

Monitoring Report on the Status of Governance Systems in the Regions of South Russia in 2009

EXECUTIVE SUMMARY

The objective of the Report is to present the results of public administration monitoring in the Southern Federal District (SFD), including the progress in public administration reform achieved by SFD regions during January - November 2009. The Report consists of information and analysis sections describing the status and dynamics of public administration systems, as well as socioeconomic development of the regions under crisis conditions.

The main findings of the Report:

a) The Southern Federal District is an outsider among the Russian regions in terms of socioeconomic performance. While being the Russia's leader in the average life expectancy, SFD is at the bottom of the list in terms of the following indicators of living standards: gross regional product, revenues, fiscal capacity, attraction of investments, and retail turnover;

b) Distribution of productive forces in Southern regions of Russia is noted for a considerable differentiation. Four regions (Krasnodarsky and Stavropolsky Krays, Rostov and Volgograd Oblasts) account for 71% of employment in the economy, 74% of capital assets, 76% of the total gross regional product (GRP), and 89% of the total turnover of all constituent entities in the Southern Federal District.

The leading region in terms of GRP - Volgograd Oblast - performs over five times better than the outsider region in terms of this indicator - Republic of Ingushetia;

Rating of SFD regions in terms of GRP per capita: 2006

Rating in SFD	Rating in RF	Region	GRP per capita, \$ thousand in terms of PPP	Comparator country
1.	35	Volgograd Oblast	7.29	Macedonia
2.	42	Krasnodarsky Kray	6.70	Bosnia and Herzegovina
3.	43	Astrakhan Oblast	6.62	
4.	56	Rostov Oblast	5.87	Albania
5.	66	Republic of Northern Ossetia (Alania)	5.26	Egypt
6.	70	Stavropolsky Kray	4.72	China
7.	71	Republic of Karachaevo-Cherkessia	4.34	Armenia
8.	72	Republic of Kabardino-Balkaria	3.99	Georgia
9.	74	Republic of Dagestan	3.76	Bolivia
10.	76	Republic of Kalmykia	3.49	Indonesia
11.	78	Republic of Adygeia	3.42	Philippines
12.	79	Republic of Chechnya	1.95	Sudan
13.	80	Republic of Ingushetia	1.36	Ghana

Source: "Finance" Journal, No. 25, June 30-July 6, 2008

c) The crisis has had a noticeable negative impact on the development of industrial regions in Southern Russia, which manifested in declined production output, as well as investment and international activity. Despite the significant reduction of imports, no mechanisms of import replacement with domestic products came off due to their insufficient competitiveness. Reduced import of machinery and technologies, in turn, discourages growth of competitiveness.

The crisis had no significant implications for the socioeconomic situation in the republics of Northern Caucasus, above all, due to the maintenance or increase of budget subsidies from the center that form the basis of the economy in these regions. At the same time, a conclusion that closed economy and

underdeveloped financial infrastructure is a good remedy against crisis seems erroneous. In recent years, major incentives for the development of the republics of Northern Caucasus include the achievement of political and socioeconomic stability in the region, expanded financial assistance from the federal center, and incorporation of law enforcement practices in the overall institutional framework of the Russian Federation.

Efforts made by the RF Government and regional authorities to support the banking and budget sectors, and social infrastructure enabled to preserve social and political stability in the regions.

**Rating of Southern regions by the index of basic industry development in January - November, 2009 as compared to the respective period in 2008
(from operating records of Rosstat)**

