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A PHD PROGRAMME IN POST-SOVIET AFFAIRS



# Where does the money come from?

**Financing the budget and the pension system in post-Soviet de facto states**

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# Starting point

- Post-Soviet de facto states can be conceptualised as small dependent jurisdictions.
- Does the MIRAB model (migration, remittances, aid, and bureaucracy) apply to de facto states?
- Check:
  - ✓ Key role of “external sources of financing that do not leave a residue of debt—current account transfers”
  - ✓ High number of state employees and pensioners (byudzhetniki)

# Empirical observations

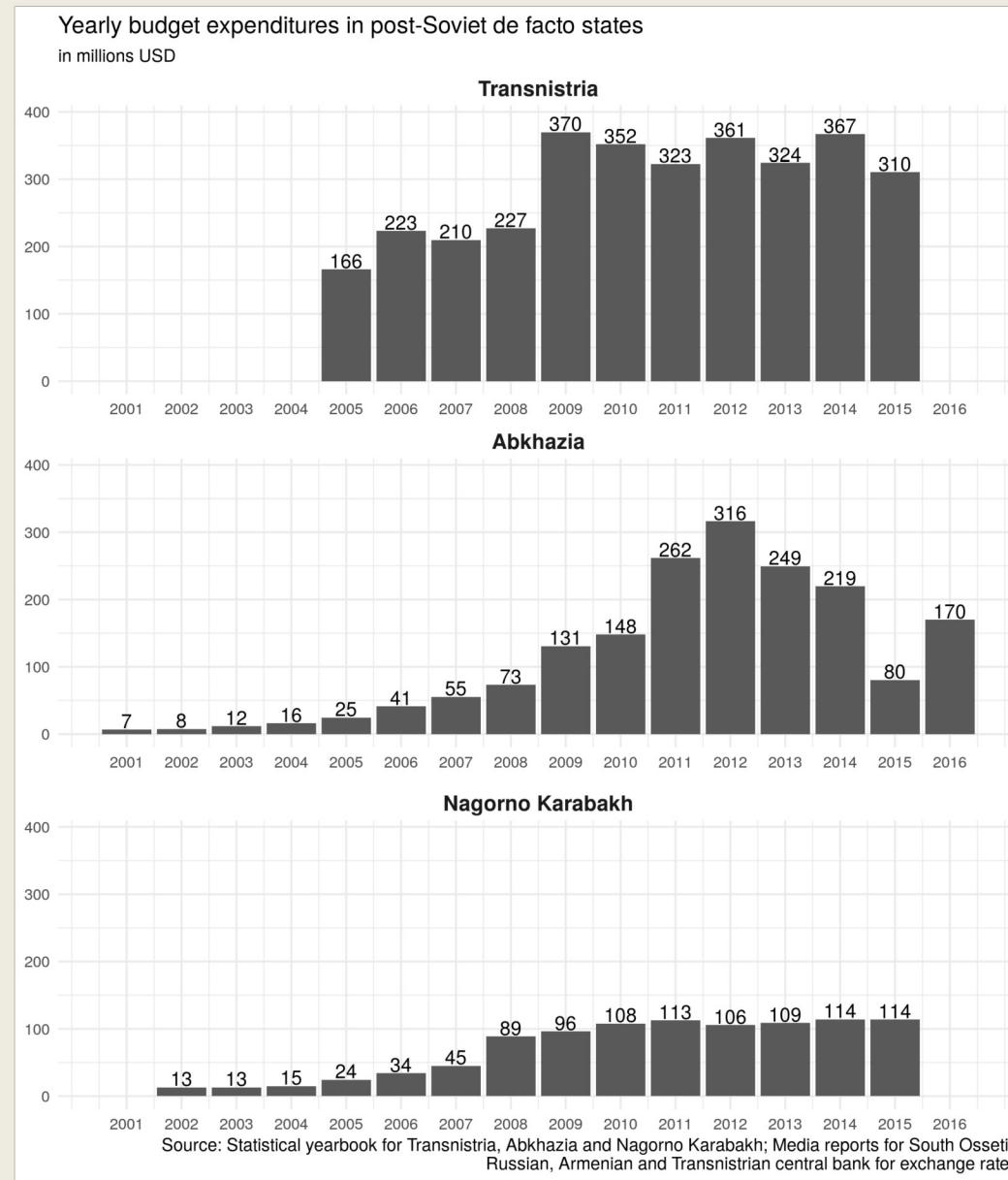
In post-Soviet de facto states:

- state capacity largely depends on external assistance, mostly coming from the patron
  - the livelihood of most residents largely directly depends on such assistance
- 

Along these parameters:

- they would be very unusual independent states
- but very normal small dependent jurisdictions

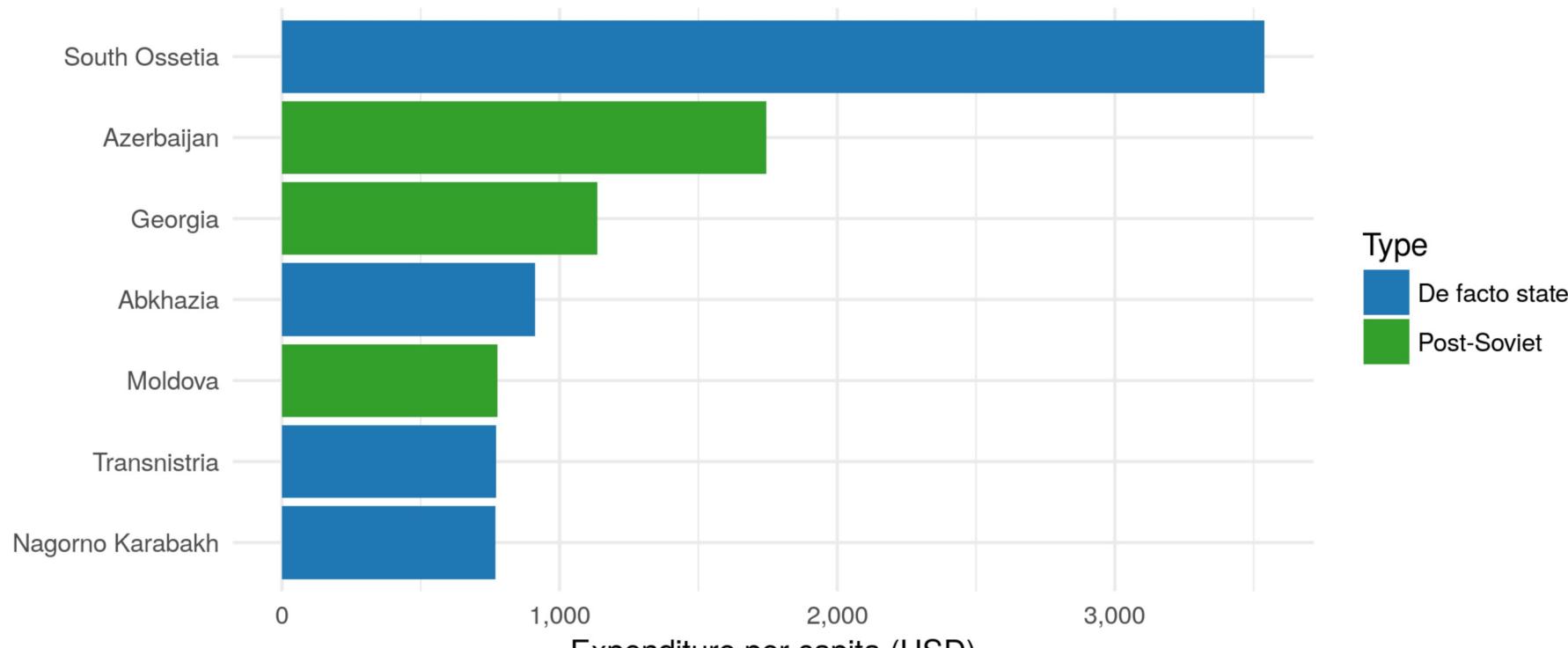
# Their budgets have been increasing



# And they are now comparable to those of their parent states

Expenditure per capita in post-Soviet de facto states and their parent states

As of 2014



Source: World Bank, statistical offices of de facto states

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# Money for public services and pensions



