



Formal contracting and state–business relations in Russia. A case study from Khanty-Mansi Autonomous Okrug

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ABSTRACT

The Russian state requires companies to invest in welfare provision and to conclude socio-economic cooperation agreements (SECAs) with regional administrations. Based on empirical evidence from Khanty–Mansi Autonomous Okrug, this article analyses state–business interactions at the subnational level. We show that state and business actors have formalised their resource exchange in the SECAs. Because of the agreements’ adaptive nature, both parties are able to manage their respective obligations and risks within an authoritarian and highly volatile environment. We identify four patterns of contractual relations, depending on the companies’ production capacities and their commitment to providing social investments in the region.

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Introduction

State–business relations (SBR) in post-Soviet Russia have profoundly changed over the past three decades. Since Putin’s accession to the presidency in 2000, the Kremlin’s economic policy has been directed towards the construction of a specific Russian model of state capitalism in which the vertical integration of power takes centre stage (Yakovlev 2014). The regime managed to incorporate business actors into a power pyramid, which is characterised by patron–client relations between political and business elites (Hale 2015; Magyar and Madlovics 2020). Scholars studying state–business interactions usually emphasise the high degree of informality, reliance on personal ties and widespread corruption in redistributing resources between the elite members (Ledeneva 2013; Grant and Yeo 2018; Vasileva 2018). As Kononenko and Moshes (2011) observe, informal power networks involving political and business elites have emerged, particularly in the lucrative energy and military-industrial sectors. Within these power networks, mutually beneficial exchanges between business and state actors take place (Yakovlev, Sobolev, and Kazun 2014). Given the widespread personalisation and de-institutionalisation of the political system, informal rules and networks have in recent years become even more important for decision-making (Baturo and Elkind 2021).

Yet SBR in Russia can hardly be reduced to informal channels only. Formalised interactions range from different corporatist and consultative arrangements with business actors towards public–private partnerships (PPPs) and other formal contracts (Fifka and Pobizhan 2014; Crotty 2016; Klimovich and Pape 2020). The most prominent example for formalisation is the so-called socio-economic cooperation agreements (SECAs), concluded between a region’s governor and its major companies. In contrast to PPPs, which regulate interactions between the authorities and companies in single, mostly infrastructural, projects, SECAs represent an encompassing strategic arrangement that focuses on long-term collaboration between the state and business in a wide range of policy issues (McQuaid 2000). SECAs are, therefore, the most institutionalised element in state–business interaction as they formalise resource exchange between these actors. The binding agreements coordinate corporate financial and infrastructural contributions to regional development and reciprocally define fiscal and administrative state support to companies (Kurbatova and Trofimova 2015; Henry et al. 2016; Tulaeva and Tysiachniouk 2017).

Hence, it is apparent that – even in conditions of high informality – Russian state and business actors in some cases resort to formal contracting instead of personal deals. To understand the underlying reasons, this paper provides a closer look into the contractual relations at the subnational level. Two questions guide our analysis: (1) Why do regional administrations and companies conclude formal contracts, given the highly informal character of SBR? (2) What variations exist in these contractual relations, and how can they be explained?

To answer these two questions, we conduct an explorative case study of the contractual agreements between large oil and gas corporations and the administration of Khanty-Mansi Autonomous Okrug (KhMAO). This case study provides instructive empirical evidence for SBR in present-day Russia, as the contractual arrangements involve several powerful federal business actors with close ties to the Kremlin, who, nevertheless, decide to formalise their cooperation with the regional administration. Our analysis is based on unique data, since KhMAO, to the best of our knowledge, is the only region in Russia that grants public access to its agreements with companies.

We argue that the regional administration as well as the companies have an interest in formal contracting to reduce uncertainties caused by informality and cronyism, systematise already existing informal practices, and establish a secure but flexible contractual basis for mutually beneficial cooperation. We also expect to find differences in contractual relations between the regional administration and companies, which can be attributed to their ownership (state or private oligarchic) and connection to the region.

