



**Russia vs. the Resource Curse.
Does the Country Have
Adequate Institutions to Win the
Battle?**

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Transmission of resource abundance into the resource curse

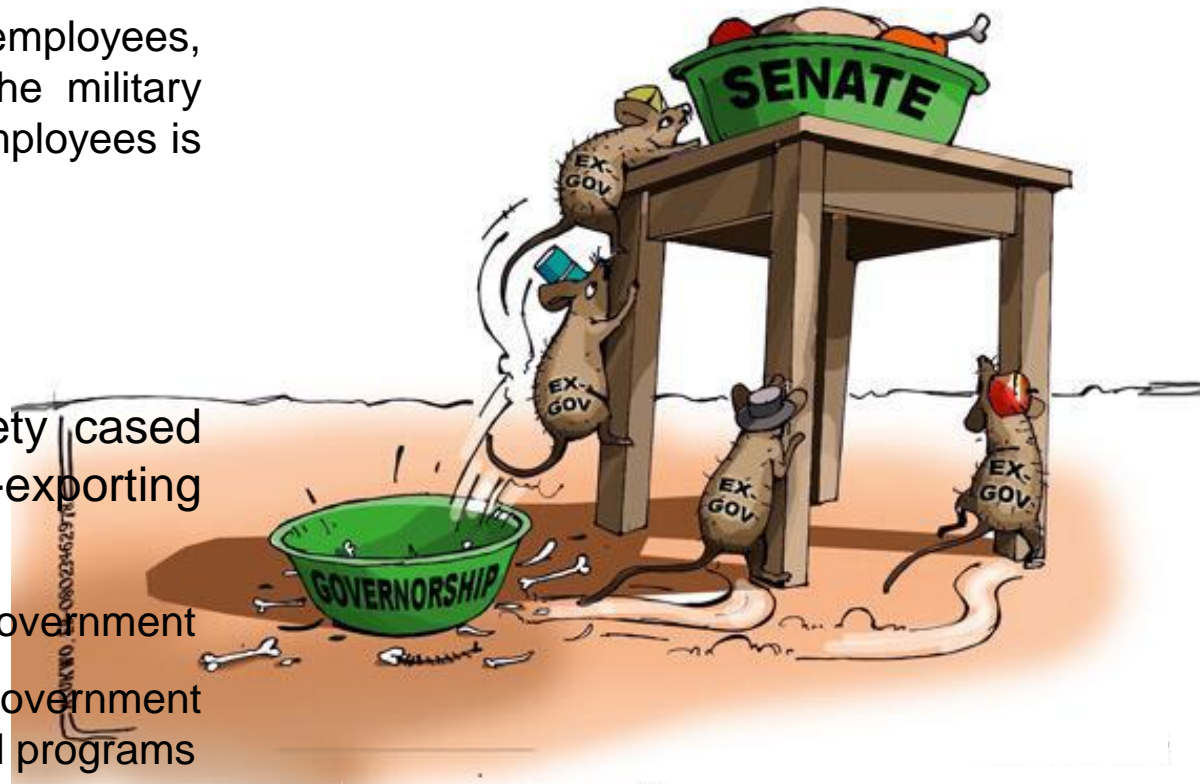
- Macroeconomic mechanisms
 - The Dutch disease – low competitiveness of non-resource sectors of the economy due to currency overvaluation
 - Volatility of commodities prices
- Political
 - Rent-seeking behavior causing corruption and voracity
 - Autocratic institutes
 - Anarchy and inability of the state to secure the property rights (the extreme case)



The so-called rentier state

- High expenses during the boom years which can not be absorbed by the economy and maintained during the lean years
- The typical excessive expenses are
 - Inflated pensions
 - Inflated wages of state employees, including the policemen and the military (and the number of the state employees is also too high)
 - Large infrastructure projects
 - Energy subsidies
- Malfunctioning of the civil society caused by the taxation of the resource-exporting companies
 - Failure in accountability of the government
 - Low social pressure on the government due to relatively generous social programs

