of extreme poverty and alleviation of general poverty are to be national priorities, the Russian poverty monitoring system needs indicators, which can measure the level, depth, profile and causes of pover-

ty. The present system of poverty indicators is focused on general trends, without linkage to current policy measures or assessment of their efficiency. Adapting poverty monitoring to political tasks requires changes in:

- organization of poverty data sources (most importantly, modernization of the household budget survey network and creation of procedures for monitoring income at the household level);
- methods used to calculate existing indicators (income deficit, poverty profile, general inequality measurement and construction of the model frequency series by income).
- the system of indicators (analysis of poverty data should start to use the separate components of poverty indices).

A list of proposed indicators and their descriptions are given in Appendix 1.2.

1.5. CONCLUSIONS AND RECOMMENDATIONS

Viewing Russian poverty dynamics and socio-economic policy from the perspective of progress in attainment of the Millennium Development Goals, it is clear that the Russian national poverty concept is far removed from the concept of extreme poverty, whose alleviation the world community is focusing on. The Russian poverty standard is much higher: even the World Bank's absolute poverty line for developed countries (USD 4.3 dollars a day in terms of PPP) is only 60% of the Russian official subsistence minimum. This result suggests that extreme forms of poverty are not a problem for Russia, and Russia may be positioned as an international donor rather than recipient in efforts to resolve this issue.

This is supported by the fact that numbers of the poor in Russia have been dimin-

ishing since 2000. Growth of real wages and pensions has lifted people who were previously just below the poverty line out of poverty. Most of these people are families of the working poor (the largest group with incomes below the subsistence minimum in Russia) and pensioners. Further reduction of poverty among workers should enable Russia to further reduce the number of people below the poverty line.

Exremely poor groups, who are the focus of MDG activities, are in a minority among Russia's poor, representing only 3-5% of the total population living in households. However, this level ought to be high enough to provoke government concern. It is particularly important to stress that many of the Russian families in extreme poverty are families with children. Underinvestment in the younger generation will put barriers on the road to successful growth. It is therefore essential, first, that extreme poverty should be made an object of statistical observation in the framework of poverty monitoring and, second, that social policy measures should be implemented to eradicate such extreme forms of poverty. The limited incidence of extreme poverty suggests that this social challenge is well within available Russian budgetary and economic capacities. The key problem is that institutions responsible for provision of resources to extremely poor groups may be unable to cope with the situation on their own. It is also important that social support should be accompanied by measures of social control and responsibility on the part of recipients.

Apart from monetary poverty, Russia has evolved new forms of poverty manifested in limited access to education, healthcare and decent housing. The poverty profile linked to these indicators suggests that pensioners are among high risk groups.

Box 1.1. Poverty measurement in Russia

The purpose of poverty measurement is to appraise the efficiency of strategies used to combat it. That depends on methods of calculation, which ensure impartiality and integrity of data sources.

Distribution of incomes and goods is more unequal in modern Russia than in the USSR, and a poor stratum has developed, which exerts substantial influence on state social programs. Implementation of poverty relief measures is complicated by very uneven distribution of disadvantaged groups across the country and peculiarities of such groups in certain regions.

People whose income is below the value of a basket of goods and services, calculated on the basis of a minimum national consumption standard, are classed as poor. This approach uses a concept of absolute poverty, by which the poor are those people who cannot secure consumption at a level required to sustain health and support labor activity. Another type of definition (relative poverty) defines the poor as those who have the lowest incomes in society.

Some countries have legislative provisions which decide whether a specific person or household should be categorized as poor. By generalizing data on the number of such people, who receive assistance via state social programs, we identify the "visible", officially registered poor. But design of an overall policy on poverty must also take account of people who have been unable to prove their poverty to social security organizations. That requires statistical evaluation of the incidence, level and depth of poverty by processing data collected from households in government surveys.

