

Rubles Against the Insurgency

PARADOXES FROM THE NORTH CAUCASUS COUNTIES

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As part of its counter-insurgency strategy in the volatile North Caucasus region, the Russian government has stressed economic development and invested considerable resources into the region. Prime Minister Vladimir Putin himself has noted that a lack of gainful employment (*nesostoyatel'nost*) has increased the pool of young people in the North Caucasus willing to join the predominantly jihadist insurgency. In mid-2010, Putin promised that Russia's government would underwrite economic investment in the North Caucasus to increase gross regional product by 10 percent every year. In early 2011, Putin announced plans to invest 400 billion rubles (\$13.4 billion) in 37 major new projects in energy, construction, and tourism aimed at creating 400,000 jobs over the next decade.

These plans continue the existing strategy. The Russian government allocated approximately \$30 billion to the North Caucasus from 2000 to 2010 – a non-trivial amount for a population of about 9 million people. Federal funding has increased tenfold from about \$0.6 billion at the start of 2000 to \$6 billion at the start of 2010. By 2010, Russian federal subsidies reached over \$1,000 per capita in the North Caucasus ethnic republics – about six times more than Russia's average. Most of it came in the form of grants to local governments. Hospitals, roads, schools, housing complexes, airports, and recreational facilities have been built anew or repaired. Unemployment, while still the highest in Russia, has been reduced. In Grozny – devastated in the major military operations of the 1990s and early 2000s – new high-rise residential complexes sprang up, main avenues were repaved, trees were planted, Internet cafes appeared, marble fountains sprouted, a refurbished airport opened, and Europe's largest mosque rose in the city center.

And yet, a decade after two wars over Chechnya's independence, a significant violent insurgency in the region has persisted. Attacks on Russian government forces and civilians and counter-insurgency operations have continued at a rate common to

low-level civil wars. Systemic violence has spread from Chechnya and Ingushetia to Dagestan and Kabardino-Balkaria (KBR). From mid-2008 though mid-2010, violence in these four republics claimed approximately 1,500 people.*

To what extent and under what conditions does economic development aid help mitigate insurgency-related violence, particularly of the kind galvanized predominantly by militant Islamists? Is it also possible that under certain conditions federal funding for economic projects might contribute to more violence?

Provincial Puzzles

It is possible to make an argument that federal subsidies to the governments of the four most turbulent republics in the North Caucasus have helped reduce violence. In Ingushetia and Chechnya, where federal subsidies to republic budgets increased the most among the four most volatile republics (by 103% and 112%, respectively) from 2006 to 2008, the number of violent incidents and their casualties from 2009 to 2010 decreased. In Dagestan and KBR, where federal subsidies increased the least from 2006 to 2008 (by 84% and 70%, respectively), the number of violent incidents and casualties from 2009 to 2010 increased.

On the other hand, if federal aid produced monotonically beneficent effects, one would expect violence to decline not only in Ingushetia and Chechnya, but also in Dagestan and KBR, albeit at a lesser pace, in both 2009 and 2010. Instead, based on media analysis by the Washington, DC-based Center for Strategic and International Studies, in 2009 violence increased in all four republics year-on-year – from about 350 to 420 incidents in Ingushetia, 210 to 285 in Chechnya, 150 to 375 in Dagestan, and 45 to 50 in KBR. The number of fatalities in these incidents increased from fewer than 600 in 2008 to more than 900 in 2009.† Replicating this count from the same media sources, we find that in 2010, the number of violent incidents dropped in Ingushetia to 235 and in Chechnya to 151, but that it went up in Dagestan to 477 and in KBR to 173. The total number of casualties in these incidents increased year-on-year, reaching over 1,050. These vicissitudes and geographic shifts in violence are inconsistent with the uniform increases in federal funding for the North Caucasus republics in previous years.‡

To shed light on these puzzles this study investigates the relationship between the allocation of budgetary resources in specific sectors and insurgent violence at a lower level of aggregation than a state or province. Specifically, I analyze the newly available socioeconomic and violence data aggregated by *raion* (counties) and major cities in two republics where violence increased the most in 2009 and 2010 – KBR to the west and Dagestan to the east of the insurgency's original territorial core of Chechnya

* Center for Strategic and International Studies, *Violence in the North Caucasus: Spring 2010: On the Rise, Again?* (Washington, DC, 2010) (<http://www.csis.org/hrs>).

