

Inclusive growth in Russia: Achievements and Challenges

Ana Revenga

Senior Director

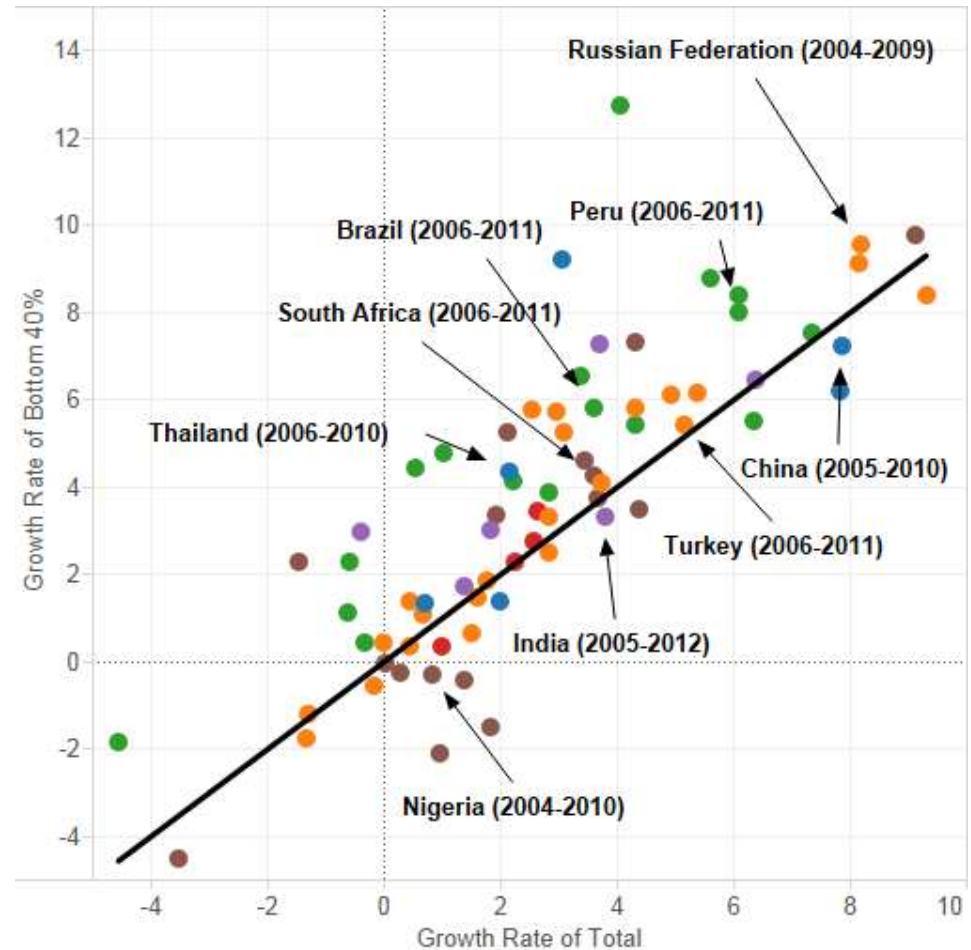
Poverty and Equity Global Practice, The World Bank

Growth is the main driver of improved economic welfare globally, but the inclusiveness of growth matters too

The World Bank uses the **Shared Prosperity** indicator to monitor both average growth and growth of the lower quintiles of the population in every country

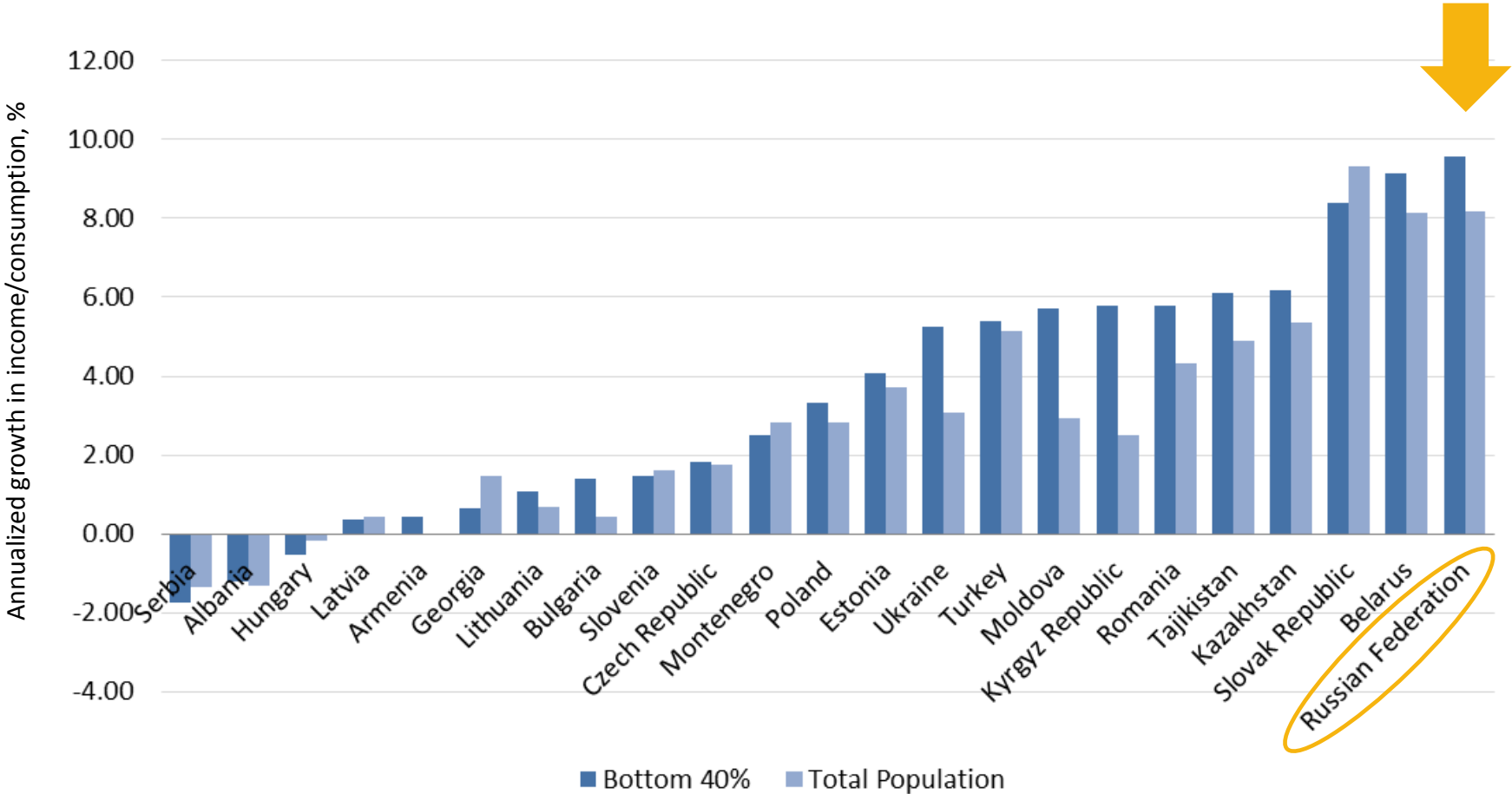
Shared Prosperity

- Growth has been inclusive globally, with the bottom 40 growing faster than the average in more than 70% of countries for which data is available.
- But in about 1/5 of these cases growth rates are very low (under 2%) limiting progress on this goal.
- And in some high growth countries, including in Europe and Central Asia, shared prosperity has been spurred by social transfers which may not be sustainable.



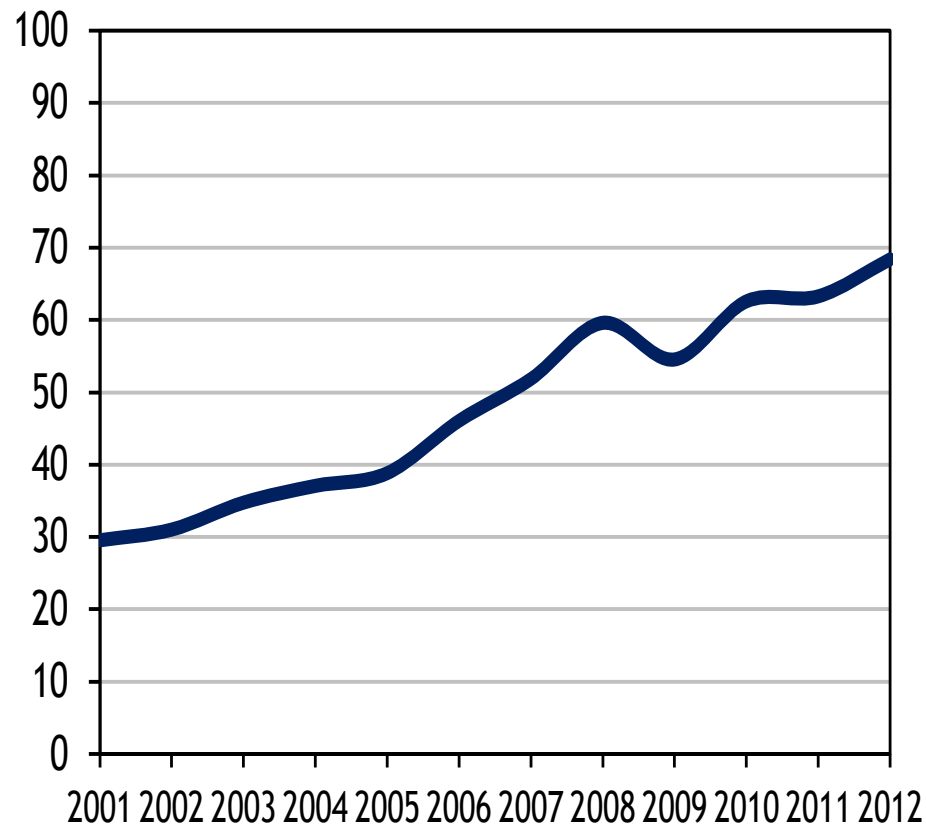
Eastern Europe and Central Asia performed well on shared prosperity, and Russia provided a strong example of this