Statistics agencies in some countries also use so-called deprivation methodology, which defines people as poor if they are deprived of wealth items that set the consumption standard for that society. Assessments of underconsumption are based on comparison with certain standards, which are relative rather than absolute, as they depend on temporal, national and territorial features. Such research considers: availability of food and clothing suited to natural and climatic conditions; healthcare and education; quality of housing; life and property security; employment and labor conditions; communications; etc. People who lack such amenities are defined as poor. Russia is currently carrying out experiments to define a poverty index based on specific wants. The index will be used in official statistics, taking account of recommendations of international organizations, best foreign experience and Russian conditions.

The World Bank has split all countries into three groups for purposes of international poverty comparisons. The poverty line for the first group has been set at percapita daily spending of USD 1 by PPP. For the second group the figure is USD 2.15 and for the third USD 4.3.

In Russia people are officially classed as poor if their incomes are below the poverty line, defined as the income necessary to buy a scientifically based minimal set of goods and services for supporting human activity. This allows construction of a poverty line for whole households, based on subsistence minimums of all its members (consumer baskets determined by the consumer's sex and age).

In the fourth quarter of 2004 official statistics found 25.5 million people in Russia, or 17.8% of the population, to be poor. Rural areas are most affected by poverty: 60% of all poor people live in the countryside. There is a high percentage of families with children among the poor: more than half of all twoparent families with 1 or 2 children are poor, and three quarters of all twoparent families with 3 or more children. The incidence of poverty among families with less than two parents and with 3 or more children is 85%. Two thirds of all persons temporarily out of work and more than half of those not working due to a disability are members of poor families. However, ablebodied people who work but cannot earn enough to support themselves and their dependents also make up a significant part of Russia's poor.

The level of poverty in Russia is notably higher than in developed countries and in Central Europe. In Japan the share of people with incomes below the poverty line is 4%, in Finland 4.9%, in the Netherlands 6.1%, and in Sweden 6.7%. However, it is surprising to find that only 6% of Chinese are officially poor, while in Germany the figure is 9.1%, in Italy 11.2%, and in USA 13.3%. Clearly official poverty statistics depend directly on the standards, which national legislation provide for use by national statistics services. That is also demonstrated by comparison between findings using the World Bank poverty criterion of USD 1 percapita spending by PPP and national statistics. In most countries (including Russia) national poverty level appraisals are higher than those based on the USD 1 criterion. In the late 1990s in Chile the share of the poor, based on the official poverty line, was 20.5%, while the share of people with daily expenditures below USD 1 was 15%. The respective figures in Tanzania were 51.1% and 19.9%, in Morocco 19% and 1.1%, in Brazil 17.4% and 5.1%, in Bangladesh 35.5% and 29.1%, in Indonesia 20.3% and 15.2%, in Kirghizia 54.9% and 18.9%, and in

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Pakistan 34% and 31%. However, in India, Nigeria and China poverty levels by national measurements is lower than using the World Bank criterion.

If we use the poverty line of USD 1 by PPP, then the poor in Russia will be people whose daily expenditure in 2004 was about 12 rubles (or 360 rubles a month) when the official average annual exchange rate was 28.8 rubles per USD. If we refer Russia to the second group of countries, with a USD 2.15 poverty line, the poor are those with monthly expenditures below 775 rubles (6-7% of the population), if Russia is given a poverty line of USD 4.3 the poor are those with monthly spending below 1550 rubles (30-33% of the population). For comparison, the official poverty line in the fourth quarter of 2004 approved by a Resolution of the Government of the Russian Federation No. 105 of March 2, 2005, was 2451 rubles.

Obviously, poverty cannot be comprehensively described as a socio-economic phenomenon by a single indicator. A system of indicators is needed, which should include:

- an absolute approach, whereby the poor are those people and households whose incomes and consumption are below the standard statutory minimum income or the minimum consumption level;
- a relative approach, whereby the poor are those people and households whose incomes are below the average for the country;
- a subjective approach, whereby the poor are those who view their own material situation as one of poverty;
- a deprivation approach, whereby the poor are those denied access to a standard socially recognized set of amenities and services;
- an international approach, whereby the poor are those who spend no more than USD 1 (2.15 or 4.3 dollars) per day in PPP terms.