# **Hint: admittedly, not from domestic resources**

“With our own resources, we cover for about 20-25 per cent of the state functions, which speaks for itself”

*Evgeny Shevchuk (2013), president of Transnistria*

“In other words, with our own resources, we are able to maintain only half of the state apparatus – I am referring to the salary of state employees”

*Raul Khajimba (2016), president of Abkhazia*

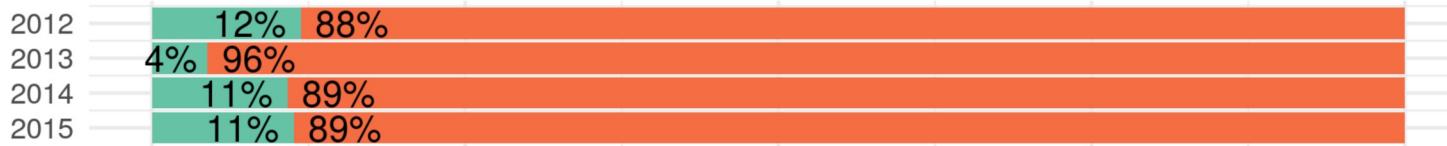
# Mostly, from the patron

Share of the budget from domestic incomes and aid

## Abkhazia

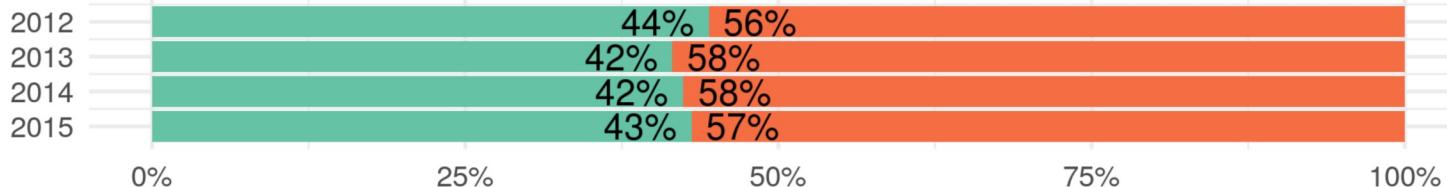


## South Ossetia



Source of income  
Patron  
Domestic

## Nagorno Karabakh



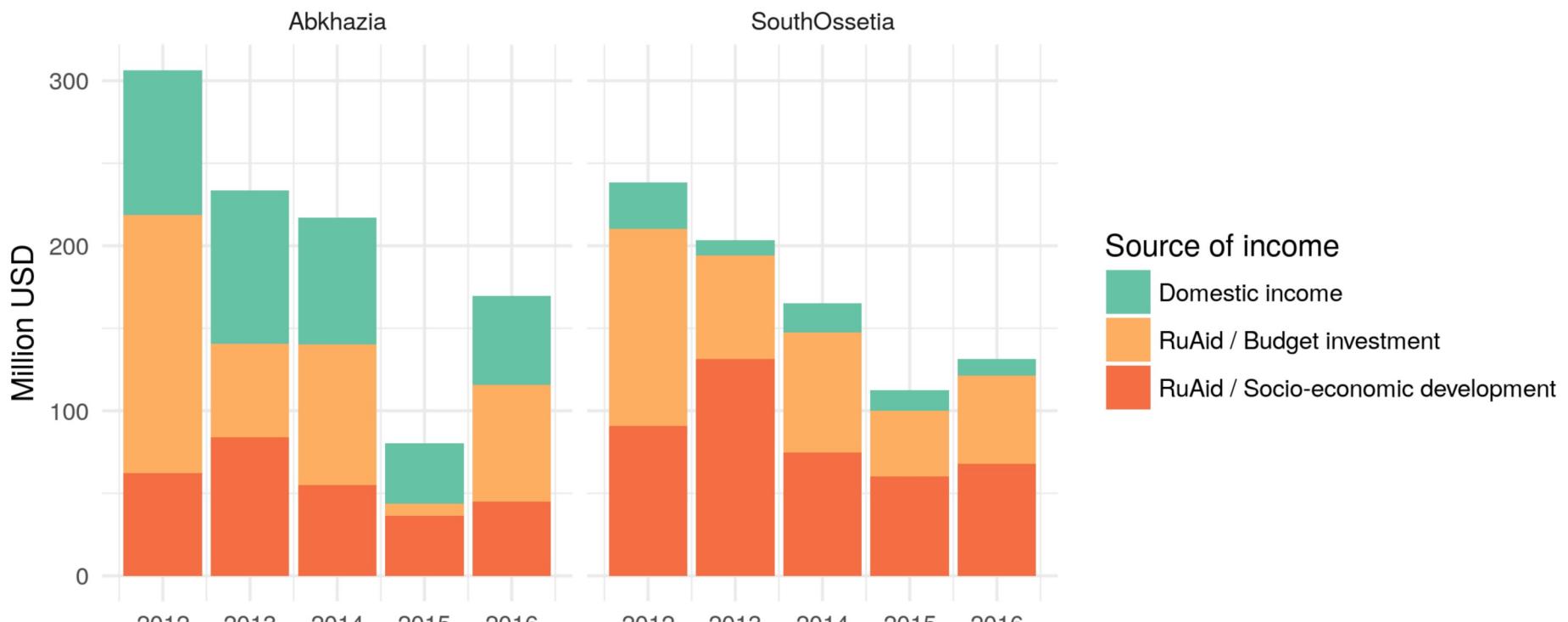
Share of the budget

Source: statistical yearbooks of Abkhazia and Nagorno Karabakh,  
aggregated official and media sources for South Ossetia