† The study defined violent incidents as “abductions of military personnel and civilians, bombings, assassinations of key civilian and military leaders, rebel attacks, police, or military operations against suspected militants, destruction of property by militants, and the discovery of weapons.” Those incidents were tracked in the North Caucasus republics of Chechnya, Ingushetia, Kabardino-Balkaria, North Ossetia, and Dagestan. Center for Strategic and International Studies, *Violence in the North Caucasus 2009: A Bloody Year* (Washington, DC, 2010) (<http://www.csis.org/hrs>). Estimate of the number of events by republic is approximate, based on the charts.

‡ While 2008 was the last year for which the republic and county-level data was available to us, press reports on new federal programs suggest that it stayed at least on the same level in 2009 and most likely increased in 2010.

and Ingushetia.*

A Tale of Two Insurgencies: Money Cuts Both Ways

The statistical probe shows that allocation of federal rubles in Dagestan and KBR related differently to insurgency-driven violence. In Dagestan, on average, counties (*raions*) and cities that received more federal money per capita in the form of unconditional grants (*dotatsii*), grants-in-aid (*subsidii*), and sector-specific subventions (*subventsii*) in 2006-2008 saw less violence in 2009-2010. But in KBR, on average, counties and cities that received more disbursements from the federal budget in 2008 saw more violence in 2009-2010 (Figures 1 and 2).[†] According to the regression analysis, the amount of federal contributions explained about 27% of variation in insurgency-related violence by county/city in Dagestan and about 23% in KBR.[‡]

This relationship is particularly plausible in Dagestan's 43 counties and cities (Figure 1 (a) and (b)). Entities that received more than the average amount of federal money per capita (22,000 rubles) from 2006 to 2008 had no more than one violent incident related to the insurgency from January 2009 to June 2010. This is about half the average violence rate. Meanwhile, cities and counties that received less than the average amount of federal money per capita saw more than the average number of insurgency-driven violent events. Dagestan's 12 counties/cities that received less than the average amount of federal rubles per capita in 2008 experienced at least twice the average number of violent incidents.

In KBR, the reverse pattern emerged. More violence happened in counties and cities that received more federal budget allocations. However, a significant portion of the correlation is explained by Elbrus County and its main town of Tyrnyauz, if the data for the two is merged (Figure 1 (b): see bubble in top right-hand corner). Elsewhere, the relationship is weaker than in Dagestan.

This dichotomous pattern cuts across specific budget sectors. Spending on education, culture, and health care/sports correlated most strongly with violence in both republics in the same way overall federal budget funding correlated with violence there. The more money spent in these sectors in 2008, the less likely one was to see violence in any given county in Dagestan in 2009-2010, but the more likely one was to see violence in KBR. In particular, spending on education by county/city explained approximately 30% variation in insurgency-related violence in Dagestan, and spending on culture explained 28% variation in insurgency-related violence in KBR (Figure 2 (a) and (b)).

Strategic Implications

These are preliminary findings, but they suggest non-trivial and counterintuitive policy implications. They show that economic development funding can be counterproductive,

* Municipal-level data is from Rosstat, "Baza dannykh pokazatelei munitsipal'nykh obrazovaniy" [Database of municipal entities' indicators] (<http://www.gks.ru/dbscripts/munst/munst83/DBInet.cgi#1>)

[†] Data for 2006 and 2007 was available only partially for KBR, thus only 2008 data was used.

[‡] Because in reality a perfect linear relationship is unlikely, correlation coefficients are not necessarily informative substantively.

at least in the short run. Government investment in economic development in turbulent regions may contribute to reducing but also to increasing violence. The comparison of Dagestan and KBR is particularly informative because it suggests that the success of economic development in fighting the insurgency depends not necessarily on how much money is handed down to a region or in what sectors, but on the insurgency type in a specific local context.

In areas such as Dagestan, where due to social makeup and traditions the insurgency has strong and widespread roots in political and economic competition within local communities, the availability of funding at the county level reduces scarcity – and, hence, the intensity of competition that is ultimately about power and resources. Because the insurgents have stakes in the outcome of these competitions, the availability of funds helps appease or buy off the conflicting parties and thus reduces the intensity of the struggle.

In areas such as KBR, however, where the insurgency's key actors have lesser stakes in the outcomes of local competition for power and resources, the money extorted or otherwise seized by the insurgents is more likely to go toward funding their anti-government operations in pursuit of larger, universalist symbolic goals than toward appeasing feuding clans or other local groups. In this type of insurgency, symbolic goals matter – as evidenced by the brutal attacks on Moscow tourists and the blowing up of a ski lift at KBR's Mt. Elbrus, Europe's tallest mountain, in February 2011 (both plausible sources of revenue "taxable" by the insurgents).