Shared Prosperity in the Eastern Europe and Central Asia region, circa 2006-2011



Russia's inclusive growth in the 2000s generated remarkable upward economic mobility and rapid middle class growth

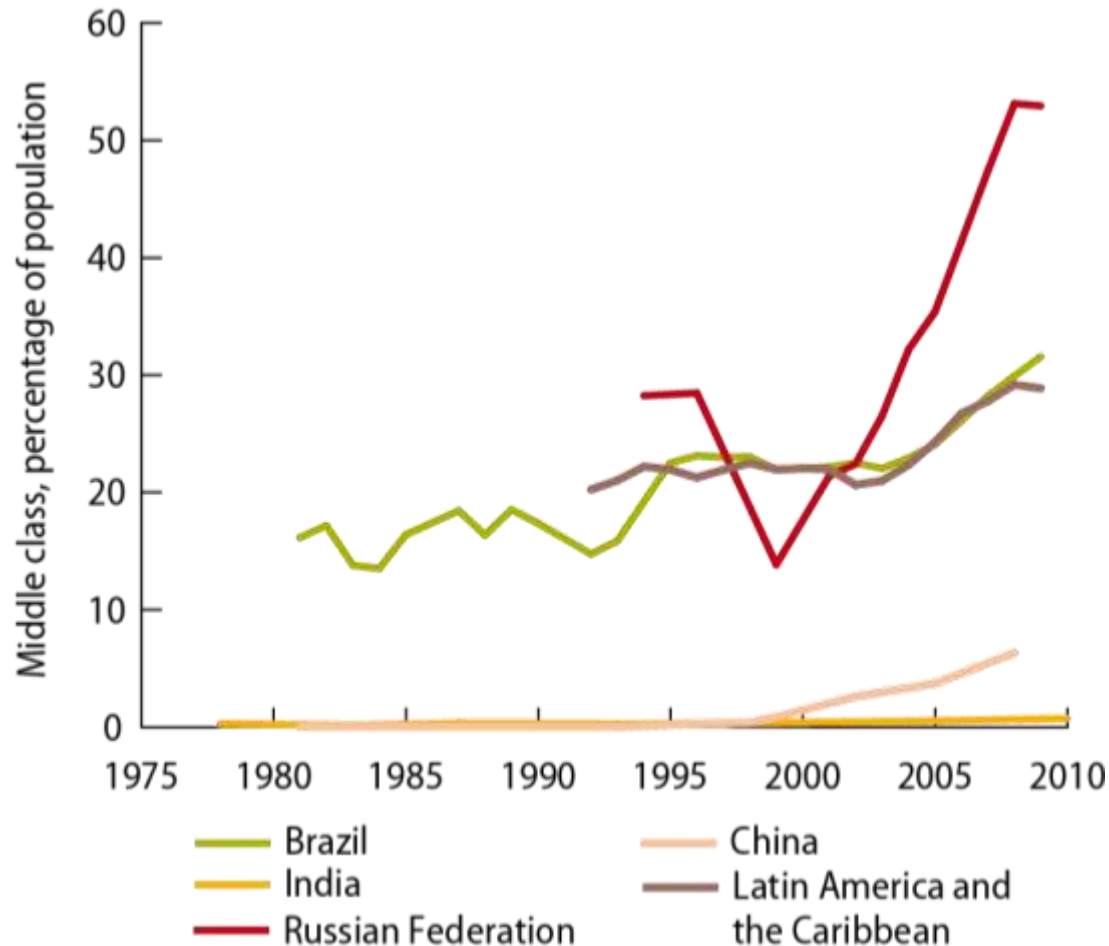
Share of the population whose per capita consumption is equal or higher than US\$10/day (2005 PPP)



Source: World Bank staff calculations using data from the RLSM-HSE, 2001-2010

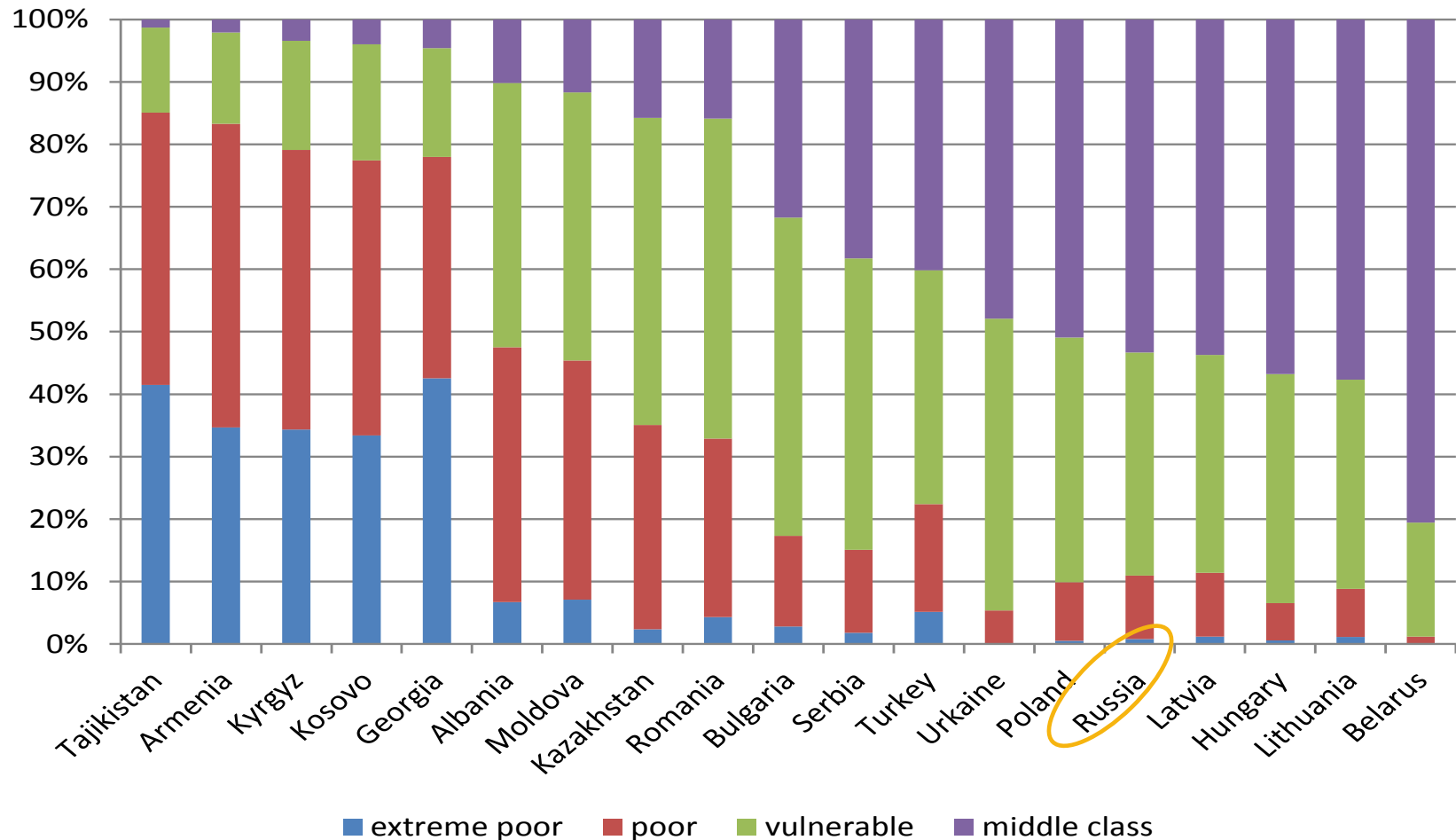
Russia outperformed other BRICS in middle class growth...