# Money for ordinary activities and infrastructural project

Total incomes to the budget of Abkhazia and South Ossetia

Different types of Russian aid and domestic incomes

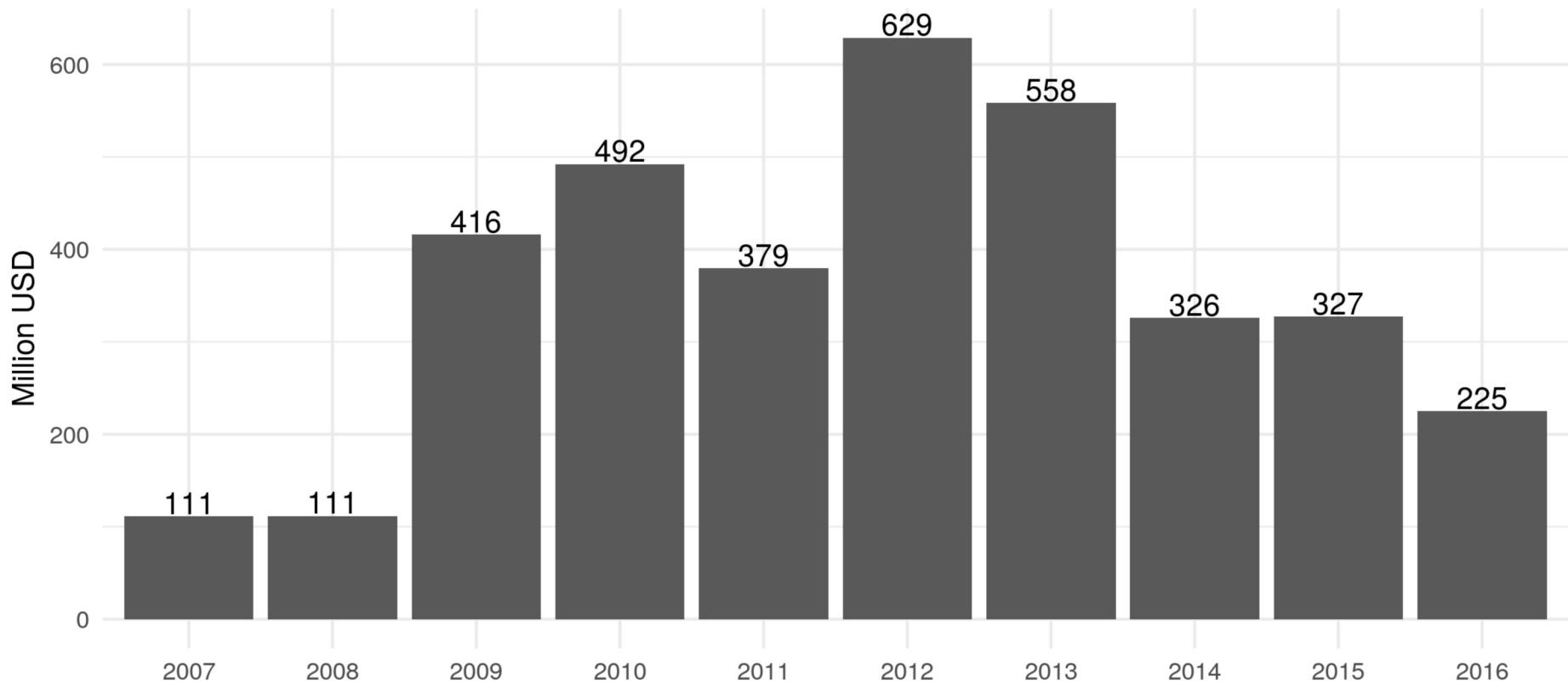


\*only direct budget transfers, does not include pensions and other forms of assistance

# Also in Transnistria, through free gas

Transnistria's gas debt growth on a yearly basis

or value of Russia's 'gas aid' to Transnistria (in million USD)

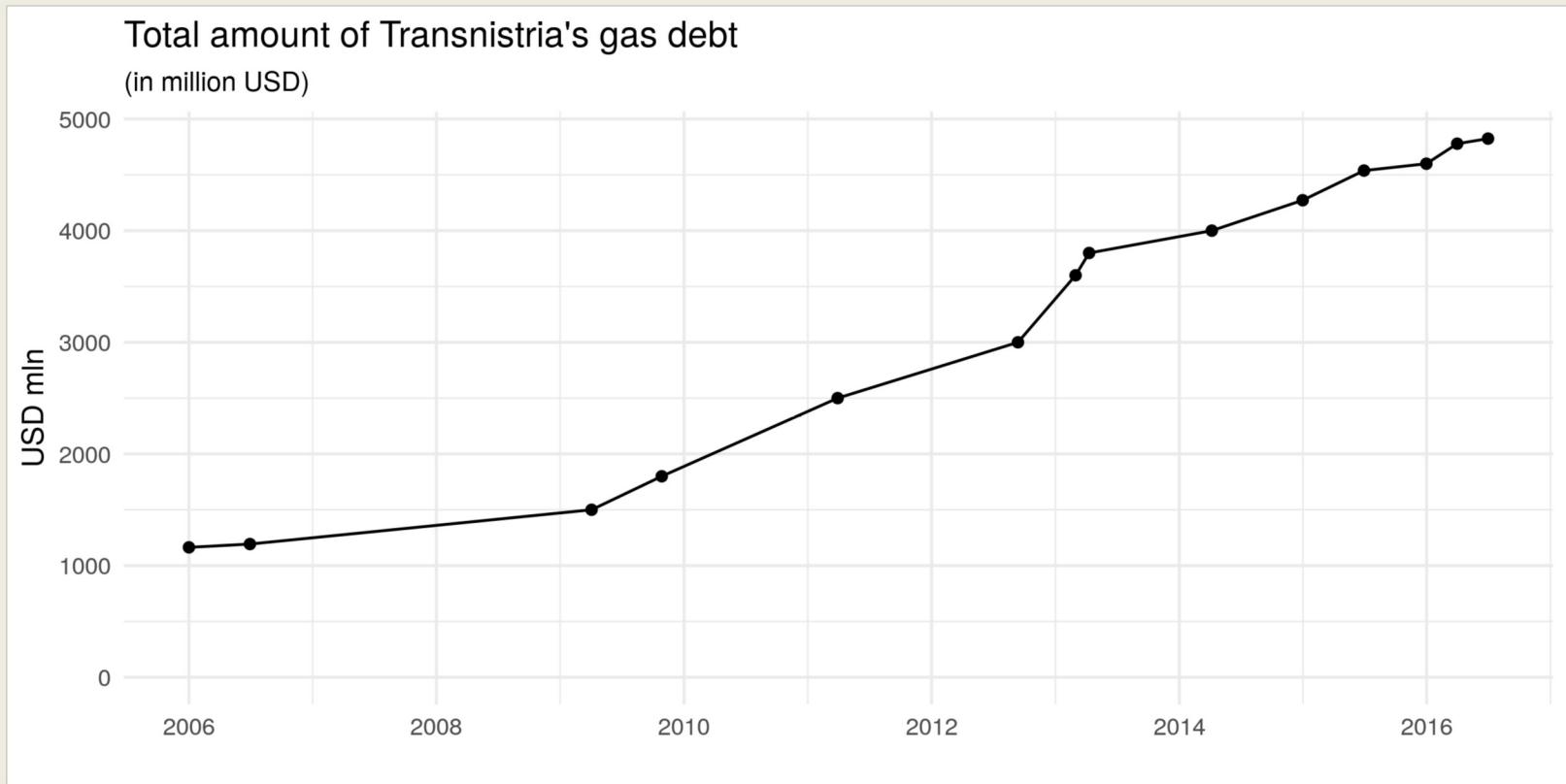


N.B. data on 2016 include only data until 31 June 2016

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# The “debt” grows?