Social theory suggests that economic development in such areas needs to be accompanied by measures that will maximize the cost of access to government funds by insurgents and minimize the costs to the government of monitoring and enforcement. This means greater reliance on civic engagement of the general population and clearer, simpler, and more transparent rules for governing the implementation of economic development projects funded by the federal government.

Figure 1

Figure 1 (a)

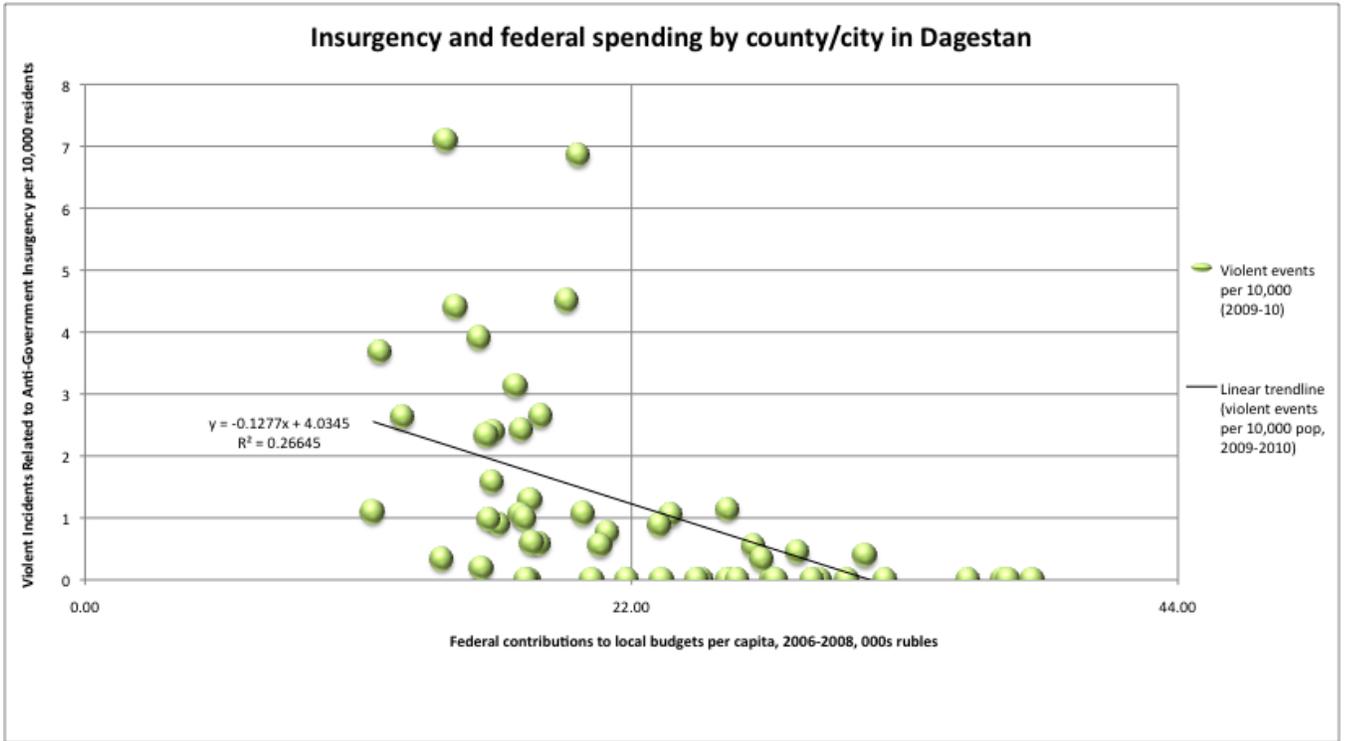


Figure 1 (b)