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Improved access to decent services and housing will assist poverty reduction.

General economic growth has become the key motor for positive poverty dynamics in Russia, and this has encouraged the government to leave resource redistribution to extremely poor or vulner-

able groups out of its socio-economic development priorities. Russia has almost no programs addressed exclusively to those in extreme poverty, so the situation of the extremely poor is not improving. The 2005 reform of benefits in kind (based on replacement of such benefits by cash allowances) shifted the emphasis of social policy further towards nonpoor groups, since the poor had limited access to such benefits, and high costs of the reform have left scant resources available for programs targeting the poor.

The Government's scenarios for socio-economic growth, reviewed in this Chapter, are also mostly oriented to improving living standards of people on medium incomes and those living near the poverty line. Creation and development of real targeted programs for the extremely poor should be given a place in Russian mid range development programs and budgeting. Otherwise, headway in general poverty indicators in Russia may be accompanied by a reverse trend in extreme forms of poverty.

¹ The dollar is converted into the ruble at the purchase power parity (PPP) exchange rate. In 2000 purchase power parity (ruble/US dollar) was 7.28 rubles per dollar, and in 2002 it was 9.48 rubles per dollar.

² Turning reforms to the benefit of all and each one: poverty and inequality in Europe and Central Asia. World Bank, Washington 2001, p. 31.

³ In 2003 under the sponsorship of the World Bank the Russian Statistics Agency carried out a "Natsional'noe obsledovaniye blagosostoyaniya naseleniya i ego uchastiya v sotsialnykh programmakh" (NOBUS in the Russian acronym) of 44,500 respondent households in order to collect information on employment and household incomes and spending. Analysis of these data and review of published official statistics allow detailed analysis of the level, profile, causes and factors of poverty in Russia.

⁴ FAO uses the calorific values of daily food consumption to divide countries into categories with sufficient or insufficient levels of nourishment – the criterion for undernourishment is daily consumption below 2400 kcal per capita.

⁵ A. Baturin, M. Lokshin. Issledovaniye komponenta pitaniya pri analize bednosti i obosnovaniye granitsy bednosti. Moscow, 2003, World Bank Report, p. 10.

⁶ Baturin A.K., Tutelyan V.A., Ovcharova L.N. et al. Pitaniye i zdorov'e v bednykh sem'yakh. Ministry of Labor and Social Development et al. – M.: Prosvesheniye, 2002. - 304 p.

⁷ The World Bank Group. Health, Nutrition & Population. Washington D.C., 1997, 97 p.

⁸ Sources:

1. Russia in Figures. 2004: Digest of Statistics/ Federal State Statistics Service – M., 2004. – pp. 99-100.

2. Sotsial'noe polozheniye i uroven' zhizni naseleniya Rossii: Digest of Statistics / Goskomstat of Russia – M., 2001. – p. 24.

3. Sotsial'noe polozheniye i uroven' zhizni naseleniya Rossii: Digest of Statistics / Goskomstat of Russia – M., 1997. – p. 9.

⁹ Available resources include all cash proceeds.

¹⁰ Vstupleniye Rossii v WTO: Mnimye i realnye sotsial'nye posledstviya. NISP, - M., 2004 , p. 58