NIGERIAN GOVERNORS' RETIREMENT PLAN

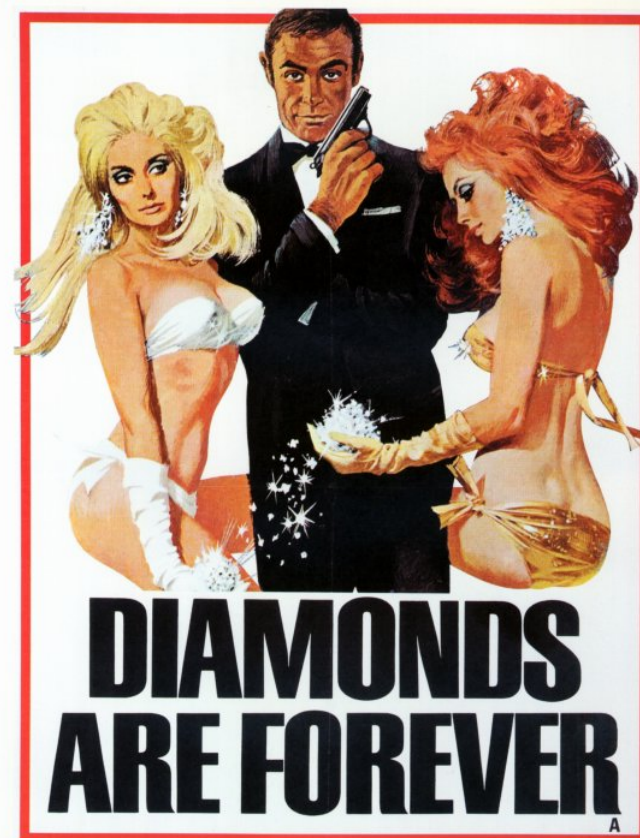


Policies and institutions mitigating the resource curse

- Two major goals of the policy mitigating the resource curse:
 - Diversification of the economy
 - Efficient budget spending
- Property rights protection (in order to avoid nationalization during high commodities prices)
 - Yukos was bought by Rosneft in 2007
- High accountability of the government, transparent budgeting and decision-making processes at the state level
- Strong and efficient private sector
 - Less incentives to rent-seeking in boom years
- Openness of the economy, namely:
 - Low import tariffs, no import quotas, floating exchange rate
- Moderate taxation of the resource rent, flexible fiscal policy
 - High taxes reduce motivation to invest, low taxed create motivation to radical regime change during the boom years
 - Flexible fiscal policy reduces the threat of nationalization of the exporting sector

Policies and institutions mitigating the resource curse

- Counter-cyclical budget policy
- Establishment of stabilization and sovereign funds
 - Macroeconomics stabilization (smoothing of the budget revenues)
 - Savings for the future, i.e. the transformation of the non-renewable resource into renewable
 - Increase of transparency of the management of the oil revenues
 - Revision of the budget expenses
- A good fund
 - Is well governed
 - Has clear allocation and withdrawals' policies
 - Has well-defined and reasonable purposes for the spending of its money



What good in Russia?

- The share of recourse export in GDP is not very high...
 - ... compared to the country where it is 90% and more
- The budget policy is countercyclical
 - Russia has low foreign debt as a consequence
- The fiscal policy is quite flexible
- Both the stabilization fund and the sovereign fund are established
- Taxation of the population is increased
 - Property taxes are significantly increased, especially in Moscow
 - Allocations to the funds to be used to repair the residential properties are introduced
- Utilities' subsidies are reduced to almost zero

What is good in Russia?

Trade Freedom subindex of Fraeser Institute's Freedom of Trade Index, 2017

Trade Freedom	
Country	Index
Hong Kong	90
Singapore	90
Switzerland	90
.....	
Russia	75,2
.....	
Sudan	50,5
Maldives	47,8

Doing Business Ranking by the World Bank, 2017

Country	Ranking
New Zealand	1
Singapore	2
Denmark	3
.....	
Japan	34
.....	
Bulgaria	39
Russia	40
Hungary	41
Belgium	42
.....	
Somalia	190

- The Trade Freedom index is high despite of two-side economic sanctions
 - This is due to the low average trade tariff (about 4,9%)
- Russia's Doing Business Ranking is high
 - The government worked on improvement of this rating

What is good in Russia?

Topics	DB 2017 Rank	DB 2016 Rank 	Change in Rank	DB 2017 DTF (% points) 	DB 2016 DTF (% points) 
Overall	40	36	↓ 4	73.19	73.20
Starting a Business	26	37	↑ 11	93.57	92.35
Dealing with Construction Permits 	115	117	↑ 2	65.86	64.67
Getting Electricity	30	26	↓ 4	84.37	84.22
Registering Property	9	8	↓ 1	90.55	90.51
Getting Credit	44	42	↓ 2	65.00	65.00
Protecting Minority Investors	53	51	↓ 2	60.00	60.00
Paying Taxes	45	40	↓ 5	82.96	83.09
Trading across Borders	140	138	↓ 2	57.96	57.96
Enforcing Contracts 	12	8	↓ 4	74.96	75.78
Resolving Insolvency	51	49	↓ 2	56.69	58.39

 = Doing Business reform making it easier to do business.  = Change making it more difficult to do business.