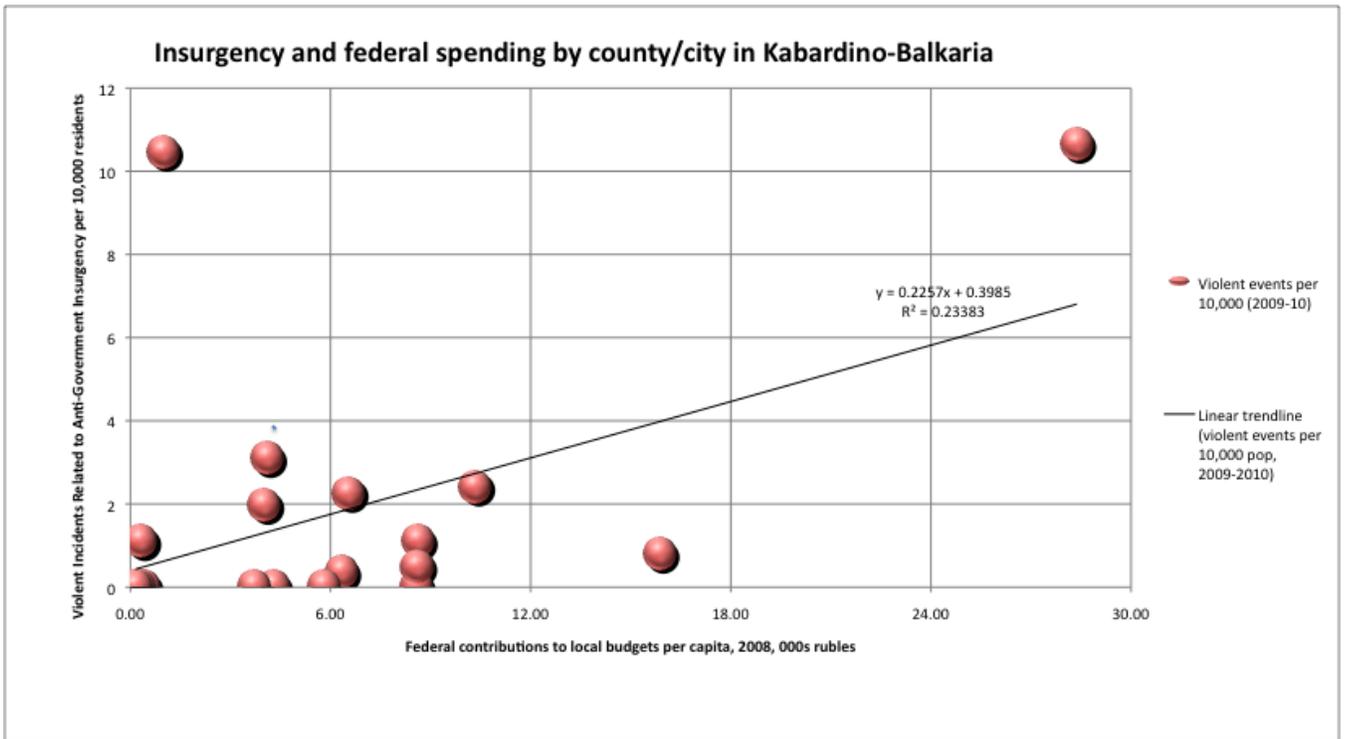


Figure 2

Figure 2 (a)