Appendix 1.1

Table. MDG Goal 1. Eradicate extreme poverty and hunger

MDG Target	MDG Target for Russia	Progress indicators	Progress indicators for Russia	Current indicator value	Target indicator for 2015	
Target 1. Halve by 2015 the proportion of people living in extreme poverty	Target 1. Halve by 2015 the general poverty level and eradicate extreme poverty among non-marginal groups of population	1. Proportion of population below USD 1 per day	1.1 Proportion of people whose income is below the subsistence level	20.4%	10%	
			1.2 Proportion of households whose income is below USD 2.5 per day	5%	n/a	
		2. Poverty gap ratio: mean percentage distance below USD 1 per day	2. Poverty gap ratio, % of the subsistence level	29%	15%	
			3. Share of poorest quintile (20%) in national consumption	3. Share of poorest quintile (20%) in national consumption	5.6%	6.1%
Target 2. Halve by 2015 the proportion of people who suffer from hunger	Target 2. Provide access to food for the poor	4. Prevalence of underweight children under five years of age	4. Prevalence of underweight children under 5 years of age due to lack of financial resources	5-7%	n/a	
			5. Proportion of population below minimum level of dietary energy consumption.	5.1. Proportion of population below 1500 calories of daily energy consumption	1 - 3%	n/a
				5.2 Proportion of population below 2237 calories of daily energy consumption	10 -15%	5-10%

OBJECTIVELY MEASURED INDICATORS SHOULD INCLUDE:

- Cost estimate of minimum consumer budget. This is already used in managerial and statistical practice and is viewed as a general poverty indicator. Although many experts and politicians argue for the need to revise the methodology of assessing the subsistence minimum, such revision does not seem practicable until minimum wage and significant social benefits are raised to the indicated level. Otherwise, economic weapons for fighting poverty will come into collision with methodological changes, stimulating growth of poverty.
- Extreme poverty line. This indicator is a key index measuring progress in attainment of the Millennium Development Goals, but it is not included in official Russian measures of poverty. Regional authorities generally use a surrogate equal to half of the minimum consumer basket for the purposes of targeted social programs. For Russian conditions we suggest for the minimum extreme poverty criterion should be daily spending of USD 2.15 converted to rubles on PPP basis.
- **Distribution series by income, expenditure and available resources.** These instruments of analysis are already used in the present system of statistically observed indicators. However, the results of simulation on the basis of macroeconomic assessments should be harmonized with results of the Household Budget Survey (HBS), which will require adjustment of the distribution series by income and a system for collecting and weighting the HBS data.
- **Structural characteristics of incomes and expenses in aggregate form and with breakdown by decile and socio-demographic groups.** Implementation of these indicators within the system of state poverty monitoring will require serious changes in the current system of poverty data sources. In the first place, a process of income monitoring has to be set up at the household level, since lack of such information prevents us from understanding what types of income deficiencies play the biggest role in creating poverty groups. At present, this problem is partially addressed by using data from Russian Monitoring of Economy and Health (RMEH) and NOBUS. However, usefulness of RMEH is limited by its limited sample size and NOBUS is a snapshot observation, whose data will quickly become obsolete.
- Aggregated total characteristics of income differentiation, including **decile fund differentiation factor (ratio of incomes of bottom 10% to incomes of top 10%) and Gini coefficient.** Accuracy of their measurement could be improved by a set of measures to improve their statistical base, i.e. by modernization of the HBS concept.
- **Indices of statistical and dynamic decomposition of inequality (Teil indices).** This inequality decomposition instrument is not yet applied in poverty analysis, although it would allow identification of the most significant factors of inequality and poverty. Use of Teil indices for poverty analysis is currently impossible because analysts have no access to primary data bases, while statistics agencies are not familiar with the methodology.
- **Index of prevalence of general and extreme poverty measured as the share of population with incomes below the subsistence minimum.** The methodology used in its calculation is affected by the same limitations, which affect measurement of incomes, spending and available resources.
- **Income deficit (extra income, which the**

poor would need in order to escape poverty) on the macroeconomic and individual level. In the former case the indicator is calculated as a percentage of total household income, in the latter case as a percentage of the percapita subsistence minimum. Deficit of individual income is not yet a part of official statistical poverty monitoring. Our analysis suggests that there are no serious technical obstacles to its realization.

- Poverty profile indicators which allow appraisal of **poverty structure and risks of falling below the poverty line** for certain sociodemographic groups. The breakdown data allow assessment of poverty profiles for regions, settlement types, gender and demographic factors. Poverty profile analysis helps to identify vulnerable groups and key causes of poverty.