

# The Role of Regional Variations in Estimating Welfare and Poverty Indicators in Russia

The social sphere is the priority for national governments and international organizations today. In Russia most of the burden for solving social problems is on the shoulders of regional and sub-regional (local) government, which must design and implement actions and programmes to ensure maintenance of living standards and fulfillment of various social obligations across the territory of Russia, taking due account of regional peculiarities and distinctions.

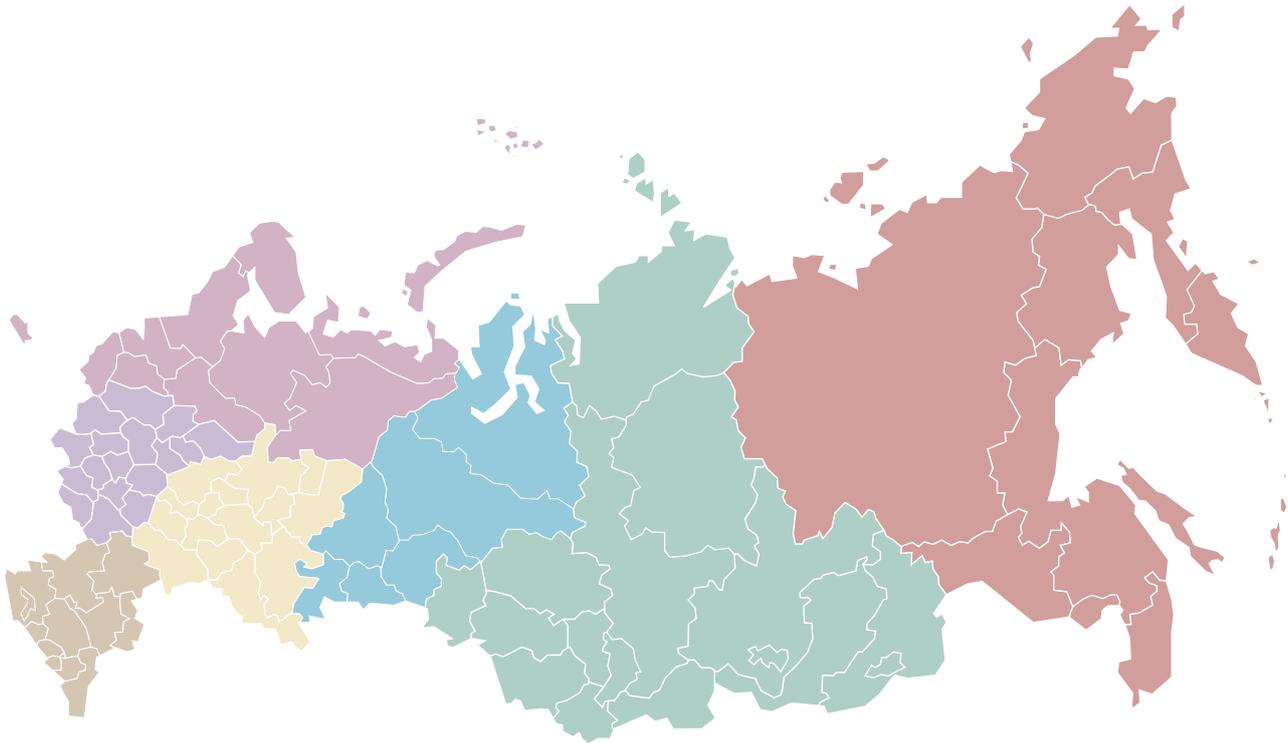
Reliable statistical estimates of poverty distribution are of great importance for monitoring progress in implementation of social programmes. Since human needs are to a significant extent determined by climatic and geographical factors, it is important to use indicators for measuring poverty, which adequately reflect specific aspects of living conditions in different parts of the same country. This is even more obvious in a country as large and diverse as Russia.

In Russia there are official criteria for poverty, which are laid down in law. The criteria measure whether people's incomes are below the poverty line, which is defined as the minimum subsistence income. Poverty lines for families or households are set on the basis of individual subsistence minima of family members, taking account of varying needs due to age, sex, composition and size of the family.