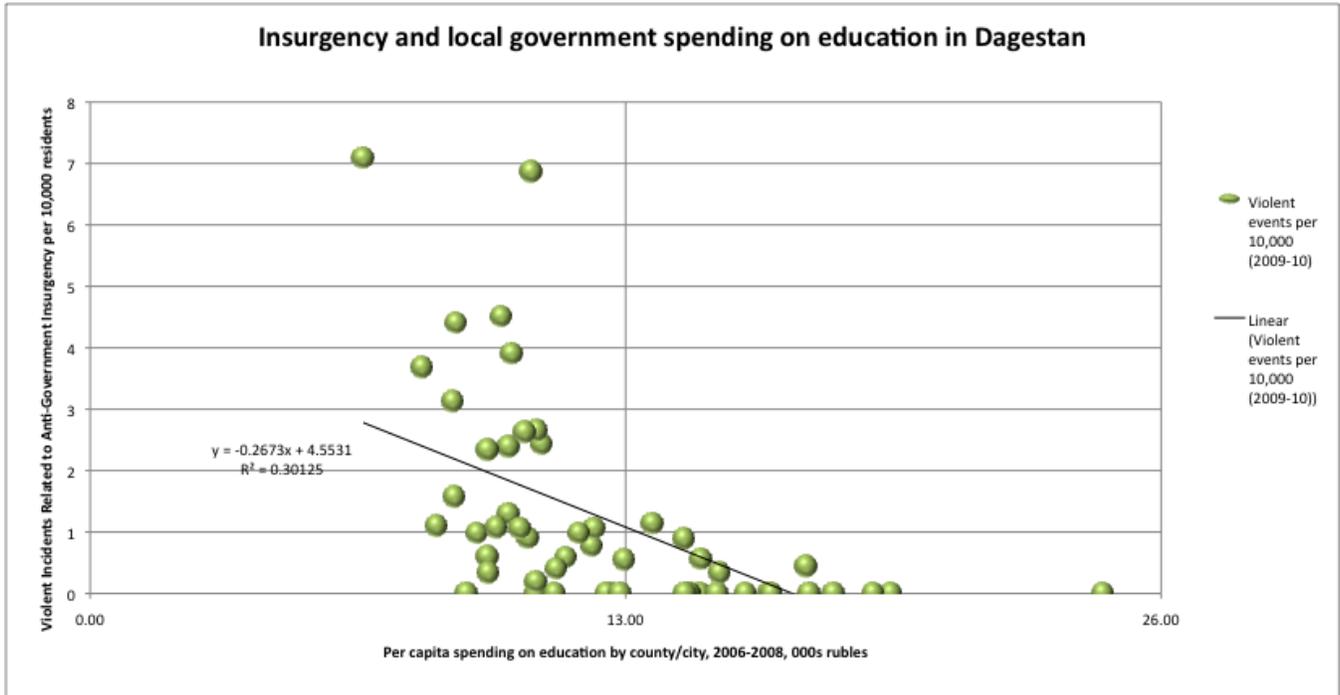
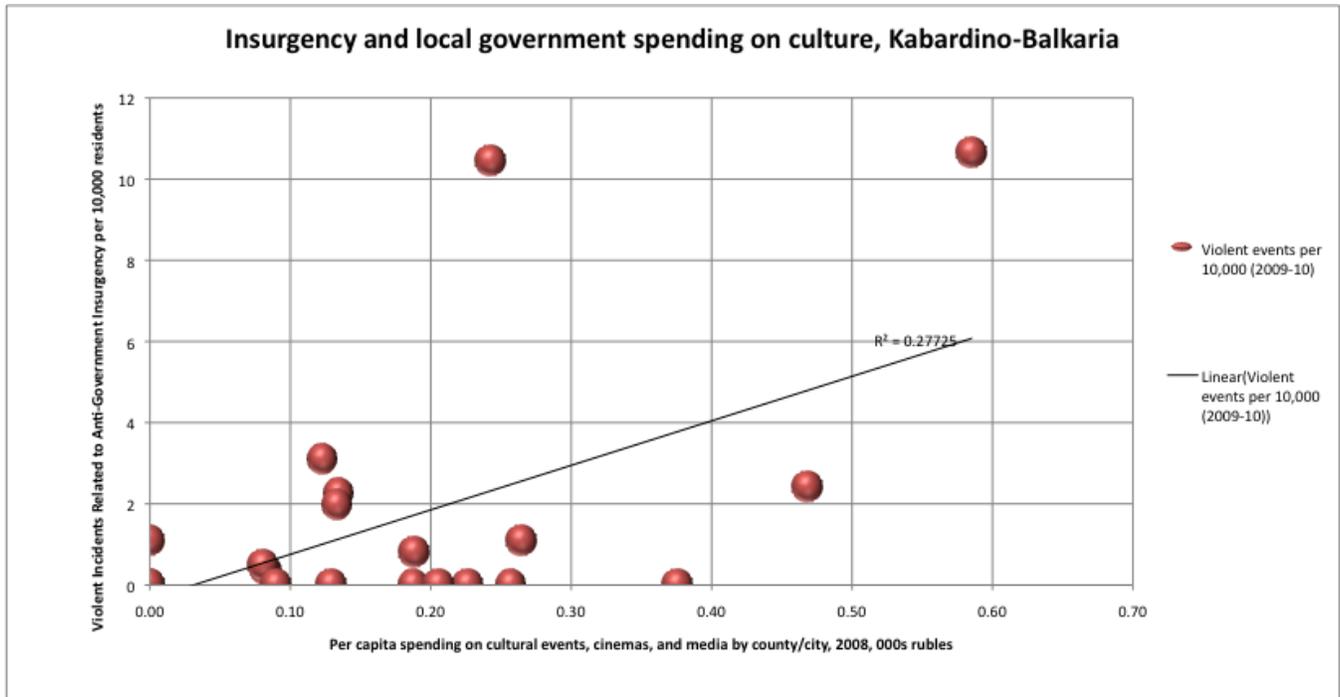


Figure 2 (b)



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