Middle-class growth in the BRICs, circa 1980–2010



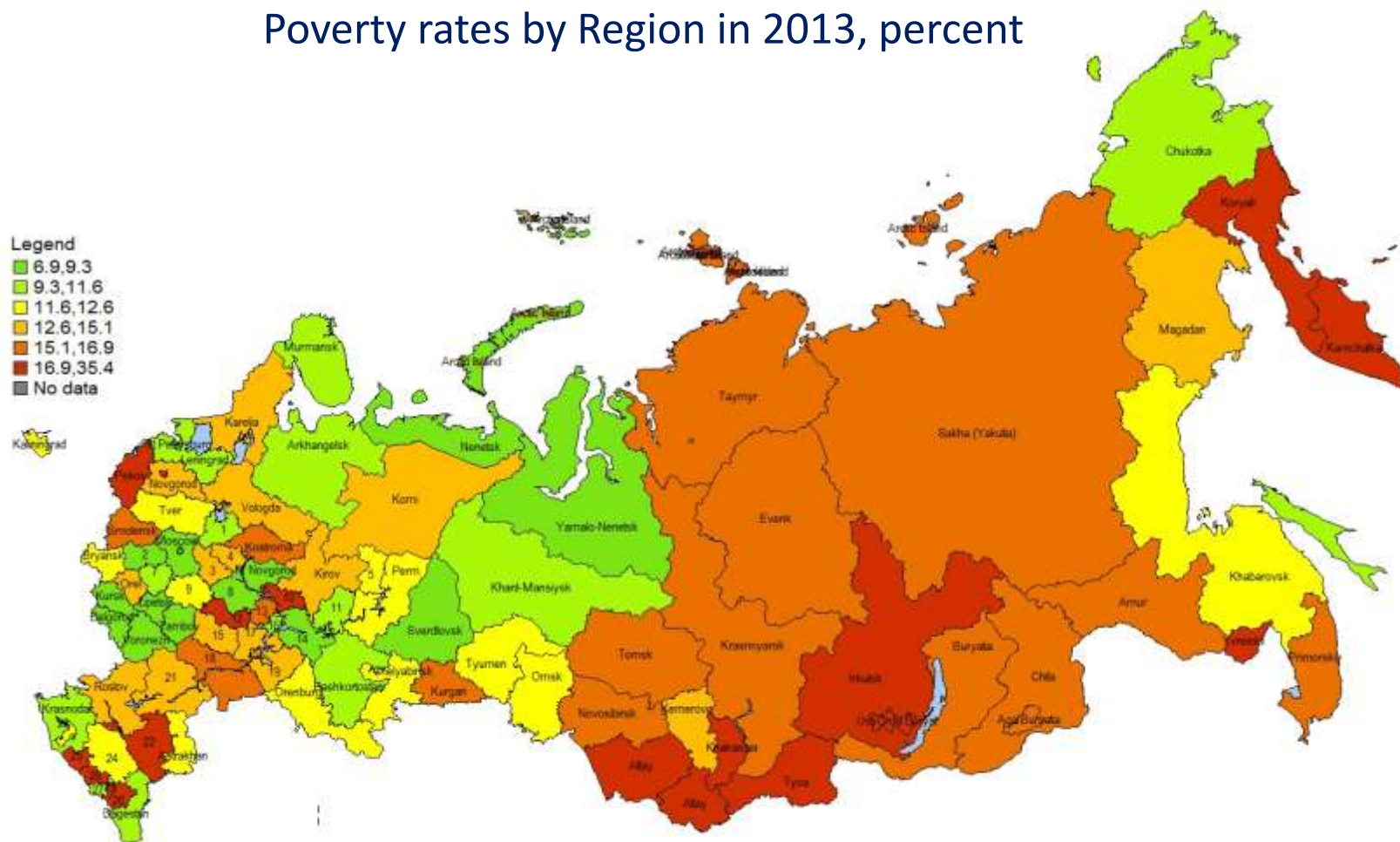
... and, as a result, the share of the middle class in Russia is one of the largest in the region

Percentage of population in each economic group by country, circa 2010



Aggregate data do not capture significant differences in income levels and living standards across regions

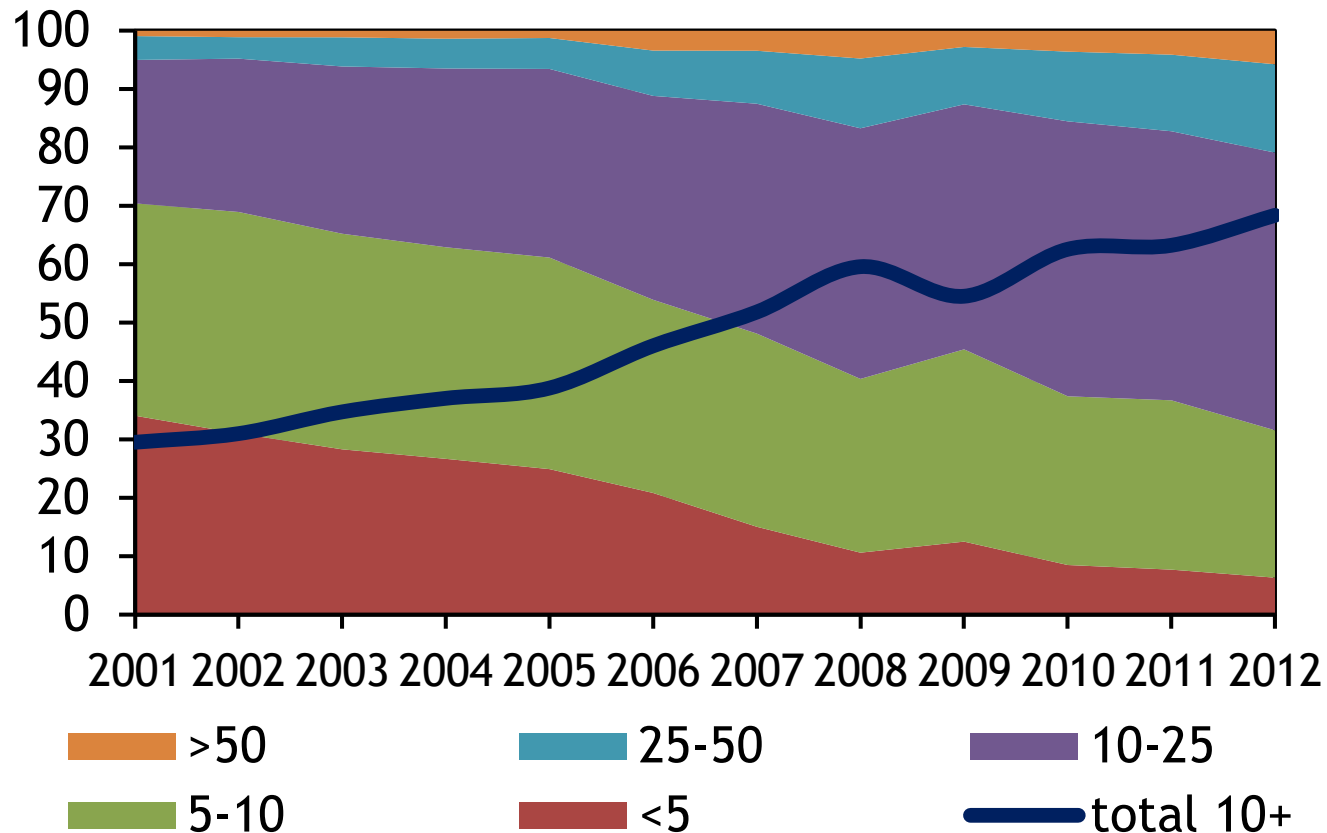
Poverty rates by Region in 2013, percent



Middle class growth was accompanied by persistent levels of economic vulnerability

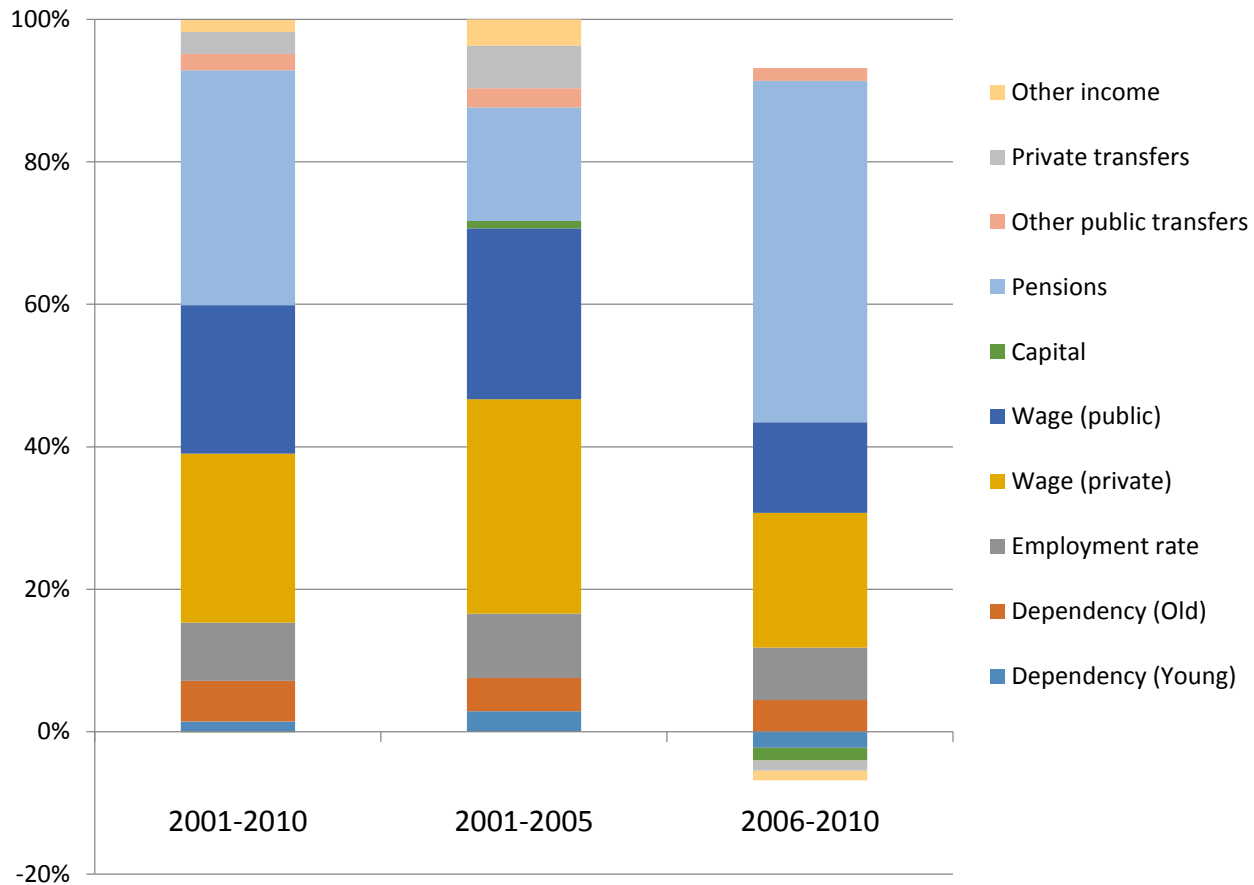
Income distribution

(share of population with per capita income in US\$ PPP per day, percent)