Sources of data on poverty in the regions include registers of people receiving welfare, i.e. people whose financial situation meets poverty criteria as implied by the regional subsistence minimum and who have applied to social security services in order to be registered as low-income citizens and receive the welfare to which they are entitled. However, data on recipients of welfare under state-run programmes only capture a part of those living in poverty.

In order to design a general social policy, account must be taken of those who have not applied to the social security services or have not been able to prove their vulnerable financial situation. This can be achieved using statistical estimates of poverty headcount. Such estimates are achieved by comparing available data on incomes with poverty parameters, which take account of specifics of life in a certain region, sex, age, field of work, family size, numbers of (possible) dependants and other factors. In various countries the sources of data on personal incomes may include tax declarations, population censuses, pension registers and registers of other "social" services as well as data on household budgets, which are obtained through state-sponsored selective statistical observations.

A Russian law passed in 2002 "On the All-Russia Population Census" prohibited collection of data on personal incomes. Information contained in tax declara-



tions is also unsuitable for poverty estimates, because only a limited percentage of people in Russia declare their real income. In principle, use could be made of the register of the Pension Fund of the Russian Federation, which includes data concerning people's salaries and pension accumulations (for everyone who has state insurance and is registered in the system of mandatory retirement insurance). However, these data are currently not available for purposes of measuring income and poverty rates.

Thus, sample surveys of households remain the only source of statistical data necessary for evaluation of "overall" poverty in Russia. Selection of samples is based on population structure, composition, and types of households (which should be representative of both urban and rural populations in each subject of the Russian Federation). The samples include all types of households. At present, 49,200 households participate in household budget surveys in Russia, of which 33,500 are in cities and towns, 15,200 are in rural areas, and 500 are households among indigenous nations of the Far North. Participation in the surveys is voluntary. By processing the collected data on household consumption and expenditure it is possible to calculate approximate income and compare it with the minimum consumer baskets for various types of households, defined by the number, age and sex of their members.

The results are used as a basis for calculation of population distributions by average per capita income. A simulation method is used, based on the hypothesis that the distribution of income in society is close to the lognormal distribution. This model uses two parameters: level of per capita money income (using macro-economic calculations as a source) and dispersion of levels of income (based on the household budget surveys).

However, there is good reason to believe that household budget surveys only provide reliable estimates at the national level while the number of recorded cases at the level of regions is not sufficient for drawing statistical conclusions, due to the problem of "limited survey area". In EU countries household survey samples are much larger in relation to total population size than in Russia. For example, in Latvia, with its population of 2.4 million, 8,250 households are taken as a survey sample while in the regions of Russia with comparable population the samples are much smaller. Thus in Voronezh region (2.4 million people) only 550 households are questioned, in Dagestan (2.6 million) the number is 615, in Volgograd Region (2.7 million) it is 770, etc. In Finland, a country with a population of 5.2 million, 4,359 households are covered by studies and surveys while in Krasnodar Territory (5.1 million) similar studies cover only 905 households. Caution is therefore

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needed as regards estimates of regional poverty and income inequality indicators in Russia. Particularly in view of the fact that poverty is unevenly distributed across Russia's regions.

In researching regional distribution of poverty it should be remembered that differing levels of income inequality in different regions affect estimates of living standards of regional populations and average indicators for income and consumption, and that differences between average household incomes in various regions are quite significant. Over the past 10 years Muscovites have accounted for between 20% and 25% of Russia's highest income quintile while the poorest Muscovites account for only 1–2% of the lowest income quintile.

Purchasing capacity of incomes in a region must take account of price levels there. This is important in order to estimate the real living standards and to avoid possible overstatement of standards in regions with high price levels relative to regions with significantly lower prices. Differences in price for identical goods and services in different regions of Russia are now much less than was the case at the start of reforms (the differences have been eroded by the changing economic situation, development of market competition and other factors), but they still exist. Regional variation in the cost of living is found in all countries and is particularly marked in large countries with varied climate zones and with regions that have very different levels of economic development. So elimination of difference in prices for goods and services is a necessary condition for comparison of monetary incomes and expenditures in different regions.

