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Russian Government Sets Up Four-Year Plan to Boost Productivity

By Delphine d'Amora

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Engineers working on a jet engine at the Salyut plant in Moscow.

In an effort to transform Russia's oil-dependent economy into a sustainable engine of growth, the government has unveiled a series of legal and financial measures aimed at fulfilling President Vladimir Putin's ambitious pledge to increase Russia's labor productivity 50 percent by 2018.

Approved Wednesday and published online Friday, the government's plan dictates a series of equally ambitious industry benchmarks that would see productivity in the aviation industry more than double by 2018. Productivity in small and mid-size industrial enterprises is intended to climb by nearly 50 percent, while productivity in construction is supposed to rise by 30 percent.

These targets far exceed the government's earlier forecast for the same period, which anticipates productivity as a whole rising just 1.1 percent in 2014, 2.1 percent in 2015 and then

gradually escalating to a total increase of about 13 percent by the end of 2018.

Productivity in Russia is now less than half that of Germany, less than 40 percent that of France and just 28 percent that of the U.S., although it still exceeds the levels of China, Brazil and India, according to a study published in April by the Plekhanov Russian University of Economics.

State attention has been firmly fixed on the issue since 2012, when Putin during his third inauguration set the government the formidable task of raising productivity 50 percent across the Russian economy by 2018.

But so far progress has been slow, with productivity economy-wide rising just 3.8 percent in 2012, according to the study.

In May, Putin once again called for a drastic overhaul of Russian industry as the key to sustainable economic growth.

"Russia needs a real technological revolution, a serious technological renewal, we must perform the most sweeping technological upgrade of our enterprises in the last half decade," Putin said in a speech to domestic and foreign business leaders at the St. Petersburg International Economic Forum.

The plan includes measures to increase investment in the renovation and modernization of production; to stimulate technical modernization; to get rid of inefficient jobs; to promote workers' professional development and mobility; to raise productivity in fully or partly government-owned companies; and to increase self-employment and employment in small businesses.

Obstacles

The timing of the initiative is hardly opportune. The financial resources for any investment project in Russia are now limited, as the Russian economy hovers just shy of stagnation, the Central Bank keeps lending rates high for fear of inflation and lending from abroad plummets in expectation of further sanctions from the West over Russia's policy in Ukraine.

According to the plan, the government will back a total of 1.4 trillion rubles ($41 billion) in loans for investment projects devoted to modernizing production through 2018 while itself providing 500 billion rubles ($14.7 billion) in project financing loans. The state will also ensure that final rates on loans for such projects are no more than 1 percent above the Central Bank discount rate beginning in October this year.

The state budget is already struggling under the weight of extensive development plans that Putin pledged to the public with his inauguration in 2012, as well as additional costs arising from the annexation of Crimea.

Right Approach?

For some analysts, the key problem is not so much the expediency of the plan as the very concept of state-propelled economic development on which it is based.

"It Is unlikely that we can get by without a massive privatization of the public sector, which is constantly being delayed — take Rostelecom, for instance," Investcafe analyst Timur Nigmatullin said. The government was expected to sell a controlling stake in state-owned telecoms giant Rostelecom last year but has hesitated to take the company to the auction block.

In 2010, then-Finance Minister Alexei Kudrin launched a $50 billion privatization drive intended to improve the Russian business climate by reducing direct state involvement in the economy.

The plans have been plagued by delays, however, with the target for 2014 falling to about $5.5 billion in state profits last year and privatization of such key players as oil giant Rosneft and airline Aeroflot still pending.

"The public sector has one of the lowest rates of labor productivity," Nigmatullin said. "In the meantime, labor productivity in the private sector often barely differs from developed countries — for instance, retail chains and mobile operators."

Root of the Problem

Views also vary on what is most needed in order to increase labor productivity in the short term. The government's plan stresses investment in new technology, and not without reason: Many Russian factories still bear the legacy of the Soviet Union and 1990s, when Russian enterprises ached for investment as foreign competitors raced into the 21st century.

The study by the Plekhanov Russian University of Economics found that the buildings and equipment of Russian industrial enterprises are on average more than 20 years old, with a level of wear and tear almost twice that of businesses in other BRICS countries.

But according to other analysts, productivity suffers as much or more from systemic organizational inefficiencies, particularly in the public sector, as it does from antiquated technology.

Labor productivity in the machine-building and energy industries could be magnified by 45 percent if companies were to better manage the resources that are already in place, Moscow-based management consultancy Strategy Partners said in a report this April.

Meanwhile, such simple measures as switching from paper to electronic documentation and optimizing organization of warehouses could cumulatively raise productivity in construction companies by 25 to 35 percent, and in electricity and heating companies by 20 to 25 percent, the report found.

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