

GAIDAR INSTITUTE FOR ECONOMIC POLICY

RUSSIAN ECONOMY IN 2020

TRENDS AND OUTLOOKS

(Issue 42)

**Gaidar Institute Publishers
Moscow / 2021**

UDC 338.1(470+571)»2020»
BBC 65.9(2Poc)

R95 **Russian Economy in 2020. Trends and outlooks. (Issue 42)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2021. – 668 pp.: illust.

ISBN 978-5-93255-616-0

The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 42th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia’s economic development, which allow to monitor all angles of ongoing events over a prolonged period: global economic and political challenges and national responses, economic growth and economic crisis; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

Reviewers:

Kharlamov A.V., Doctor of sciences (Economics), Professor of the Department of General Economic Theory and History of Economic Thought, Saint Petersburg State University of Economics.

Yakobson L.I., Doctor of sciences (Economics), Professor, Vice-President of the National Research University Higher School of Economics.

UDC 338.1(470+571)»2020»
BBC 65.9(2Poc)

ISBN 978-5-93255-616-0

© Gaidar Institute, 2021

5.9. The pandemic social and economic lessons in the North Caucasus ⁸

The most pressing issues faced by the regions of the North Caucasus in 2020 were associated with the COVID-19 pandemic. In the North Caucasian Republics, particular aspects of the social organization and economic structure of these subjects of the Russian Federation had an impact on the course of the epidemic

⁸ This section was written by *Kazenin K.*, Candidate of Sciences (Philology), Director, Center of Regional Study and Urban Planning IAES RANEPA, Researcher of the Gaidar Institute; *Starodubrovskaya I.*, Candidate of Economic Sciences, Head of Center for Political Economy and Regional Development of the Gaidar Institute, Leading Researcher, Center of Regional Study and Urban Planning IAES RANEPA.

and its consequences for the population. To build a state policy aimed to support the economy of the North Caucasus after a pandemic, as well as to improve the system for protecting people from epidemics and other natural threats in this part of the country, consideration must be given to local factors that have complicated the way of coping with the spread of a new infection by Republics of the North Caucasus Federal Okrug (NCFO).

It should be emphasized that according to official statistics presented on the stopcoronavirus.rf website, an increased incidence of coronavirus was not entirely typical for Republics of the North Caucasus compared to other regions of the Russian Federation. Thus, as of January 1, 2021, the total number of COVID-19 cases per 100.000 people was higher than the all-Russia level only in two Republics: Karachay-Cherkess Republic and Ingushetia (3263 and 2521 respectively with the all-Russia number constituting 2188).

However, the reliability of official morbidity data in a number of NCFO regions was repeatedly questioned, and it was caused in some cases by the contradictory policy of regional authorities in informing the population about the course of the pandemic. For example, during April - the first half of May, official data for the Republic of Dagestan indicated a relatively low incidence rate compared to most other regions.

According to republican authorities, the number of people infected with a new coronavirus in the region was 3.553 people as of May 19 with 32 deaths. However, on May 17, the then Minister of Health of the Republic of Dagestan Jamalutdin Gadzhibragimov reported 657 patients with pneumonia who died having no confirmed diagnosis of COVID-19.¹ At that time, he estimated the total number of coronavirus and pneumonia cases in Dagestan during the epidemic at 13.000. Such contradictions between official sources especially typical for the North Caucasus regions during the spring wave of coronavirus and are suggestive that the real incidence rate there was significantly higher than the official daily statistics claimed.

Emergency measures taken by federal authorities in a number of NCFO regions in May-June implicitly confirm that the real situation regarding the pandemic and fighting against it was extremely unfavorable there. Such measures include the urgent dispatch of Moscow medical teams to Dagestan, Ingushetia and North Ossetia at the end of May² at the request of the President of the Russian Federation to fight the coronavirus, as well as the investigation by the central office of the Investigative Committee of the Russian Federation of a criminal case initiated in connection with a large number of violations in ensuring the work of doctors in Karachay-Cherkess Republic.³

1 Minister of Health of the Republic of Dagestan announced deaths of 40 doctors from pneumonia and COVID Society RBC (rbc.ru)

2 A charter flight with a team of doctors from Moscow arrived in Dagestan. RIA Novosti, 28.05.2020 (ria.ru); Doctors from Moscow arrived in North Ossetia to fight COVID-19. Rosyiskaya Gazeta (rg.ru); A team of doctors from Moscow arrived in Ingushetia to fight coronavirus Society TASS (tass.ru).

3 Investigative Committee of the Russian Federation initiated a case on non-payments to doctors in Karachay-Cherkessia - News:: Society :: Kommersant (kommersant.ru).

This evidence of the serious challenges faced by the North Caucasus during the pandemic makes it necessary to focus specifically on local factors that adversely affected North Caucasian regions during the period of the coronavirus increasing incidence. Based on the analysis of statistical data, media publications, as well as authors' field observations in 2020, these factors should include primarily the following:

1. Specifics of social contacts and high population mobility assisted to virus increasing incidence;
2. Low level of public confidence in government agencies responsible for anti-epidemic measures;
3. The proportion of the population, higher than nationwide, employed in small business sectors hardly affected by the pandemic.