While labor earnings, particularly in public sector, drove middle class growth during the early 2000s, pensions played a greater role in recent years

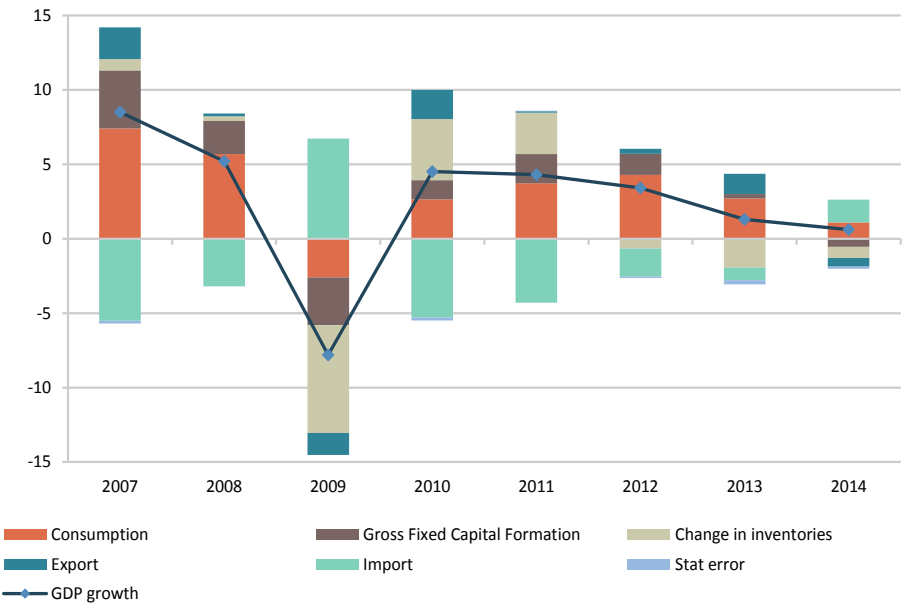
Contribution to observed inflow into middle class (in percentage)



Policies that support further middle class growth and a reduction on vulnerability will have to be implemented in a difficult context

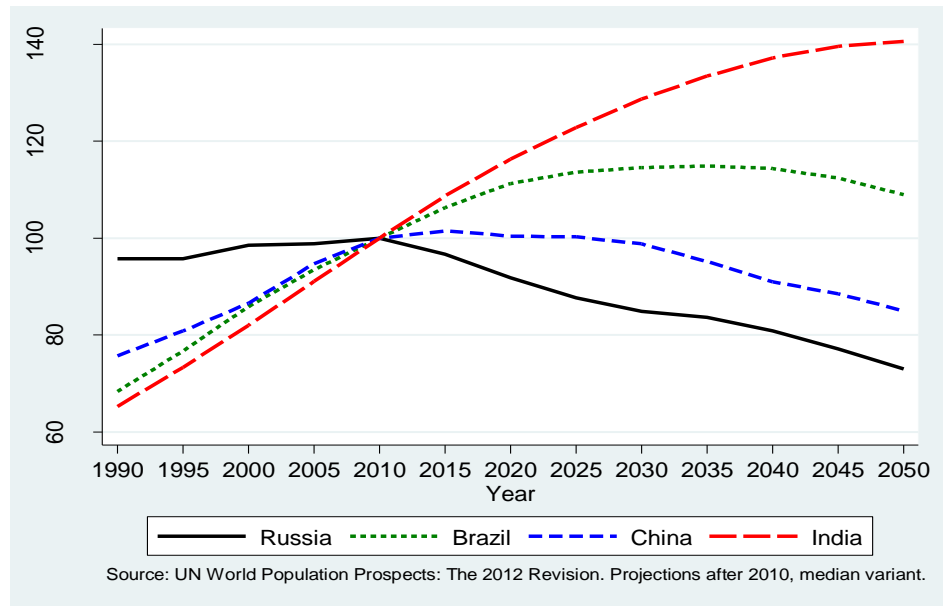
- Lower oil prices and slowing growth
- More limited fiscal space
- Ageing population

GDP growth in Russia, contributions, 2007-2014



Source: Russian Statistical Authorities

Working age population, BRIC countries



Source: UN World Population Prospects: The 2012 Revision. Projections after 2010, median variant.

Source: UN World Population

Russia may benefit from **rebalancing** its policy strategy in two different dimensions

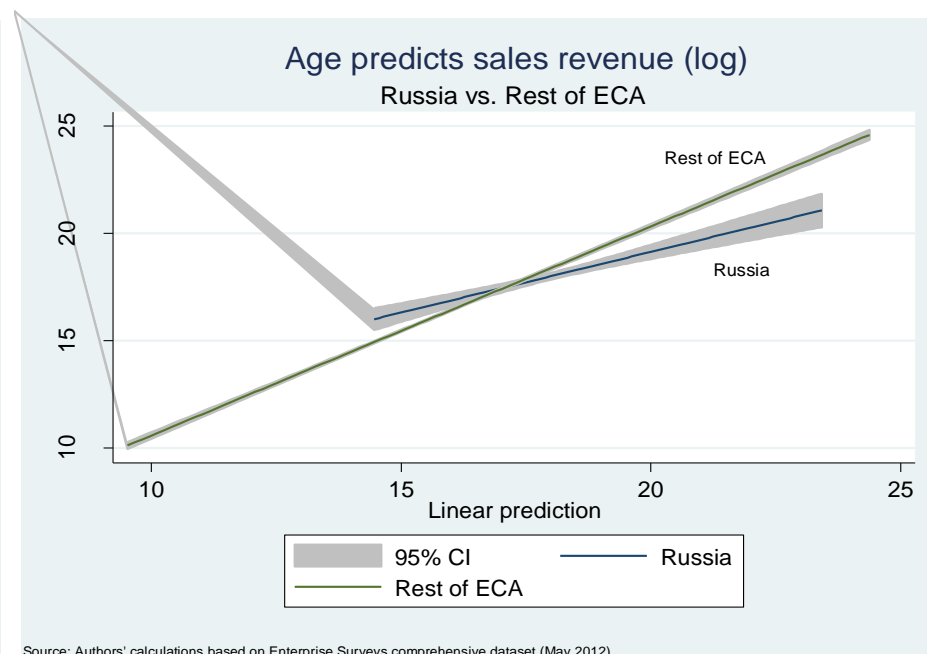
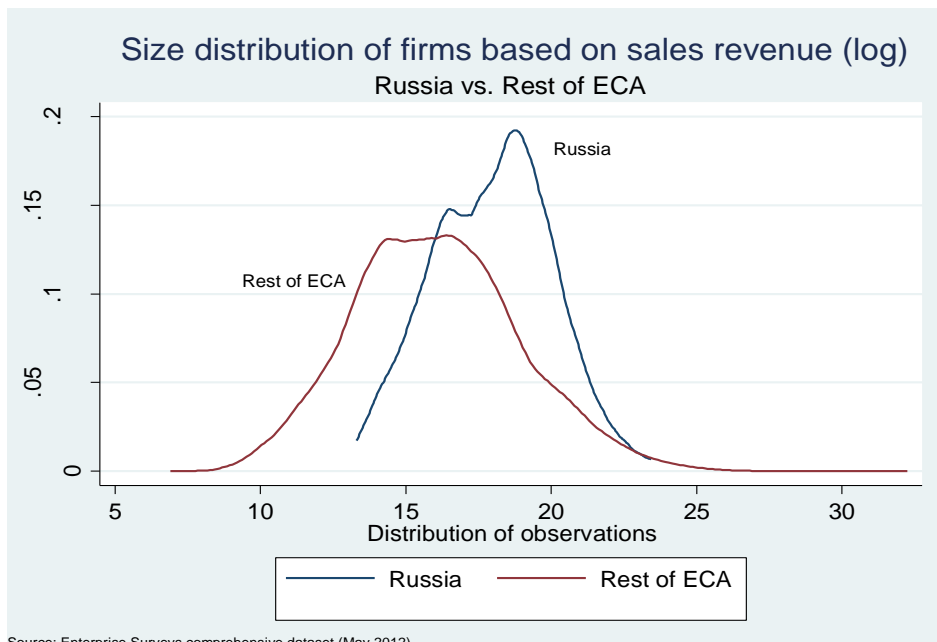
1. Rebalancing the role of the **private vs. public** sectors in driving economic activity, productivity growth and job creation, by leveling the playing field
2. Rebalancing the responsibilities and accountability for service delivery between **central and regional governments**, by strengthening local governance and improving effectiveness