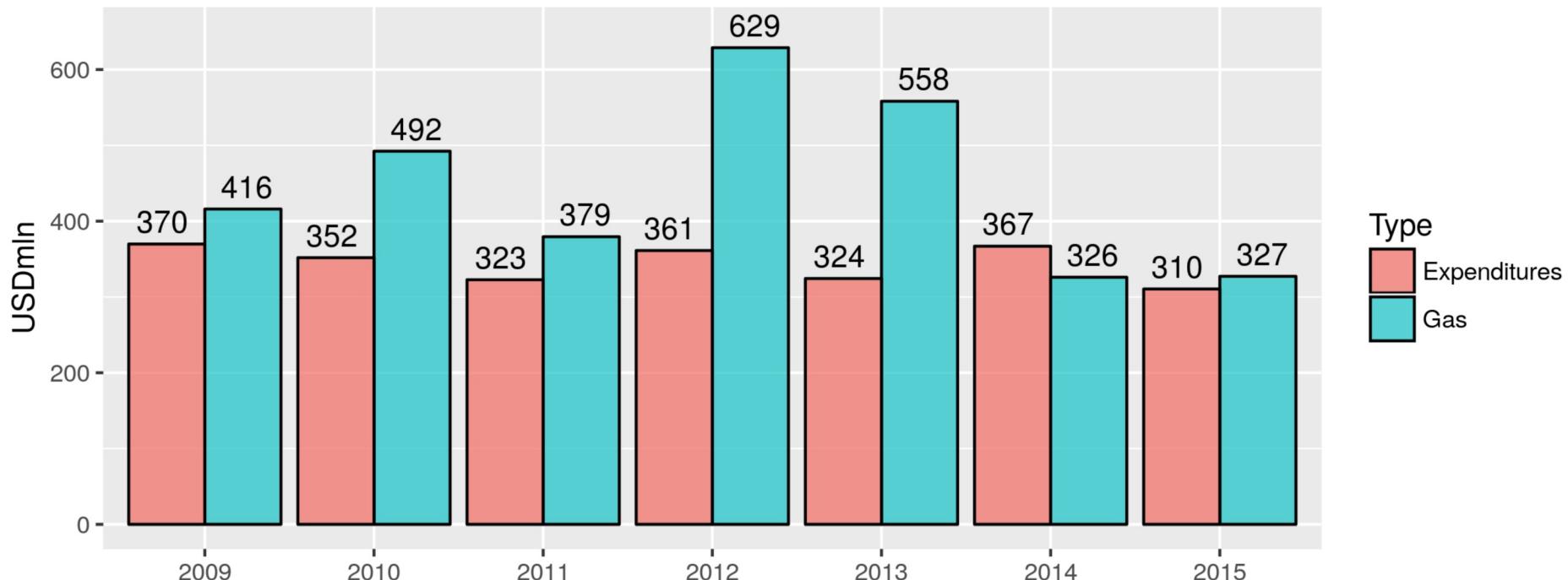


There is no expectation of repayment  
→ not debt, but current account transfers

# N.B. free gas ≠ free money

Yearly budget expenditures and value of gas imported in Transnistria

In million USD



Yearly amount of gas estimated from publicly available data  
on the total size of the gas debt accumulated by Transnistria

\* this does not include pensions, humanitarian assistance, etc.

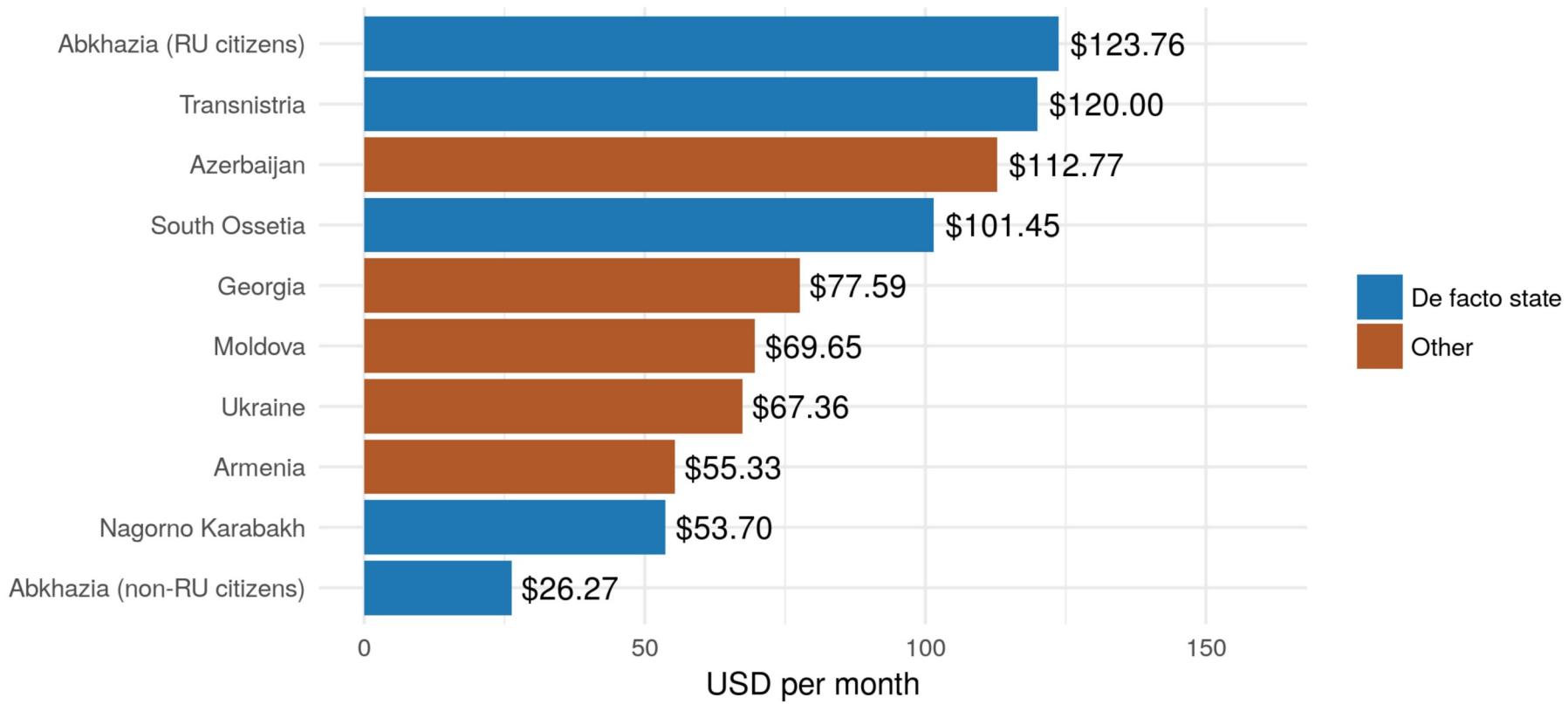
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# Money that pay for relatively good pensions (largely, on top of budget assistance)