What is bad in Russia?

- No statutory limit on budget deficit
- Mixed results of sovereign and stabilization funds management
 - Small sovereign fund (500 dollars per person vs. 1500 dollars in Botswana and 4500 in Australia)
 - Questionable withdrawals
 - The stabilization fund is nearly exhausted

What is bad in Russia?

- High discretionary budgetary spending/Ineffective investments
 - Including Winter Olympic Games (2014) and World Football Championship of 2018

Zenith Arena (St. Petersburg)



Azov city casino zone

400 meters-tall Ahmat Tower in Grozny (Chechen Republic)



The Russian Bridge (between Vladivostok and Russian island)

What is bad in Russia?

International Property Rights Index (IPRI), 2016			Investment Freedom subindex of Fraeser Institute's Freedom of Trade Index, 2017		Financial Freedom subindex of Fraeser Institute's Freedom of Trade Index, 2016	
Ranking	Country	Index	Country	Index	Country	Index
1	Finland	8,4	Hong Kong	90	Hong Kong	90
2	New Zealand	8,3	Austria	90	Switzerland	90
3	Norway	8,3	Denmark	90	Austria	90
.....			
86	Uganda	4,6	Angola	30	Kosovo	30
89	Malawi	4,6	Dem. Rep. of Congo	30	Haiti	30
91	Russia	4,6	Russia	30	Russia	30
93	Mali	4,6	
.....			Uzbekistan	0	Afganistan	0
128	Venezuela	2,7	Venezuela	0	North Korea	0

- Russia has low ranking in IPRI index
- Its financial and investment freedom is only 30% of the maximum
 - The reasons being restrictions on foreign investments in many industries and companies such as media, Gazprom and the domination of the state banks in the banking sector
- However, Russia has no restrictions on ruble convertibility and no mandatory sale of hard currency receipts by the exporters

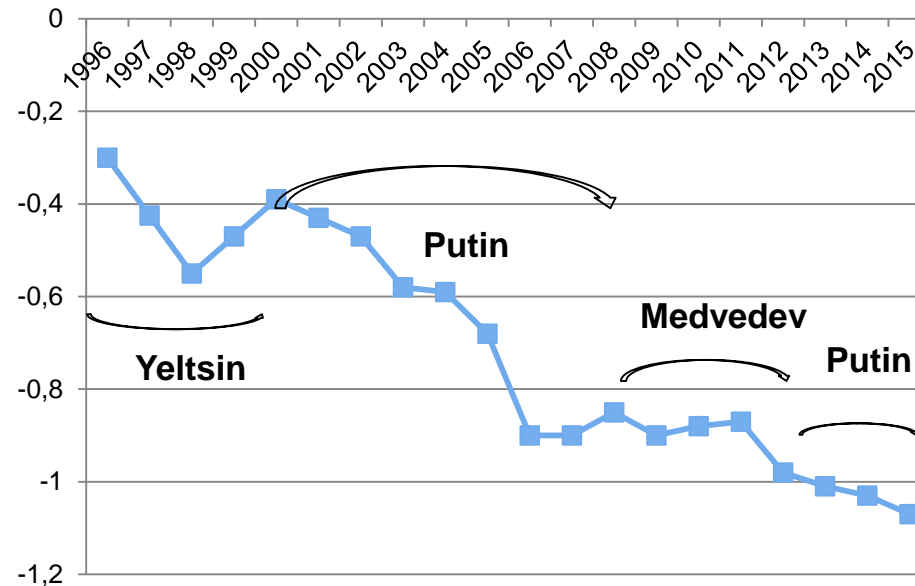
What is bad in Russia?

Voice and Accountability, 2015

Country	Index
Norway	100
Sweden	100
Switzerland	100
.....	
UAE	19,7
Russia	19,2
Cambodia	18,7
.....	
North Korea	0,5
Turkmenistan	0

Source: World Governance Indicators (WGI), World Bank

Voice and Accountability Index of Russia, 1996-2015



Scale: +2,5 fully accountable governments
-2,5 non-accountable governments

Corruption Perception Index, 2016

Ranking	Country	Index
1	Denmark	90
2	New Zealand	90
3	Finland	89
.....		
131	Nepal	4,6
131	Russia	29
131	Ukraine	4,6
.....		
175	South Sudan	11
176	Somalia	10

Source: Transparency International

- Russia belongs to 20% worst countries in Voice and Accountability subindex of WGI index
- Russia's ranking becomes only worse since 1996 when the World bank introduced the global voice and accountability index
- Corruption perception index is very low and does not improve

Thank you for your attention!