Interregional differences in prices can be measured by comparing actual final consumption and volumes of consumer expenditures in different regions. Estimates of the cost of living based on actual final consumption of goods and services and on estimates of consumer expenditures have independent importance. In the first case what is compared is consumption volumes in fixed prices irrespective of the source from which the consumer receives the goods or services, but in the second case what is compared is value of the baskets of goods purchased by the consumer. The difference between the volume of final consumption (as a basket of consumed goods and services) and consumer expenditure (as a basket of goods and services purchased) can be quite significant.

The list of goods and services used to fix the Russian subsistence minimum (the minimum basket of goods) is not fully suitable for these purposes because difference in price levels is not the only factor causing difference in subsistence minima in different regions. Russian legislation makes the goods-and-services composition of the basket vary from region to region,

depending on differences in natural and climatic conditions, the size of the territory, level of provision with social institutions, transport and communications, consumption characteristics etc.

Estimates of regional differentiation of socio-economic phenomena and processes are of particular importance in Russia. Most statistical indicators can be presented as a geographical distribution of national estimates. However, this does not apply to measurement of poverty. Calculation of poverty levels in Russia has been paradoxical since passing in 1997 of a federal law "On the subsistence minimum in the Russian Federation", which stated that there can be more than one subsistence minimum indicator in Russia: the "federal" and "regional" subsistence minima. As a result the share of the poor and poverty levels can now be calculated both at national level and at the level of Russian regions. Use of the regional minima seems to be good practice since most people pay for goods and services at or not far from where they live and regional price levels are a better reflection of actual consumer expenditure than average Russian price levels. Estimates of the total number of Russians living in poverty (and of the national poverty level), calculated as a total of poor people in the regions (based on regional poverty criteria), are higher than estimates based on the federal subsistence minimum. The reason for this is that the minimum regional consumer basket in many regions includes more items than the federal minimum basket.

The abolition of centralized supervision of baskets of consumer goods, calculated at the regional level, means that there is no longer any single system for monitoring the different approaches used by subjects of the Russian Federation for determining poverty criteria. The possibility always exists that certain regions may artificially exaggerate their subsistence minimum to justify demands for an increased financing from the federal budget or, on the contrary, use an artificially low poverty line in order to make limited budget resources suffice for meeting welfare obligations. In making quantitative estimates of the scale of poverty at the federal level and comparing the situation in different regions it is important to remember that, due to regional differences in poverty criteria, the poor are not uniform across different regions with respect to the main criterion used for identifying them.

Poverty rate in Russia as a whole is calculated, based on general distribution of the country's population according to income levels, as the percentage of the population whose incomes are below the all-Russian subsistence minimum. But this approach cannot be reckoned entirely correct, since the all-Russian subsis-

tence minimum is not a weighted average of regional minimum baskets of goods calculated on the basis of regional norms and price levels (weighted by the number of poor people in each region). For this reason, it is informative to give an additional estimate of the size of the poor population in the whole of Russia as the sum of the poor in each region, determined by regional subsistence minima and regional distribution of population according to income levels. Therefore poverty rate should be calculated as the proportion of the number of people who are judged poor according to the regional criteria to the total population of the country. In that case, estimates of the number and share of the poor in Russia's population take account of regional subsistence minima and numbers of the poor in Russia's regions.

Official data, calculated on the basis of the subsistence minimum fixed by the Russian government in 2004 (there was no official estimate of the minimum in 2005), suggest that 25.5 million people in Russia or 17.6% of the total population were in poverty. However, if the sum is done by adding together all those who qualify as poor based on subsistence minima established by regional administrations in subjects of the Russian Federation, the number of people living in poverty rises by 5 million. The highest poverty levels (over 50% of the population) are found in Ust-Orda Buryat Autonomous District, Republic of Ingushetia, the Komi-Perm Autonomous District. The lowest poverty levels are found in Moscow and St. Petersburg, the Republics of Komi and Tatarstan, and the Yamalo-Nenets and Khanty-Mansi Autonomous Districts.