Average pension in post-Soviet de facto states and selected countries

Based on 2016 data, or latest available



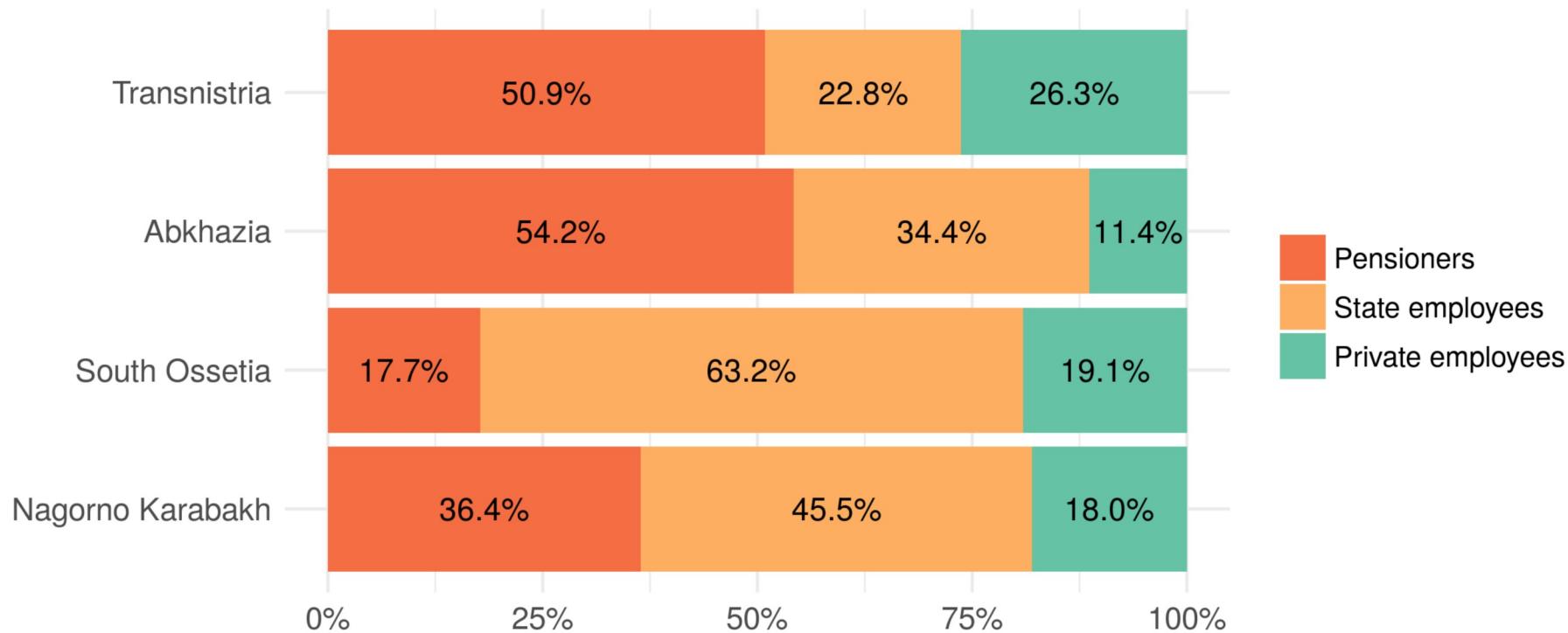
+ bonus earlier pension age (60 for men and 55 for women)

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# And for the incomes of a relatively large share of residents

Share of people with registered cash incomes, by type of income

As of 2015



Source: Aggregated data from relevant offices in de facto states and Russia

\* excluding self-employed

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## In de facto states:

+80% of registered incomes “byudzhetniki”

+50% of the budget from aid

Anything unusual?

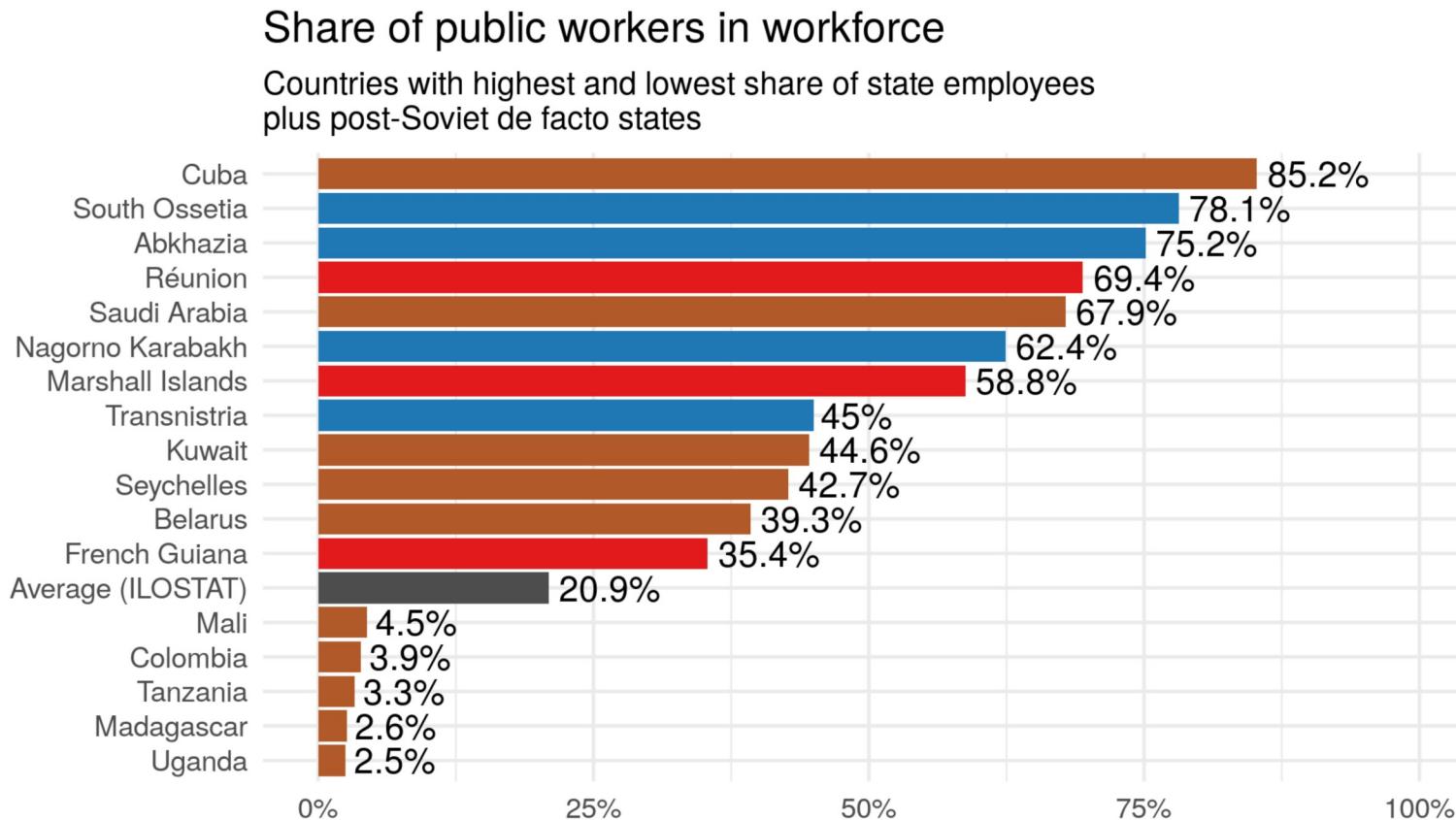
Not really.

Such figures are ‘normal’ for small dependent jurisdictions.

Around the world, and in the region.

Sovereign, and non-sovereign.