Social and cultural risk factors in the wake of pandemic

High population mobility is true primarily because a major proportion of the population migrates for work both from villages to the cities of the North Caucasus Federal Okrug, as well as to other regions. According to the available information, due to the deteriorating economic situation, many of migrant workers returned to their homes in spring. Following the tradition, it is a must to meet with relatives, neighbors, friends upon returning. This creates favorable environment for the spread of the virus.

Such rural norms of behavior are one of the reasons for the *high density of social contacts*, making it especially dangerous in a pandemic. It is also largely created by the tradition of regular people mass gatherings in connection with the most important life events, i.e. birth of children, matchmaking, weddings, funerals, commemorations. According to numerous testimonies, it is the funeral rites that largely contributed to the infection. Massive outbreaks of infection were recorded after taziyats (condolence procedure). Moreover, even having information about the possibility of getting sick, people often did not cancel mass events as the pressure of public opinion turned out to be stronger.

In this context, the behavior of religious leaders, whose readiness to respond to epidemic threats differed from region to region, acquired particular importance. Mosques in the North-West Caucasus, i.e. in Kabardino-Balkar Republic, Adygea and in Krasnodar krai, were closed to the public on March 24, in Karachay-Cherkess Republic on March 26, in Ingushetia it happened at the very end of March.

Then, immediately after the first identified cases of infection, mosques not subordinate to the republican Muslim Spiritual Authority began to close in Dagestan. However, long enough, the Spiritual Authority only appealed to believers to refrain from visiting mosques, shorten the time of Friday prayers and observe hygiene requirements. As from April 10, the Spiritual Authority has called for limiting the number of participating prayers in mosques. However, the threat of crowding at the entrance and exit remained. The issue was finally resolved only by the resolution of the Chief Sanitary Doctor for the Republic of Dagestan dated April 16, ordering to prevent religious rites and ceremonies in the presence of people. The next day, the ban was duplicated by the order of the Spiritual

Authority. However, some large mosques in the region did not actually observe it until the end of April.

Generally, the experience of 2020 showed that taking into account the socio-cultural specifics of the North Caucasus Republics they require the development of such measures to counter the spread of dangerous infections, which would involve the interaction of regional authorities with various influential public structures, including religious ones.

The low level of public confidence in the authorities conducting anti-epidemic measures was manifested primarily in the mass protests of the population that took place in spring in a number of regions. Their focus was different. Thus, for instance, in Malokarachaevsky district of the Karachay-Cherkess Republic, residents' claims were related to the work of local doctors, who were accused of refusing to provide free medicines to the sick.¹ The situation demanded urgent personnel decisions from the republican Ministry of Health. The protests in Vladikavkaz, the capital of North Ossetia, ended in April in mass arrests and initiation of criminal cases and were associated with the shutdown of small businesses in the spring wave of the pandemic.² Their participants saw the ongoing developments as the officials' attempts to force independent entrepreneurs to close their business, as well as harshly criticized the republican authorities for insufficient assistance to those who suffered from lockdown. It has to be recognized that the high prevalence of conspiracy theories of the pandemic origin was the catalyst for the protests along with a low level of awareness among the population about the work of state bodies and institutions and the persisting people beliefs about a high level of corruption, including in healthcare. The latter is confirmed among other things by the estimates of a quantitative sociological survey conducted by the RANEPА in the Republic of Dagestan in May: almost half of the respondents (41.6%) agreed with the conclusion that the coronavirus was "artificially grown in a laboratory," and 29.7% agreed that the onset of the epidemic was in the interests of "rich and powerful groups" or "bureaucracy".³

At the same time, the population in a number of the North Caucasus regions demonstrated a significant potential for self-organization to counter the pandemic. Based on the example of Dagestan, the following main trends of countering the epidemic can be identified within the civil society and local communities⁴:

- *Information campaign.* Public organizations (for example, "Patient Monitor") and individual social activists carried out active raising awareness campaign, explained the danger of the epidemic and the inadmissibility of self-medication, invited qualified medical workers for providing recommendations on prevention and actions in case the disease was confirmed;

1 In Karachay-Cherkessia, the chief doctor of the Malokarachaevskaya hospital was dismissed after protests from the population.

2 Shots, batons, 55 detainees and an epidemiological catastrophe: the results of the protests in North Ossetia (kp.ru).

3 The survey was conducted using online methods. A total of 1129 residents of Dagestan were interviewed. The methodology used made it possible to ensure a fairly complete consideration of the opinions of various gender and age groups.