The article is structured as follows: first, we develop a theoretical framework for studying formal contracting between state and business actors in Russia’s authoritarian regime. Second, we present our case selection, data and methods of analysis. Third, we illustrate SBR in KhMAO, analysing SECAs as formal contracts, and identify variations in existing contractual relations between the administration and extracting companies in the region. Finally, we discuss the main findings of our analysis and present the theoretical lessons of the study.

Theoretical framework

Contemporary market economies do not only differ in the way business actors coordinate their activities (Hall and Soskice 2001), but also in the extent and ways in which

the state is involved (Schmidt 2016; Mazzucato 2018; Sallai and Schnyder 2021). Analytically, SBR can be split into two dimensions: coordination (vertical vs. horizontal), and institutional character (informal vs. formal). Vertical interactions comprise all kinds of formal and informal arrangements in which the power asymmetry is in favour of the state. Most importantly, the state is supposed to set the formal rules that enable or constrain the behaviour of business actors. Yet, vertical interaction may also include direct strategic coordination between governments and business, which in advanced market economies ranges from highly formalised business lobbying to state-led developmental projects. Horizontal interactions between state and business refer to diverse institutional arrangements for resource exchange and bargaining that can occur via official or unofficial channels. They usually take place at sectoral, regional and local levels. Market economies vary in the way how these two dimensions of SBR are combined.

Scholarship on Russia's particular version of capitalism which has emerged during Putin's rule clearly emphasises the predominance of the Russian state over business, meaning that big business has become increasingly subordinated in Putin's power vertical and patronal elite pyramid, which has been accompanied by an expansion of large state corporations and complex interlocking networks (Yakovlev 2006; Kryshtanovskaya and White 2011; Hale 2015). Some scholars argued for a Russian type of "state capitalism" (Bremmer 2009, 2010; Yakovlev 2014; Spechler, Ahrens, and Hoen 2017) or "state-led capitalism" (Lane 2008; Wengle 2012; Tsygankov 2014) pointing to the relevance of the state sector and at the creation of developmental institutions, as well as at the ambition of the president to set developmental goals.

Most of the literature, however, regards Russia's patronage mode of actor coordination, as well as the high degree of corruption within state bureaucracy and law enforcement as major obstacles for a state-led modernisation of Russia's economy (Sakwa 2010; Petrov, Lipman, and Hale 2014; Gel'man 2015; Markus 2015). The patrimonial character of Russia's capitalist system implies a complex combination of both personal relations and impersonal institutions (Bloom 2016; Robinson 2013; Vasileva 2018). Key institutional characteristics of SBR in Russia include defective rule of law and weak property rights protection, and, as described by North, Wallis, and Weingast (2009), a limited access order to markets and finances due to the existence of state patronage and clientelist networks. Russia's statist-patrimonial capitalism is characterised by a close interconnection of formal and informal, vertical and horizontal modes of coordination (see Table 1).

The predominance of patronal politics and clientelism has a substantial impact on the horizontally organised interactions between state and business actors. *First*, due to the high centralisation of financial resources within the power vertical originating from the

Table 1. Types of SBR at the subnational level.

	Formal	Informal relationships
Vertical	Formal regulations for business actors, e.g. laws, institutional arrangements (Yakovlev and Zhuravskaya 2008; Libman 2017)	Patronal politics, Patron-client relations, patronage (Hale 2015; Baturo and Elkind 2021)
Horizontal relationships	Formal contracts between regional administrations and companies, e.g. SECAs (Tulaeva and Tysiachniouk 2017)	Personalist networks in the region (Ledeneva 2013; Ledyayev, Chirickova, and Seltser 2014)

tax reform of the early 2000s, regional administrations became highly dependent on the resources of large companies to complete their tasks (Easter 2006; Alexeev and Weber 2013; Zubarevich 2016). Regional authorities, headed by the governors, fulfil a key role in the political regime as the federal centre has made them responsible for guaranteeing political stability and securing stable socio-economic conditions at the subnational level (Sharafutdinova 2010). In addition, they are supposed to implement developmental goals set by the president for which they often lack the necessary financing. Regional authorities are, thus, interested in close cooperation with business actors so as to gain additional (extra-taxational) resources for public goods provision in their territories.