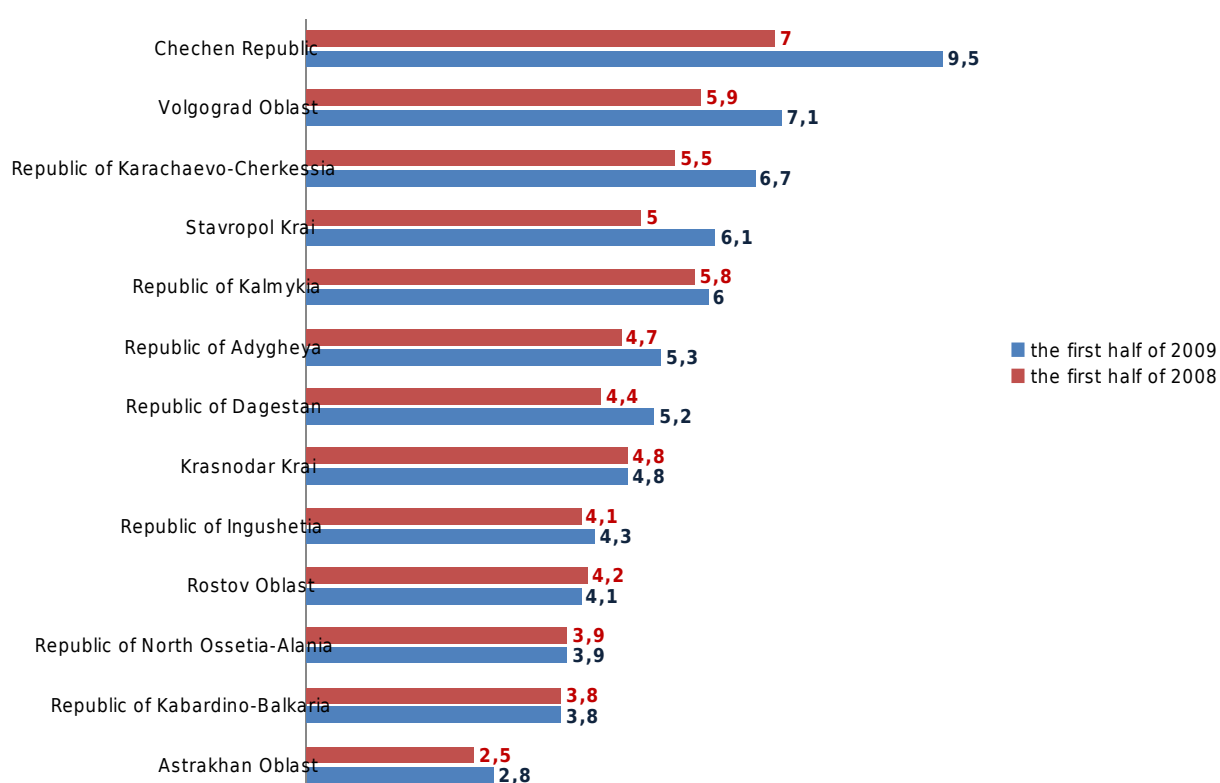
SFD region	Industry	Agriculture	Retail trading	Construction	Household income	Investment	Resulting rating
Republic of Dagestan	2	4	2	1	2	5	1
Republic of Ingushetia	6	2	1	6	4	1	2
Republic of Adygeia	8	5	3	2	8	3	3
Republic of Kalmykia	1	12	4	4	1	8	4
Republic of Northern Ossetia (Alania)	4	7	5	5	3	7	5
Republic of Karachaevo-Cherkessia	5	1	8	9	9	6	6
Krasnodarsky Krai	9	8	7	3	11	2	7
Stavropolsky Krai	3	10	9	8	7	4	8
Republic of Kabardino-Balkaria	7	6	6	10	6	12	9
Astrakhan Oblast	12	3	11	12	5	10	10
Volgograd Oblast	11	9	10	7	12	11	11
Rostov Oblast	10	10	12	11	10	9	12

Over 100 %	From 90 to 100%	Below 90 %
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d) Public administration expenditures remain rather

high in most regions of Southern Russia (10% of the total consolidated budget, on the average). Dynamics of these indicators evidences to the lack of focused work to optimize the structure and numbers of regional and local government officials. Despite the efforts of the RF Government, the share of public and municipal expenditures in 10 out of 13 regions still exceeds the established norm (4%), and in 8 regions these expenditures in 2009 increased as compared to pre-crisis 2008.

Share of public administration expenditures in the structure of the consolidated budget of the SFD regions, %