This would need to be done while rationalizing and continuing to provide **targeted social insurance and safety net support** to the most vulnerable, the elderly and those unable to work

Rebalancing the role of the private vs. public sector in driving economic activity, productivity growth and job creation, by leveling the playing field

Existing firm size and dynamics in Russia are likely to hinder productivity and employment growth and innovation

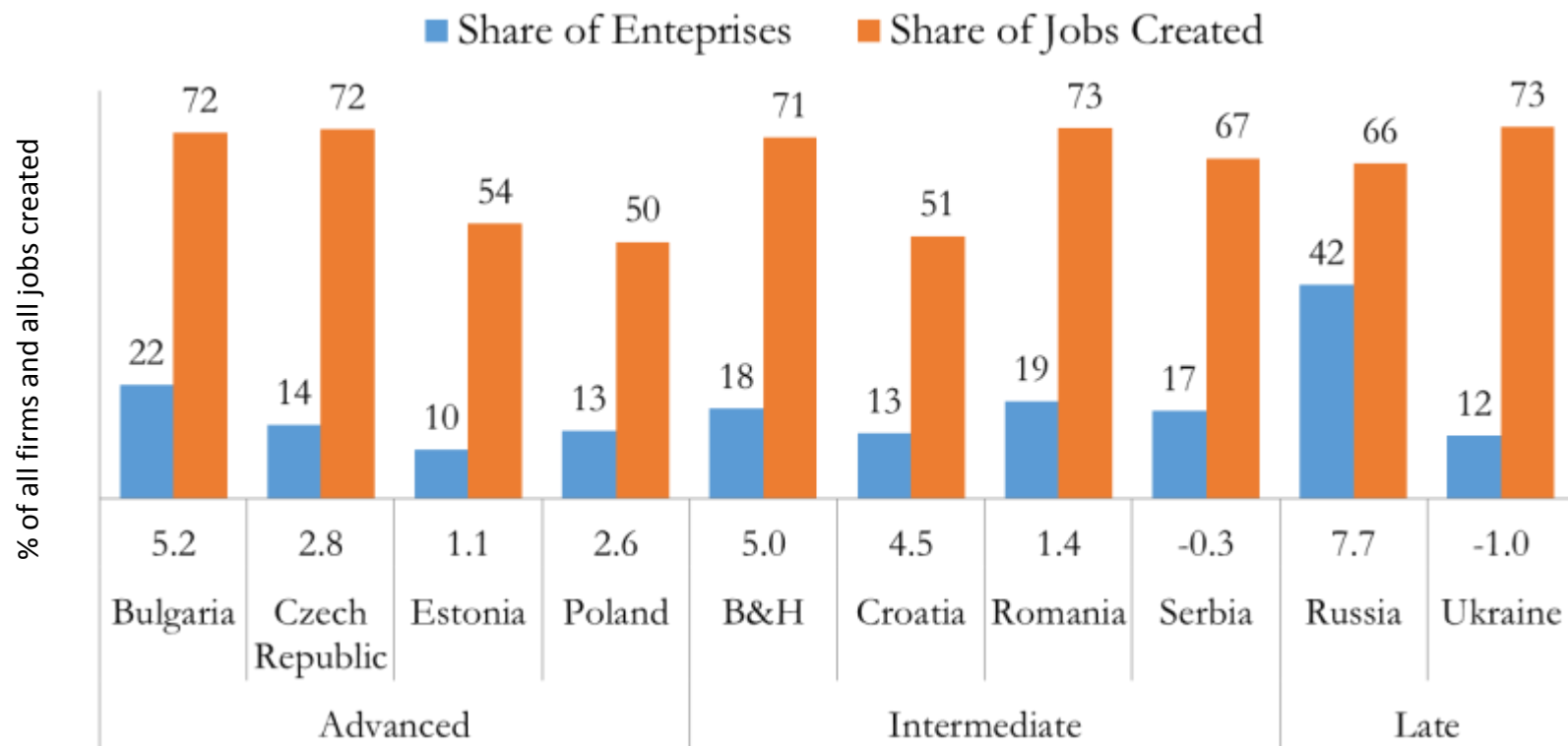
- Markets are dominated by large and old(er) firms, and these firms appear to be bigger in size and less profitable than relevant comparators in other countries
- In contrast, younger and smaller privately-owned firms, which in other countries account for a large fraction of fast growing, innovative firms, have a low probability of survival irrespective of productivity/efficiency levels



Source: World Bank, Russia Economic report, Sep 2013, based on data from United Nations, Comtrade, retrieved June 12, 2012.

As a result, “Gazelle” firms appear to play a less important role in terms of formal employment creation and innovation

A small number of young private firms (“Gazelles”) have been responsible for most of the job creation in Eastern Europe during 2004-08

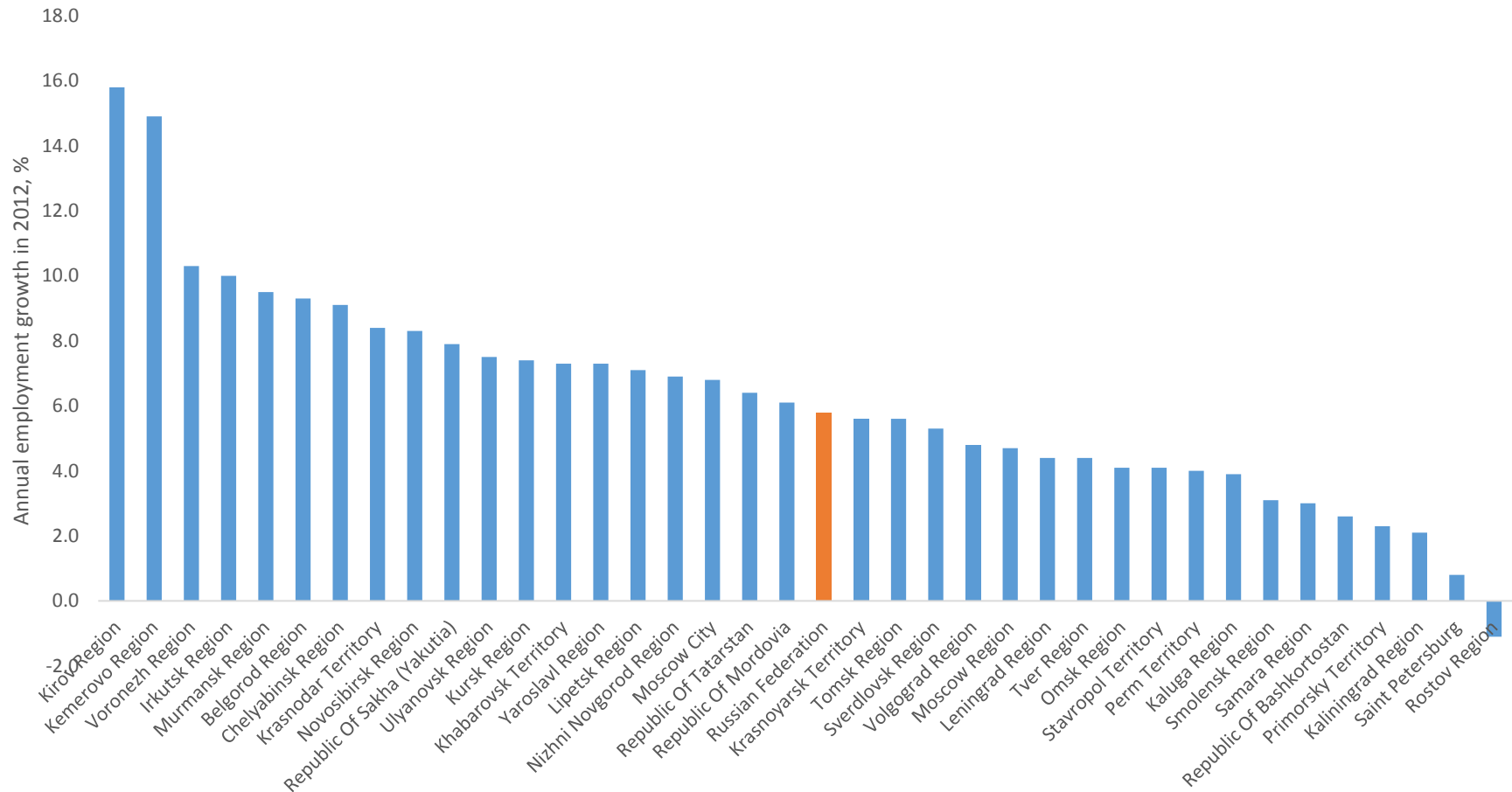


Notes: The number above each country represents the average growth rate of employment per year; country groupings refer to advanced, intermediate and late reformers (definition by World Bank, in Back to Work).

Source: Back To Work: Growing with Jobs in Europe and Central Asia (2013).