Second, on the business actors' side there is a similar combination of incentives to cooperate with the state. Businesses operate in a context of legal insecurity and are forced to defend themselves against the potential encroachment of a predatory state, which triggers their readiness to nurture good relations with the authorities (Yakovlev, Sobolev, and Kazun 2014; Markus 2015). Moreover, due to the integration of large resource-rich corporations into Putin's patrimonial political pyramid, they are not only made responsible for their own actions as businesses but also for strengthening the output legitimacy and stability of the regime (Flikke 2018). This means, in addition to tax payments, it is expected that businesses, especially from key industrial sectors, contribute to socio-economic stability and support regional administrations to fulfil their tasks. Companies also are interested in this cooperation, as they cannot rely on underfinanced regional administrations to maintain proper social and physical infrastructure, especially if their production sites are located in areas far away from urban centres. Hence, they serve a self-interest by investing into public goods from which their employees and local populations can benefit.

Given the continuous trade-off between economic development and social stability (Remington et al. 2013), regional administrations thus depend on cooperation with business actors, particularly with large corporations in their regions. On the other hand, companies also have incentives to collaborate. For subnational SBR in Russia, vertical pressures are closely intertwined with horizontal (self-)interest on both sides in establishing avenues for direct horizontal cooperation, which occurs within the framework of a vertically integrated patrimonial system.

The interactions between state and business actors differ in the extent to which they are formalised. The literature on state-business-relationships at regional and local levels mainly focuses on its personalistic and informal mode of resource exchange, accompanied with extortion and corruption (Ledeneva 2013; Ledyayev, Chirickova, and Seltser 2014; Szakonyi 2020), and tends to downplay the role of formal regulations in which the state sets the rules for business actors (Yakovlev and Zhuravskaya 2008; Libman 2017). However, even in this highly informal context, state and business actors do agree on formally institutionalised arrangements.

SECAs can be understood as one key example of this formalisation of SBR within the statist-patrimonial system. In these agreements, both sides negotiate and agree on the extra-taxational input of companies for the provision of public goods, practically sharing the function of welfare provision in a given region (Henry et al. 2016; Tulaeva and Tysiachniouk 2017). The first SECAs emerged out of an informal practice and came into being in Kemerovo Oblast in the late 1990s, when Governor Tuleev started to involve business actors in addressing the region's social problems (Kurbatova and Trofimova 2015). In the

second half of the 2000s, they were adopted in further regions in Russia and gradually became widespread at the subnational level (Kurbatova and Trofimova 2015). At present, the agreements formalise coordination and resource exchange between state and business actors (Kurbatova and Trofimova 2015; Tulaeva and Tysiachniouk 2017).

In studying formal contracts between the state administration and business on a regional and local level, one can distinguish between *restrictive* and *adaptive* contracts (Andrew 2010; Andrew and Hawkins 2013). While restrictive contracts specify the anticipated outputs before certain investments are made, adaptive contracts are more flexible, leaving certain parts of the agreements open to future adjustments. As both formal and adaptive agreements, SECAs are, therefore, advantageous to both parties due to their contractual flexibility – both sides can re-negotiate mutual obligations under changing economic conditions. At the same time, they reassure state and business actors that the other side will fulfil the agreement. In the following case study, we analyse this *horizontal* and *formal* mode of SBR in Russia in detail.

Case selection, data and methods

The case was selected as an explorative case study that builds upon a comparison of the contractual relations of ten large oil extracting companies with the regional administration in KhMAO as one of Russia's regions. Following Yin, we define our case study as a "revelatory case" (Yin 2003, 42), as it sheds light into the key features of this specific form of state–business interaction in Russia's regions which has previously not been studied in detail. The research design follows the logic of an "embedded single case study" (Yin 2003, 40). Within the case of KhMAO, we study the contractual relations between the selected ten companies and the regional administration with each contract constituting a separate unit of analysis.

The overall objective of our analysis is to reveal the underlying reasons that explain the formalisation of contractual relations in KhMAO and their variation. The analysis allows for an in-depth study of SBR at the subnational level. Through theory-building we aim to develop explanations that can be instructive for formal contracting in Russia's regions in general (for comparison see Geddes 1991, 2013).