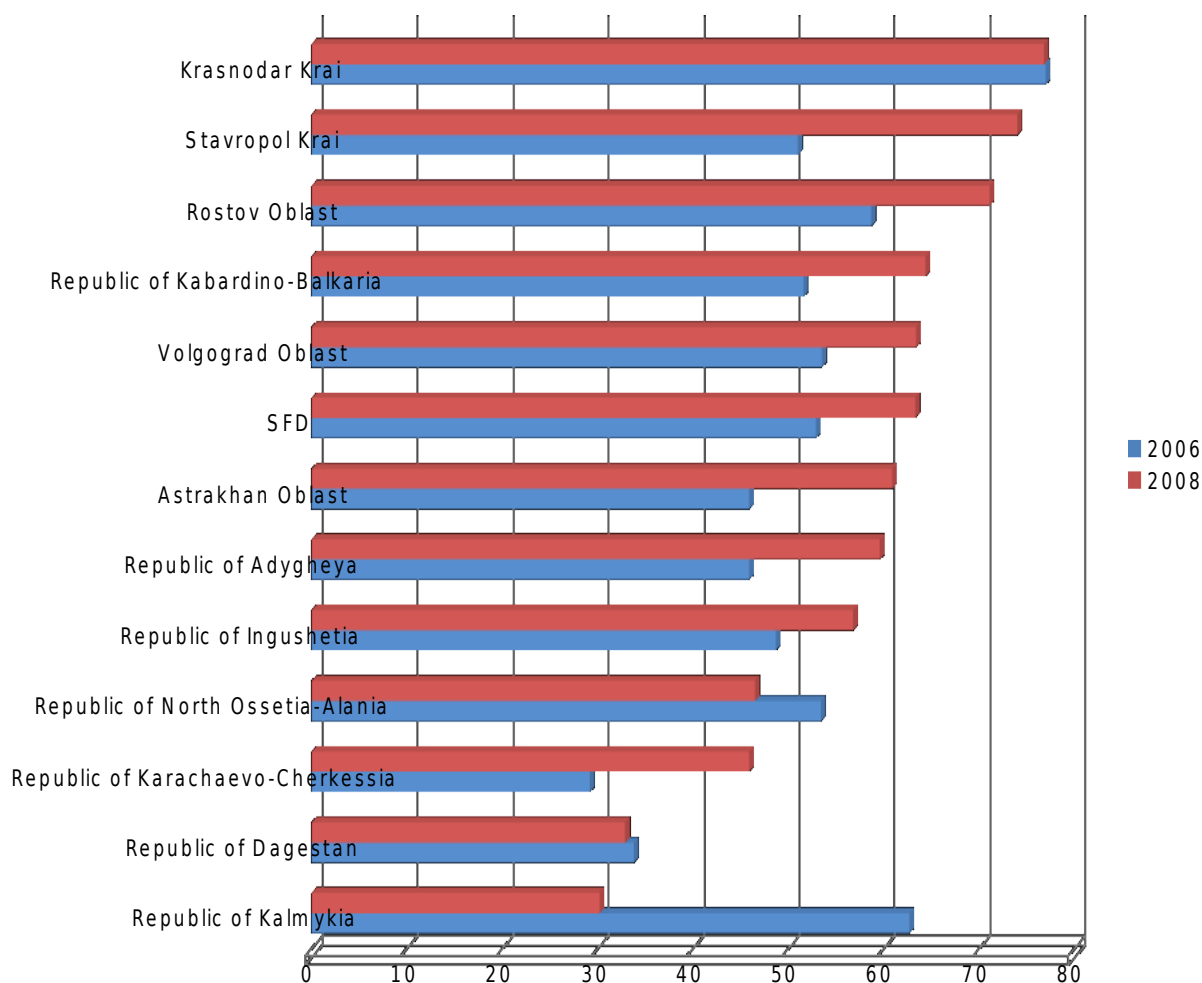


e) The people living in Southern regions are generally satisfied with their living conditions (63.8% of respondents believe that they live just as well as in other regions), and are optimistic about the prospects of their households' financial standing (68% of respondents believe that their lives will be better or the same as in the previous year) linking them with the overall economic growth in the country (70.7% of respondents are convinced that the next year will be as good as the current one in terms of the national economy).

Relatively high claimed living standards in Ingushetia and other republics of Northern Caucasus refute the generally recognized perception of poverty incidence, and special research is needed into objective conditions of social sector functioning in ethnic regions, such as:

- A significant share of shadow income earned by people engaged in small-scale agriculture, wholesale and retail trading being the most non-observed sectors of economy;
- High level of push-pull and seasonal interregional migration. A considerable percentage of workable-age population of ethnic republics earns their living in other regions. Unfortunately, the process and scales of internal migration are poorly studied, and it seems impossible to estimate the amount of cash earnings from this type of activity;
- Existing traditions of mutual assistance, respect for the authority of the older generation, prevalence of family inter-generation transfers and religious obligations (Moslem peoples encourage special religious taxes and donations as a form of charity) have a significant impact on the claimed living standards in ethnic republics.

Assessment of general satisfaction with living conditions in the regions (percentage of neutral and optimistic responses)



f) Efforts made by the Secretariat of the Working Group for coordinating activities under the joint program of the World Bank and Office of the Presidential Plenipotentiary Envoy to the SFD have had a positive impact on public administration reforms in most regions of Southern Russia. This is clearly demonstrated by the good results shown by SFD regions under the Russian-wide competition of regional program reform projects; active participation of the regions in interregional training events; visiting statistics of the Secretariat website, as well as some written comments from the regions.

The report was prepared by the Secretariat of the Working Group for Strengthening Governance in South Russia in December 2009.