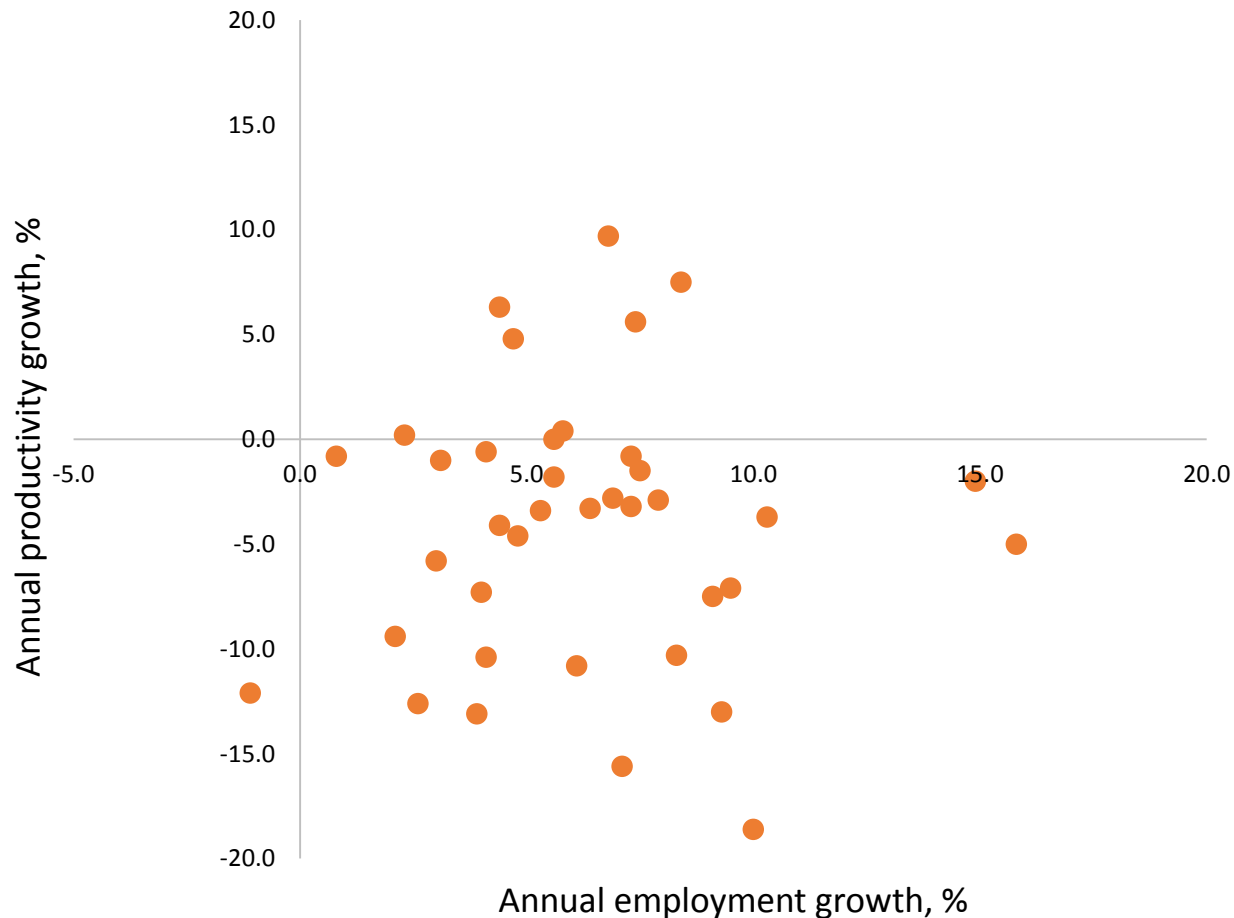
Employment creation varies significantly across regions...

Annual employment growth in 2012, by region



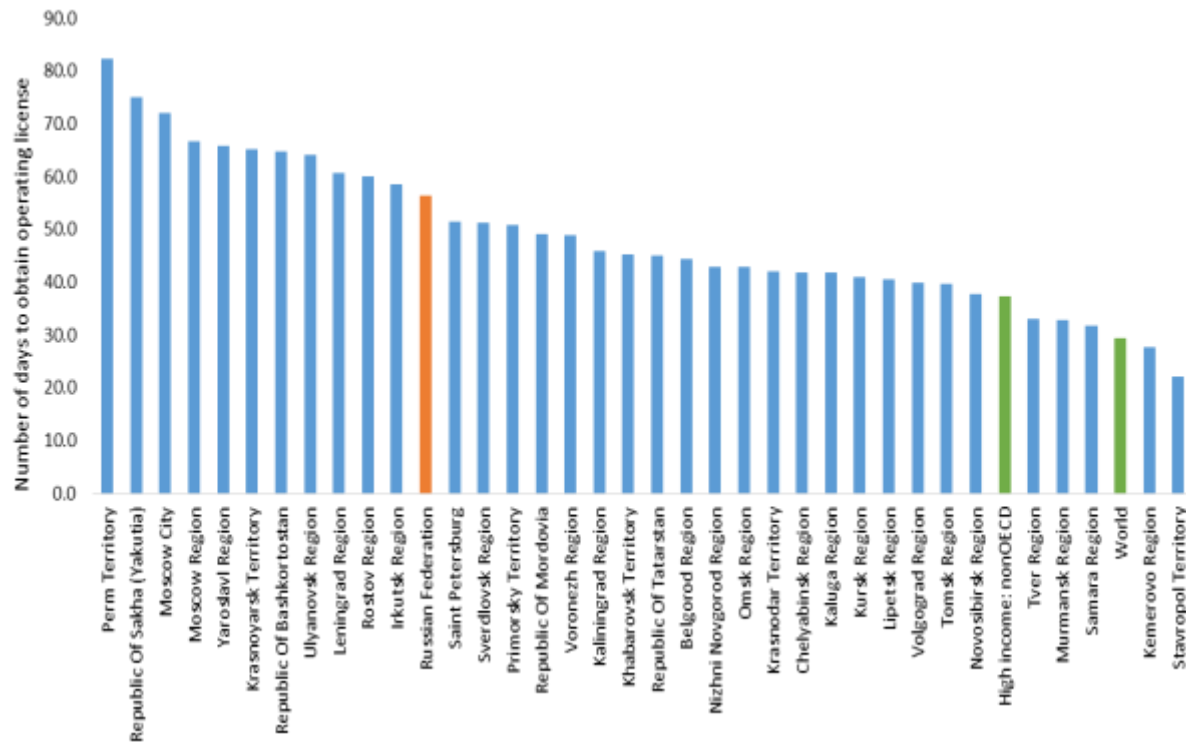
... but it is not linked to labor productivity growth...

Correlation between productivity growth and employment creation in (selected) Russian regions



... or to variation in the quality of the “de jure” business environment

Days need to obtain an operating license, by region (2012)

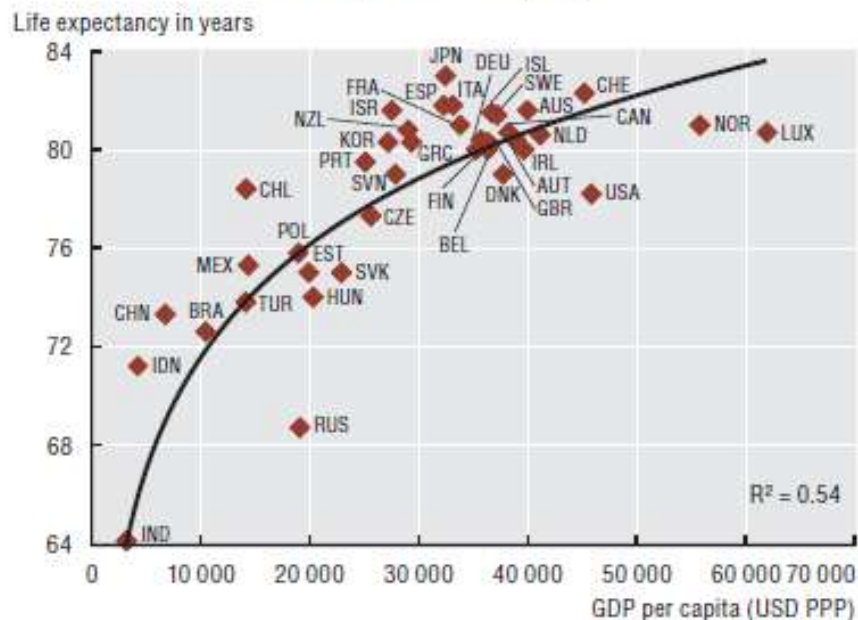


- Obtaining an **operating license** can take between 22 and 82 days, depending on the region.
- Obtaining **electricity connection** can take between 8 and 227 days depending on the region, compared to 31 days in high income non-OECD countries.
- **Bribery incidence** is reportedly about twice as high in Russian as on average in high income non-OECD countries.