KhMAO serves as a particularly instructive case, as the region exhibits the core forms of Russia's state oligarchy with a vital extractive industry and close-knit interactions between state and business actors, shaped both by horizontal ties within the region and strong vertical connections to Moscow. KhMAO stands out due to three features. First, the extractive industry is extremely important for the regional budget, as the regional economy heavily depends on tax payments and additional social investments from extracting and refining companies, which accounted for over 90% of the total industrial production in 2019 (KhMAO Socio-economic Report 2019). Second, within KhMAO's extractive industry we can observe a variety of large corporations, both state-owned and private. Third, the region has a stable subnational political regime with the governor having been in power since 2010. This means that potential changes in SBR cannot be attributed to shifts in the regional government, which allows us to trace the interactions between state and business actors over time.

Our data consists of formal contracts concluded between KhMAO's regional administration and the ten largest oil and gas companies: *Gazprom*, *Gazprom Neft*, *Lukoil*, *Rosneft*,

Russneft, Salym Petroleum, Sibur, Slavneft, Surgutneftegaz, and Transneft. The selection involves diverse types of companies – state and private, systemically relevant and second-order companies (in terms of revenue and production volumes). This regional diversity of companies allows for the identification of different contractual relationships. Our data sample covers the period from 2010 to 2019 and includes 21 socio-economic cooperation agreements, 75 additional agreements and seven other contracts on specific issues of state–business cooperation. The agreements were accessed from the website of the regional administration and analysed as full-text documents. In addition to these main data sources, we consulted the companies’ financial and non-financial reports with regard to tax payments and social investments, as well as statistical and other information on regional development provided by the KhMAO administration, e.g. the regional budget. A data set with complete primary data is available at the *Discuss Data* repository.¹

In our analysis of the SECAs in KhMAO, we combine a qualitative content analysis of the agreements’ full texts with a descriptive quantitative analysis of the financial volumes of social investments, agreed in the SECAs, and their amendments in the subsequent additional agreements. The qualitative content analysis focuses on six categories of contractual provisions: social welfare, environment, infrastructure, regional development, taxes, and state support for companies. It sheds light on the formulation of mutual obligations regarding resource exchange between the state and businesses. The descriptive quantitative analysis aims to reveal the dynamics of the financial obligations of individual companies and how they relate to those of other companies and the regional budget. It illuminates the adaptive nature of SECAs and allows for the identification of variations in the contractual relationships between state and business actors.

Empirical analysis

In the following section, we analyse how SECAs, as formal but adaptive contracts, have shaped resource exchange between state and business actors in KhMAO. Our empirical analysis proceeds in four steps. First, we examine the broader context of SBR in the region. Second, we analyse how the contracts structure resource exchange between state and business actors. Third, we investigate the adaptive nature of the SECAs, as combinations of framework contracts and additional agreements. Finally, after evaluating the role of the contracts in the region’s socio-economic development, we reveal variations in the contractual relations in KhMAO.

SBR in KhMAO

Khanty Mansi Autonomous Okrug is one of the leading oil extracting regions worldwide. In 2019, it accounted for over 42% of the total oil extraction in Russia. The region is situated in the Russian Far North and has a population of 1.6 million people as of 2020. KhMAO is one of Russia’s top regions in terms of socio-economic development, having been ranked third after Moscow and St. Petersburg in 2018 and 2019 (RIA Rating 2022). Traditionally, KhMAO’s economy depends heavily on the extracting industry (KhMAO Socio-Economic Report 2019). In 2019, the extraction of natural resources accounted for 80.3% of the total industrial production, followed by refineries (13.7%).

Three companies – state-controlled Rosneft, privately owned Surgutneftegaz and Lukoil – together control over 80% of the oil extraction in the region. As for refineries, Surgutneftegaz was responsible for 66% of the associated petroleum gas refining capacities in 2019, and Rosneft refined 84% of the oil extracted in the region. Among the region's largest players, only Surgutneftegaz has its headquarters in KhMAO and pays taxes to the regional budget.