# Levels comparable to MIRAB economies



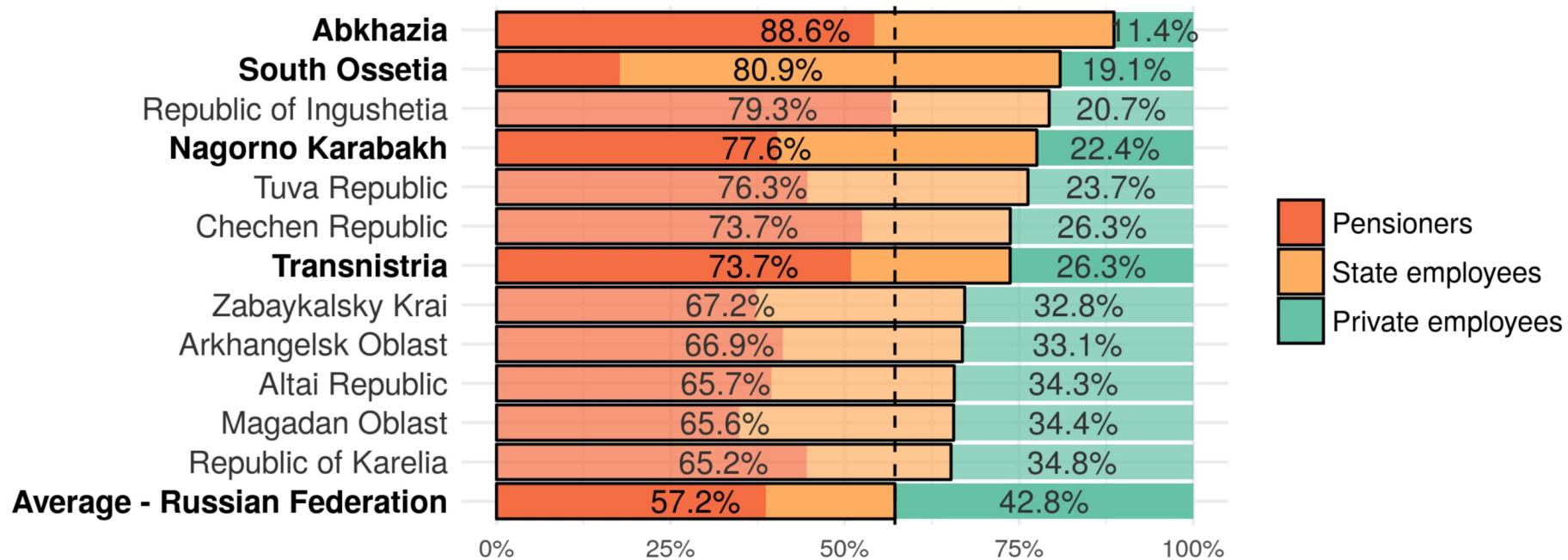
Source: ILOSTAT database

Or to small countries with oil (indeed, in this context, aid can be assimilated to a rent such as oil revenues)

# Levels comparable to republics in Russia's N. Caucasus and distant regions

Share of people with registered cash incomes, by type of income

Post-Soviet de facto states, average Russian, and Russian subjects  
with highest share of state employees+pensioners

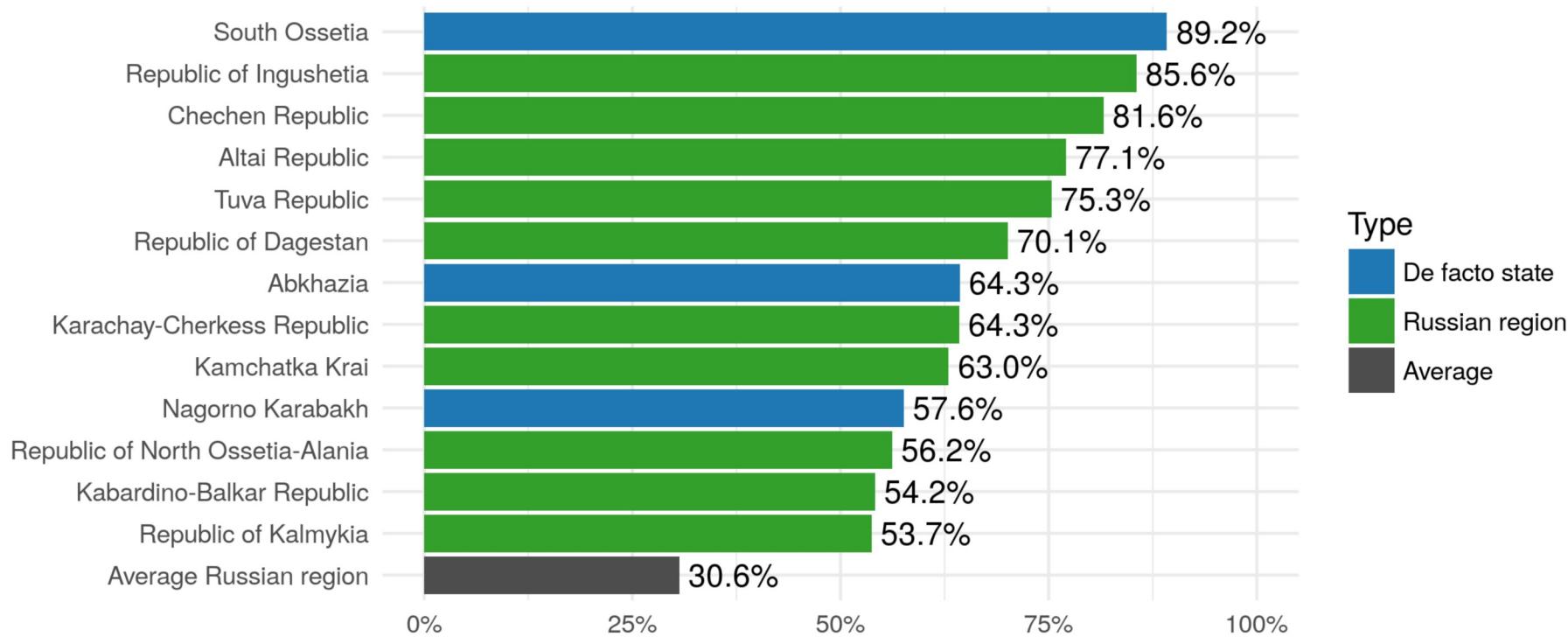


Source: Aggregated data from relevant offices in de facto states and Russia;  
data as of 2014 (for Nagorno Karabakh and Russia), as of 2015 for other de facto states

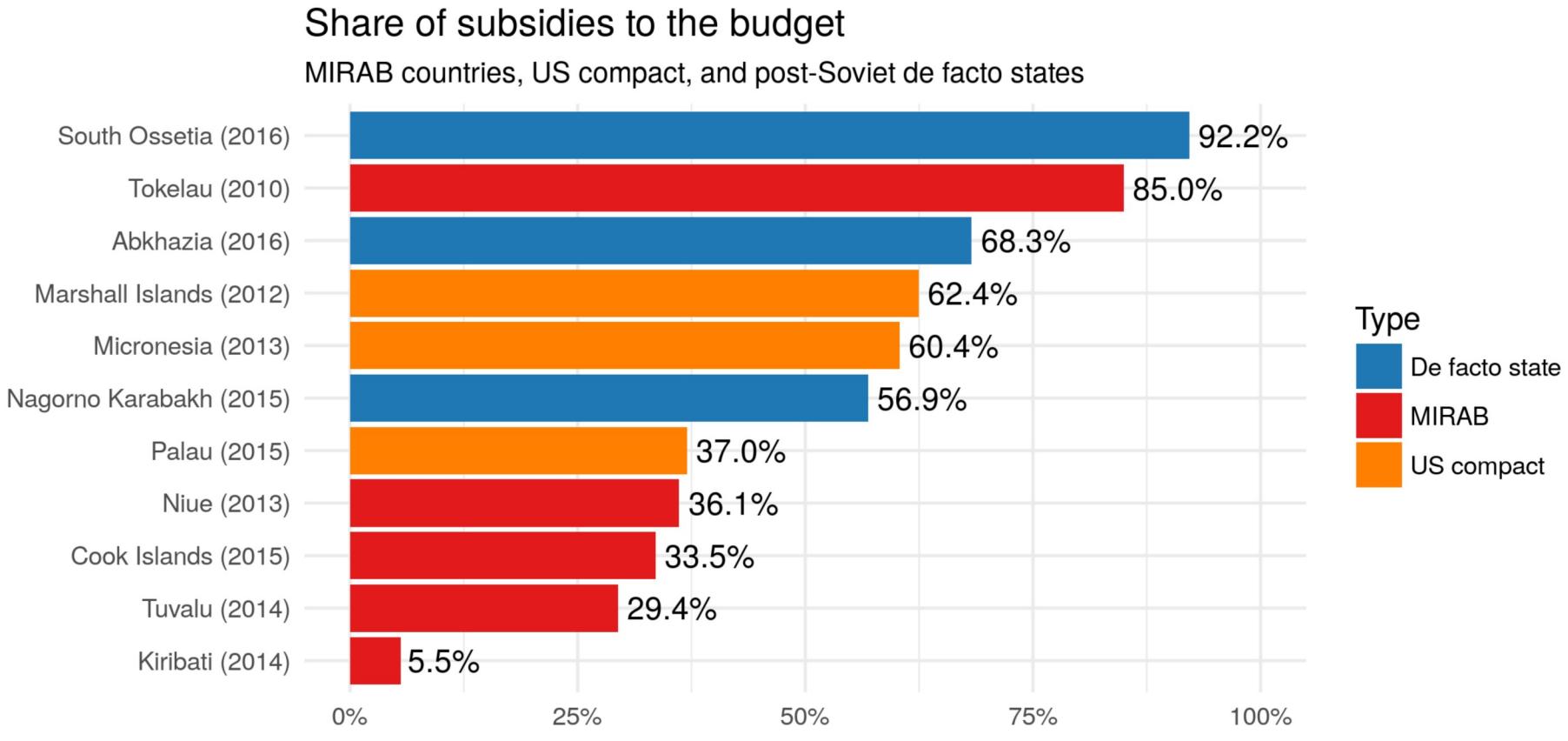
# Levels of subsidies comparable to republics in Russia's northern Caucasus