Rebalancing the responsibilities and accountability for service delivery between **central and regional governments**, by strengthening local governance while avoiding exacerbating inequalities

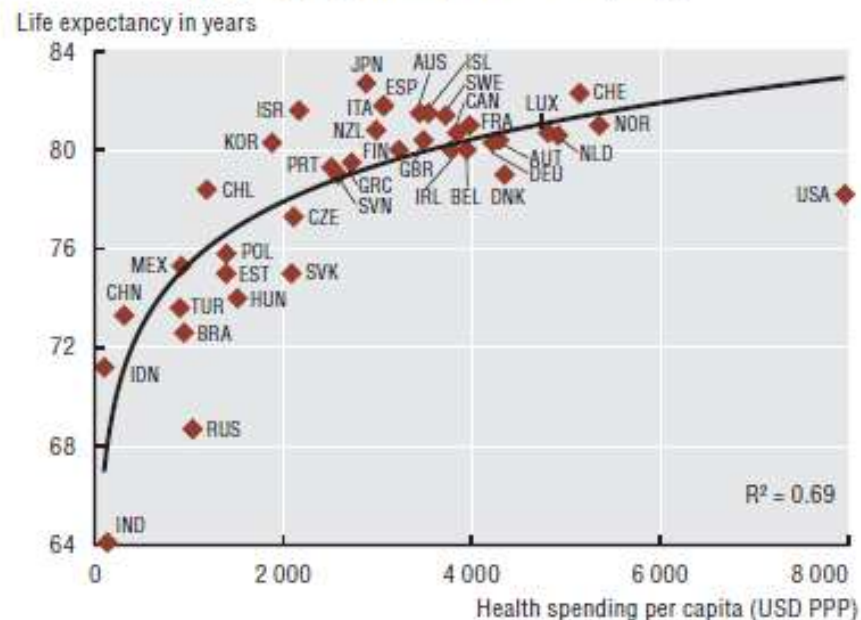
Increased income levels have not been matched by outcomes in human capital, pointing to low quality of public services

1.1.2 Life expectancy at birth and GDP per capita, 2009 (or nearest year)



Source: OECD Health Data 2011; World Bank and national sources for non-OECD countries.

1.1.3 Life expectancy at birth and health spending per capita, 2009 (or nearest year)

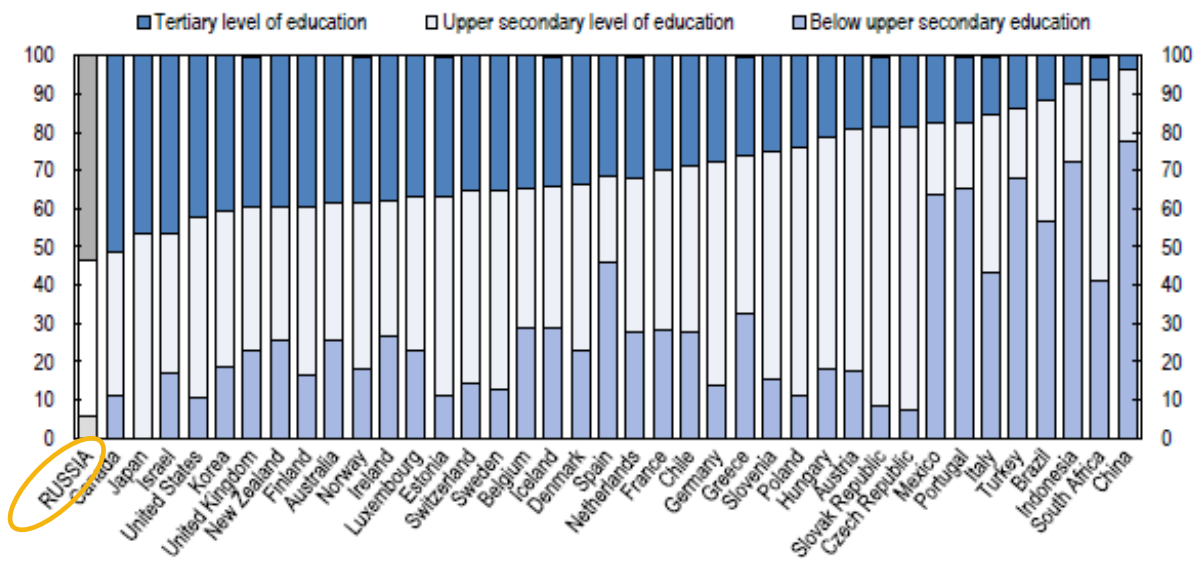


Source: OECD Health Data 2011; World Bank and national sources for non-OECD countries.

Improved quality of public service delivery needed to ensure inclusiveness of growth, to meet demands of a larger middle class...

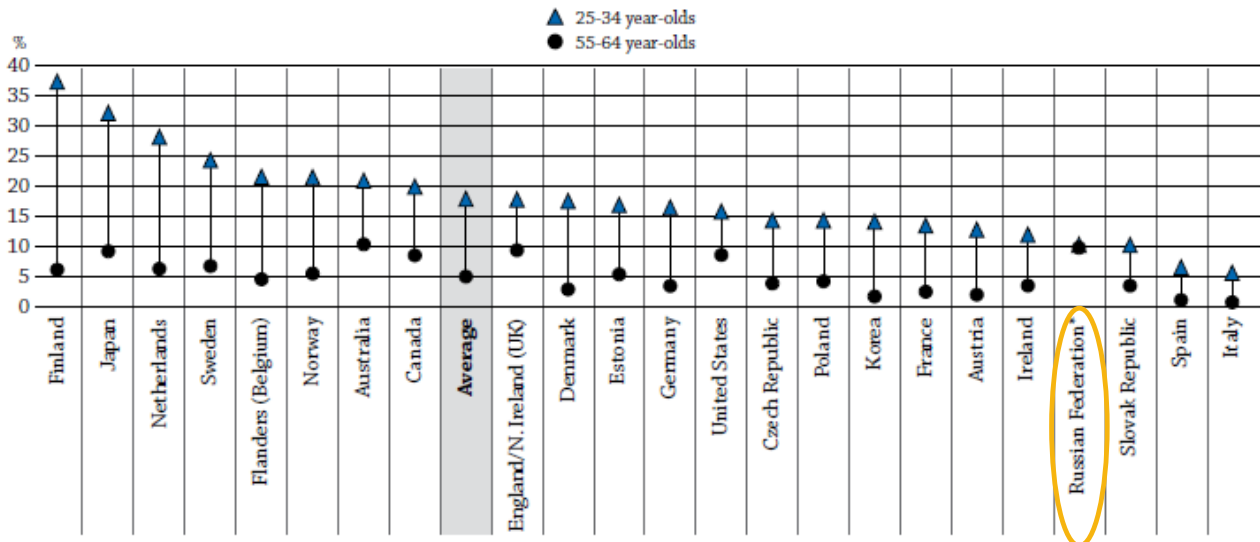
High level of education...

Educational attainment of 25-64 year-olds, 2011



...but of low quality

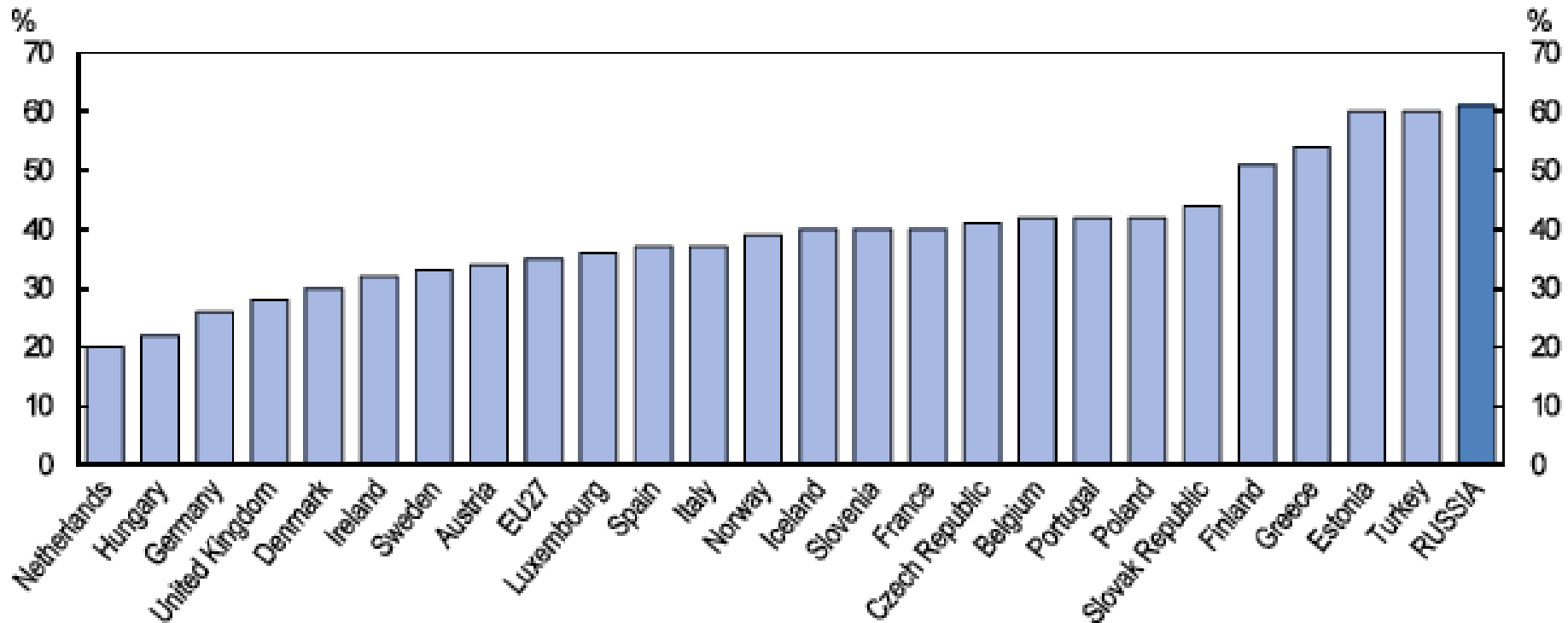
Share of younger and older adults scoring at literacy proficiency level 4/5 (highest levels on the scale), 2012



...to lift constraints to employment growth, especially among SMEs...