According to KhMAO's Oil Report (2017), the largest three oil producers are followed by state-controlled Gazprom Neft (a Gazprom subsidiary that accounts for 6.9% of total extraction), Slavneft (a joint venture of Gazprom Neft and Rosneft, 6.1%), Salym Petroleum (a joint venture of Royal Dutch Shell and Gazprom Neft, 2.6%), and Russneft (a private company, 2.1%). These extracting companies are accompanied by the private petrochemical giant Sibur, whose production capacities are located in the neighbouring region of Tyumen. The state companies Gazprom and Transneft also play a significant role in the regional economy. Gazprom is responsible for energy supplies to both industry and public and private consumers. Transneft operates pipelines and facilitates the transport of oil and oil products from the region.

Given the enormous role that resource-rich oil and gas companies play in the regional economy, the regional administration requires them to make social investments beyond taxation to secure high levels of welfare provision in the region (Tulaeva and Tysiachniouk 2017). The administration's general objectives for regional development are formulated in KhMAO's development strategy, according to which the administration aims to improve the quality of life of its citizens, fostering the innovativeness and competitiveness of the regional economy and promoting dialogue between the state, businesses and civil society. The contributions of "socially and ecologically responsible" business actors are especially emphasised in the regional development strategy (KhMAO Socio-Economic Development Strategy until 2030, 2016, 50).

In contrast to the regional administration, which is geared toward maintaining socio-economic stability in the region, business actors are primarily interested in supporting their operation areas. Hence, there is a clear geographical focus in the distribution of responsibilities for welfare provision among the large corporate actors in the region (on spatial differentiation in Perm region, see Rogers 2012). Rosneft, for instance, invests substantial resources in projects in the areas of Nefteyugansk and Nizhnevartovsk, Lukoil 'is responsible' for Kogalym, Langepas and Pokachi, and Surgutneftegaz supports the Surgut district. In addition to these geographically earmarked investments, the companies also finance regional projects and make direct payments to the regional administration.

Since several powerful companies currently compete for access to oil fields (Podobedova 2016; Fadeeva and Kaliukov 2017), none of them dominate in the interactions with the regional administration. By contrast, the regional administration coordinates the contracts in order to make the contribution of each company for their operation areas complementary and compliant with the general developmental plans that go beyond the narrow geographical focus of the corporate actors and also include a redistributive component for less advantaged areas. Governor Natalya Komarova, who enjoys great public support since she got in office in 2010, maintains a 'corporate consensus' – pooling resources and joining the efforts of the administration and major oil extractors to control the socio-political and economic situation in the region (APEK Report 2020).

Despite the relatively strong position of the governor, these direct horizontal interactions at the regional level are integrated into informal vertical patronal politics, which makes these power relationships more complex. Since the interests of several oil and gas extracting companies converge in the region, the appointment of the governor is itself the result of a compromise between corporate headquarters and the presidential administration, which bargained for a suitable person for this position and jointly promoted Komarova (Neplieveva 2014). Komarova does not only coordinate SBR in the region, but also guarantees that mutual obligations of state and business actors will be fulfilled (APEK Report 2020). To make this commitment more credible, the regional administration actively formalises its resource exchange with business actors via formal agreements, which together are integrated into a system of bilateral contractual relationships in the region. We graphically summarise these contractual relations on the figure below [Figure 1](#).

Secas as formalised resource exchange between state and business actors

As formal contracts, SECAs play a key role in shaping the resource exchange between state and business actors in KhMAO. All major extracting companies conclude agreements with the regional administration, usually for a period of three to five years. The agreements are signed by the company's CEO and the governor in the regional capital of Khanty-Mansiisk or in the company's main location, e.g. in Surgut or Kogalym. In some cases, agreements have been signed outside the region, in the context of economic fora in Moscow, St. Petersburg and Sochi. SECAs define mutual obligations between business and state actors. The details of the agreements are prepared and monitored by the companies' regional offices, in close cooperation with their headquarters.