Share of subsidies to the budget (2014)

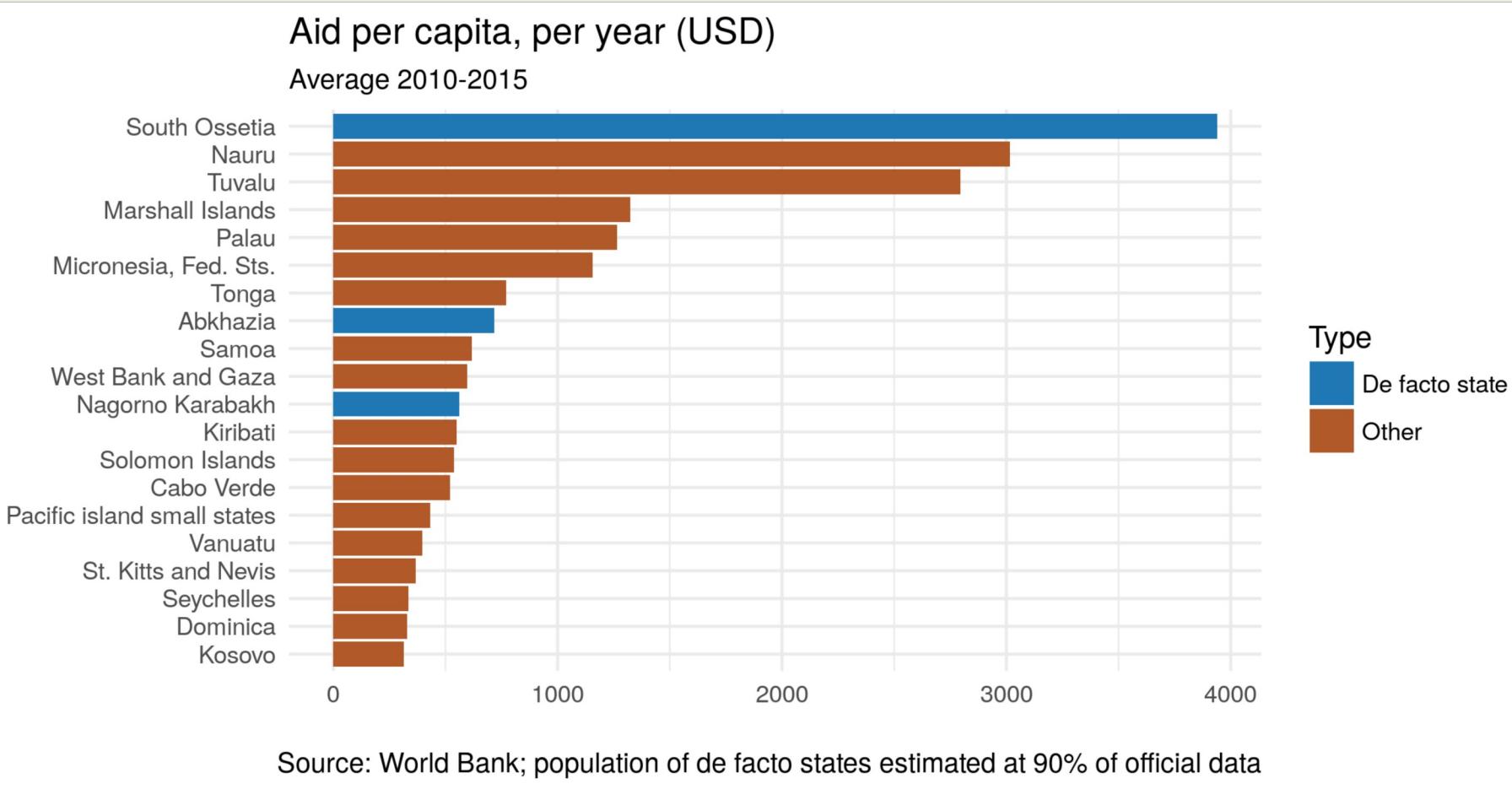
Subjects of the RF with highest share of subsidies  
and post-Soviet de facto states