4 For more details see Symptoms of distrust: why Dagestan is experiencing a difficult epidemic Opinion RBC (rbc.ru)

- *Charity activity.* Numerous republican charity foundations, such as “Hope”, “Insan”, “Pure Heart”, etc., helped those in need amid shutdown of the economic activity due to the epidemic and bought individual protective equipment for the personnel of those medical institutions experiencing shortages;
- *Measures taken by rural communities.* Individual rural communities began to take measures to reduce the epidemiological threat. Such activities are known in four mountain regions. Mainly, they were limited to regulating the village entry. In some villages, in compliance with the decision taken by local authorities, wearing face masks was announced compulsory and mass people gatherings were interrupted;
- *Support of medical institutions by local communities.* Local groups of activists, local entrepreneurs as well as business people and officials coming from these villages, bought personal protective gear, medical equipment and medical supplies. There are facts proving purchases of ALV equipment.

However, the level of cooperation between the republican authorities and social activists was extremely low. No mechanisms for cooperation between the authorities and social activists participating or prepared to participate in the fight against the pandemic were not developed in the spring wave.

Economic impacts of the pandemic: small business

As already mentioned, the specificity of the pandemic economic impacts in the regions of the North Caucasus was determined by the role of small business in the local economy. The fact is that some of its areas represent a sphere of mass employment of the population in the North Caucasian Republics, and their decline can result in major social issues, tangible at the regional level. Likewise, a downturn in small businesses in the North Caucasus can result in growing of imbalances in spatial development and emergence of new “depressed” territories, since a high concentration in certain cities or regions is typical for a number of industries. However, when small business largely remains in the “shadow” zone, the possibility of receiving demanded forms of support from the state in times of crisis may become an incentive for a more complete “whitewashing” of production.

In November 2020, the authors conducted an express survey having interviewed entrepreneurs working in knitwear (Karachay-Cherkess Republic) and footwear industry (Republic of Dagestan). This choice was due to preliminary estimates based on open source data, demonstrating that these two branches of small business in the North Caucasus are characterized by the most massive employment, often informal. Currently, according to the republican authorities’ estimates, the shoe business of Dagestan employs at least 15.000 people.¹ The number of people employed in the knitwear industry in Karachay-Cherkess Republic is at least 12.000.² Ten in-depth interviews with entrepreneurs were conducted for each of these industries.

1 Several large shoe factories to open in Dagestan- Rossijskaya Gazeta (rg.ru).

2 For further information see *Konstantin Kazenin*. Small business in the North Caucasus Republics: risks amid pandemic and ways to reduce them//Monitoring of the economic situation in Russia:

Generally, the result of the survey was rather unexpected. According to respondents, the share of entrepreneurs who left the market during the pandemic was no more than 10%. The decline in production was recognized by all entrepreneurs, but they assessed its scale mainly as not exceeding the usual year-to-year fluctuations observed earlier.

However, it evidenced that the pandemic has intensified the transformation processes that began in the industries in question even prior to the pandemic. First of all, this refers to abandoning the traditional channels for selling products through the wholesale and retail markets in different regions of Russia, established back in the 1990s. In the wake of the pandemic, the closure of some of these markets and a significant reduction in trade in those markets that continued functioning, forced entrepreneurs to accelerate the transition to other business schemes that they began to develop before the pandemic. However, in almost all cases, such a transition, driven by a pandemic, has proved to be associated with serious challenges.

First, amid pandemic, entrepreneurs in both industries have intensified attempts to conclude contracts for the supply of their products to large retail chains. At the same time, the majority of entrepreneurs assess the actual experience of cooperation with such chains as unsuccessful, since they consider that the chains impose low prices, often demand unrealistically large volumes of supplies for local workshops, and also insist on signing a fixed price year contracts, which threatens losses in the ruble exchange rate amid fluctuations to manufacturers dependent on the supply of raw materials from abroad.

Second, entrepreneurs named trade through online stores as an important way to diversify sales, sensing the advantage in a lower price for the end consumer and in the independence of trade from possible anti-epidemic restrictions. Entrepreneurs in Karachay-Cherkess Republic estimate the volume of their products sold in 2020 through online stores at 20-40%, and those surveyed in the Republic of Dagestan - at 15-20%.

The lack of required experience in cooperation, including experience in building e-commerce-focused supply chains is the barrier to using online stores, which is why intermediaries enter the market buying products at low prices for their subsequent sale online.

Third, entrepreneurs consider fulfilling orders of the large brands of clothing and footwear owners as a promising new working scheme. Today, this scheme is being actively implemented in Dagestan. Entrepreneurs see the main challenge in using this scheme in the insufficiently competitive environment for customers: the owners of only two large Russian brands currently conclude contracts with Dagestan manufacturers of leather shoes, resulting in the opportunity to impose unfavorable terms on small shoe business for a supply of products.

The transformation processes that have accelerated in small business in the North Caucasus due to the pandemic provide the prospect for solving the long-standing issue of “whitewashing” the entrepreneurship in this part of the country if it becomes a condition for providing entrepreneurs with various forms of state support to solve the already listed issues.