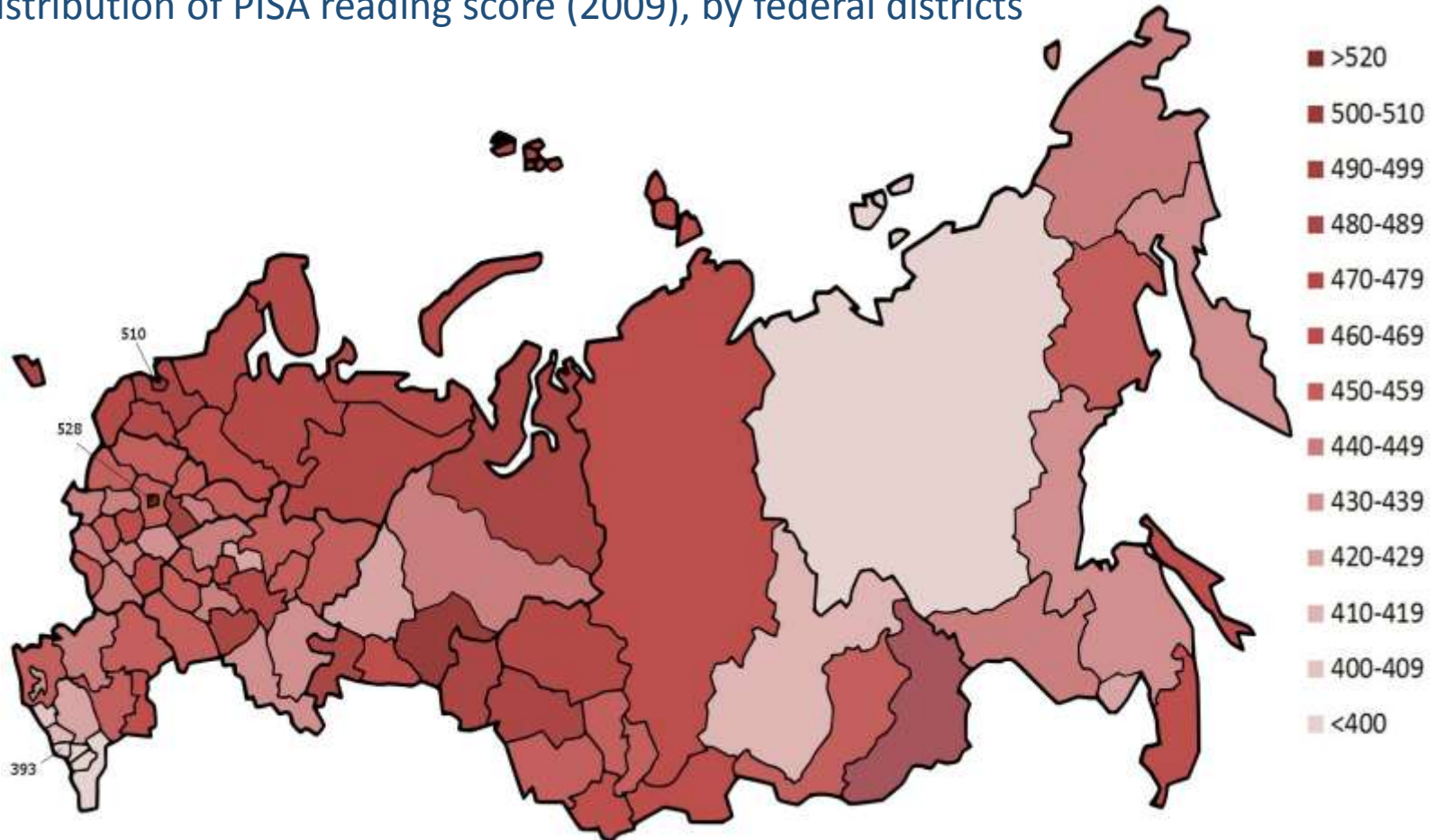
The availability of skilled personnel is limited in Russia

Share of SMEs that have admitted to facing difficulties or barriers in finding skilled personnel in the last two years



... and to promote equality of opportunity across all regions, including those where public services are of lower quality

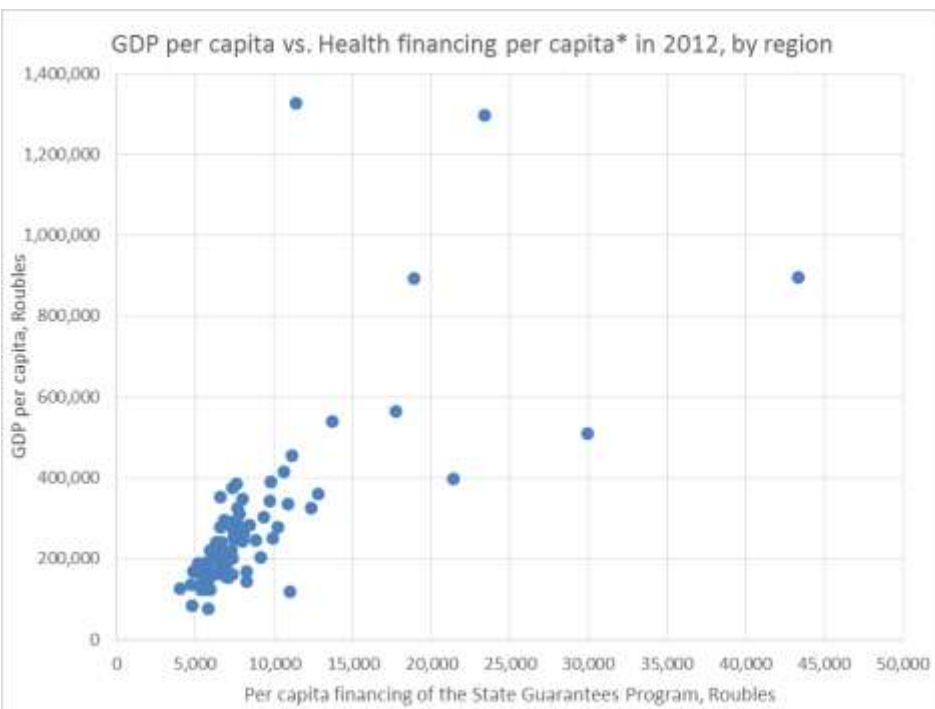
Distribution of PISA reading score (2009), by federal districts



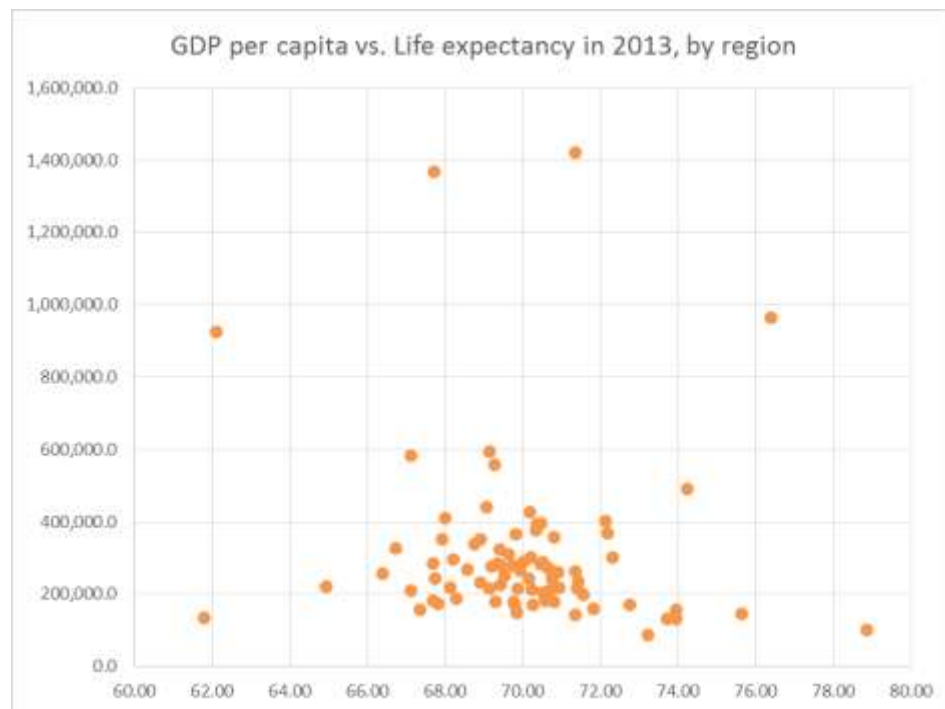
Source: World Bank, *Developing Skills for Innovative Growth in the Russian Federation*, 2013. Calculations based on PISA scores 2009 (OECD).
Note: Regional averages are directly computed from the sample in 44 out of 83 federal subjects. Values in the remaining regions have been estimated using a linear model based on level of education of parents, employment status, occupation and fixed effects at the level of federal districts.

Higher and more equitably distributed resources necessary but not sufficient in absence of improved efficiency and accountability

Richer regions tend to allocate more to public health services...



... but health outcomes do not seem to improve with higher allocations



→ Need for greater accountability and more efficient use of resources in public service delivery across regions

Conclusion

Sustaining and deepening progress in income mobility will require:

- Improving competitiveness, removing market distortions, and promoting non-oil private sector job creation;
- Fostering effectiveness, accountability and responsiveness of public service delivery to needs and demands of several population groups (in terms of income, location etc.).

Thank you