
“Where Does the Money Come From?”

MIREES' Open Lecture

South Ossetia, Abkhazia, Transnistria. Nagorno-Karabakh. De-facto states. Frozen conflicts. Most students of Eastern Europe know that these places exist and maybe a bit about the conflicts among the former Soviet republics that brought them into being, but our knowledge tends to end there, at the borders of these odd little territories. What does life look like in a tiny post-communist state that doesn't exist on the map? More specifically, who pays the bills in a quasi-sovereign conflict zone that few states are willing to acknowledge the presence of, let alone sign a trade agreement with or loan money to? In his lecture “Where Does the Money Come From?”, former MIREES student and Dublin University PhD candidate Giorgio Comai sheds light on this dimension of life in these territories.

Despite their small size, precarious geopolitical situations, and lack of recognition by the international community, these governments are able to produce most of the characteristic features of normal states. For instance, Transnistria, with a population of only about half a million people, issues a currency, holds elections, runs television stations, provides pensions, and maintains military and police forces (even a small airforce!). So, indeed, where does the money come from? The answer to this question actually appears to be quite simple: a great deal of the money comes from Russia. A consistent model appears to be in place across these de-facto states; Russia sends development aid, funding for pensions and healthcare, and natural gas (which is then sold by the governments to generate revenue) to the de-facto states. These funds constitute the backbone of the governments' budgets. This proportion varies from about half in Transnistria to over 90% in minuscule South Ossetia, home to only about 50,000 people. Some funding has also come from the EU and international organizations, but Russia remains the primary benefactor.

And what do the citizens of these de-facto states do to earn a living? By and large, they work for the state. Providing so many of the services of a normal government requires a great number of people, and with such small populations the majority of workers find employment as bureaucrats, teachers, soldiers, policemen, and in other public-sector work. In essence, Russia pays for the state, and the state pays salaries. Official private sector employment in all of these territories remains quite small. So all of this being the case, how are people doing in these de-facto states? The money may come from Russia, but is it enough?

All things taken into consideration, it seems that the standard of living in these territories is higher than one might expect. None of them could be described as wealthy, but the stable state employment, cheap gas supplies, and healthcare and pension payments probably make Transnistrians somewhat better off than their neighbors in Moldova (Europe's poorest country) or Abkhazians than their neighbors in Georgia. This stable, reasonably high living standard helps create legitimacy for these governments and generally reinforces the status quo, reducing incentives for these territories to try and normalize their status within their parent states.

So then how can Russia afford all this? It's simple- it's not that much money. Because of the tiny populations of these territories (less than one million people combined), the total expenditure simply doesn't add up to very much. But with the territories of the Donbas being home to several million people, it is doubtful whether the Russian strategy will be viable in these new de-facto states.

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