# And to small dependent jurisdictions in other world regions

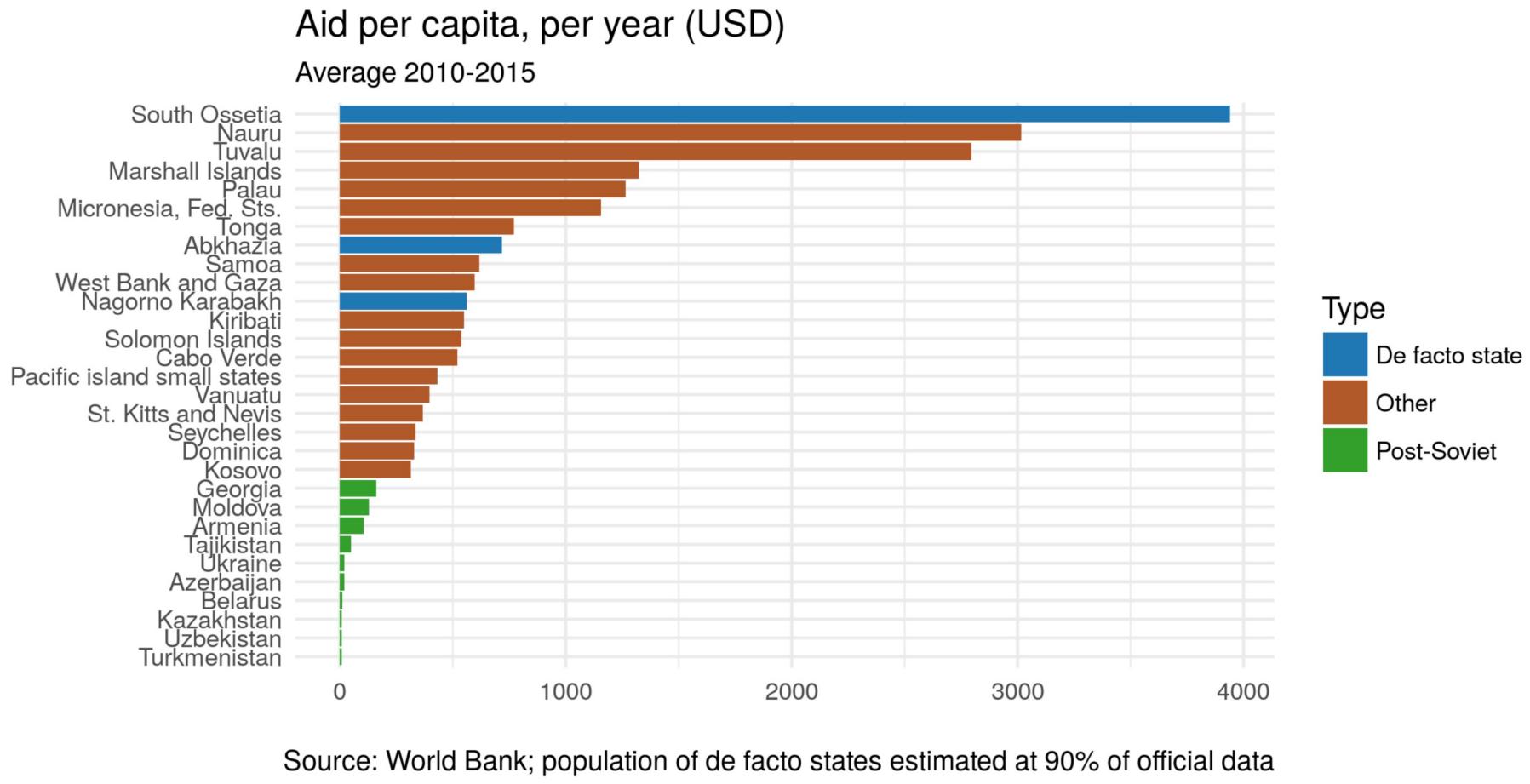


# Also looking at aid per capita



\*data for de facto state include only direct budget assistance from patron. Others: all ODA

# But they get much more than recognised countries in the region

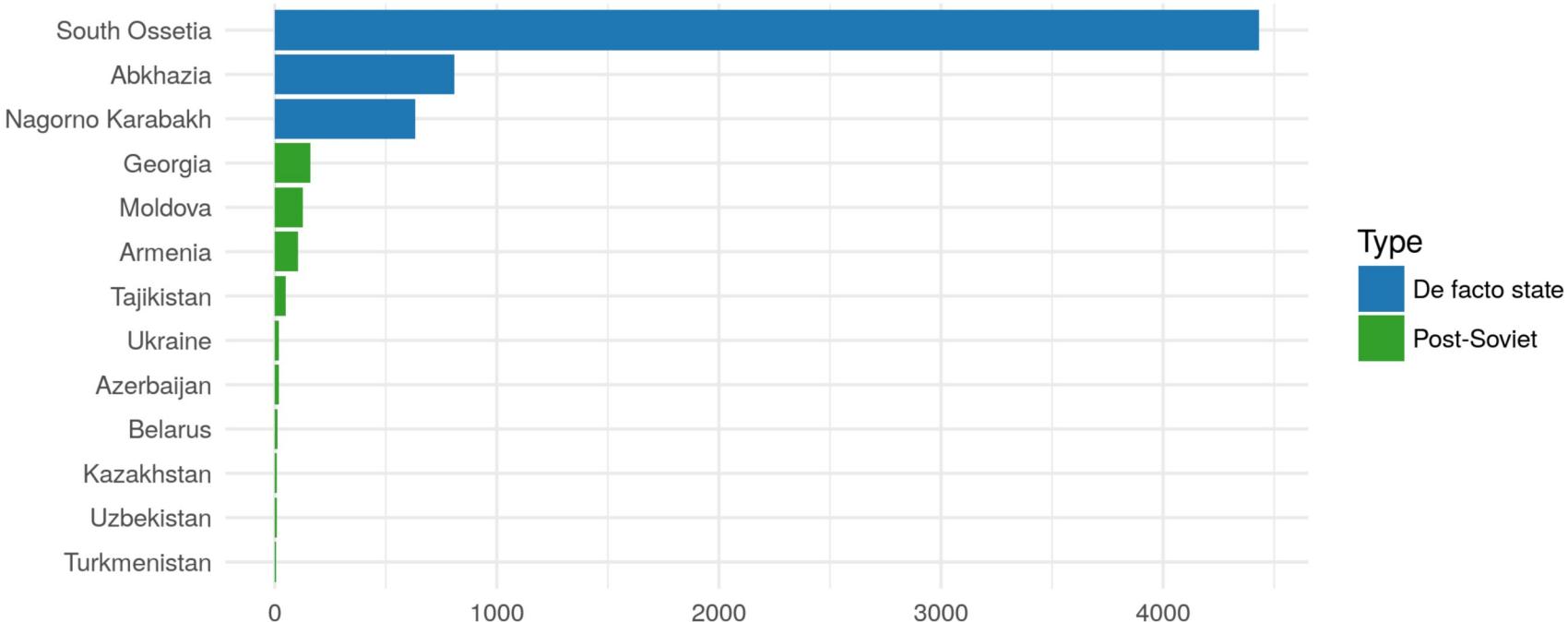


\*data for de facto state include aid only from patron, and only directly to the budget. Others: all ODA

# Yes, a lot more

Aid per capita, per year (USD)

Average 2010-2015



Source: World Bank; author's estimates

\*data for de facto state include aid only from patron, and only directly to the budget. Others: all ODA

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# **Even not accounting for...**

## **Pensions**

- ~35 mln USD per year in Transnistria (2015)**  
**[or ~120 mln USD, including budget support]**
- ~35 mln USD per year in Abkhazia (2015)**
- ~4 mln USD in South Ossetia (2015)**

## **Diaspora assistance to Nagorno Karabakh**

- ~ 20 mln USD (?) per year**

## **International assistance**

- ~20 mln USD per year for Abkhazia**

# And for all the rest

- defence
- technical support for state-building
- scholarships (e.g. 300 new students fully funded for the whole course of study every year from Abkhazia)
- healthcare services
- an internationally recognised passport
- freedom of movement
- Etc. (similarly to other small dependent jurisdictions)

# Issues of data reliability

- Yes, some data are due to be inaccurate, but this is due to be mostly true also for terms of comparisons\*
- Number of state employees and pensioners is due to be accurate → private sector underestimated, but based on estimates of the total population, not incredibly so
- Data from de facto states are so much unlike recognised states in the region, that the argument remains valid

\* According to official Russian estimates, employment in the informal sector is ~45% of the registered workforce in the North Caucasus federal district (63% in Chechnya, 57% in Dagestan, 51% per cent in Ingushetia).

# Conclusions [1/2]

in post-Soviet de facto states...

- financial resources coming from the patron are the main determinant of budget expenditures  
(spending adapts to aid)
- the share of people whose income depends on the state (state employees and pensioners) is high  
→ “normal” small dependent jurisdictions

# Conclusions [2/2]

- by increasing expectations, external assistance makes these territories less and less self-sustainable
- ultimately, as Pacific islands can testify, being a MIRAB economy has many advantages; for large segments of the resident population and its ruling class reaping its benefits may be preferable to struggling to escape it
- All together, less than 0.5% of Russian public expenditure... expensive but affordable

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