The SECAs share a common structure, starting with general provisions, followed by stipulations regarding the main areas of cooperation, and ending with implementation rules

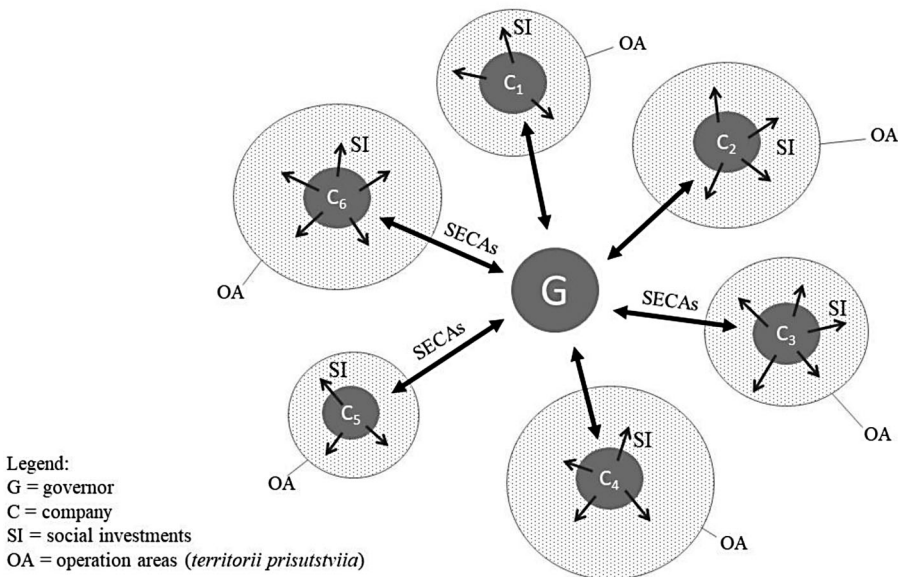


Figure 1. Contractual relations in KhMAO.

and concluding provisions. The agreements typically cover infrastructure, environment, and socio-economic development as three main areas of state–business cooperation. Stipulations regarding infrastructure cover the construction and maintenance of regional facilities, including roads, bridges, and buildings such as residential houses, community centres, clinics, sport facilities and museums. A specific aspect of infrastructure cooperation concerns the joint development of resource extraction and transport facilities. Stipulations regarding environmental protection refer to companies' obligations to comply with environmental and labour safety standards and introduce industrial modernisation and energy efficiency measures.

Of particular importance are obligations to invest in disaster prevention and emergency management, with the aim of avoiding industrial pollution and damage to the environment. The SECAs examined here also oblige companies to pay compensation for contamination and damage in case of environmental disasters. In addition, some SECAs include provisions for nature and wildlife protection, e.g. the establishment of landscape protection areas. A major focus of the agreements is the socio-economic development of the company's operation areas and the region at large, by developing economic growth and industrial production for example, thus strengthening the investment climate in the region and supporting small and medium enterprises. In addition, some SECAs include provisions regarding social programmes for local communities and socially disadvantaged population groups.

The SECAs contain obligations regarding a broad range of social investments, agreed upon by the governor and the respective company. These are defined as corporate, state or shared responsibilities. Some of the contract provisions are formulated as binding commitments that are subject to joint review and control over their implementation. These provisions mostly concern the companies' social investments. Other provisions in the SECAs are conditional. For example, the regional administration may agree to lower taxes for a specific company on the condition of a general increase in regional tax income. This would allow the administration to later withdraw the commitment if budget capacities are lower than expected. Other provisions are formulated as a declaration of intent. Both sides agree to intensify cooperation if the economic and financial circumstances allow. These conditional and intentional contract provisions point to the adaptive nature of SECA agreements.

SECAs formalise and structure resource exchange between business and state actors. Within this exchange, one can distinguish between three kinds of resources: (1) financial, (2) administrative/organisational and (3) informational. Financial resources can be regarded as most important. Funding for cooperation in the above-mentioned areas of infrastructure, environmental protection, and socio-economic development is provided mostly by business actors. Only in a few SECAs, state authorities agreed to co-finance projects. Companies, by contrast, commonly invest in the construction and maintenance of public infrastructure, providing funding for economic development by introducing programmes to improve the regional investment climate and to support small and medium enterprises through guaranteed sub-contracts.

Indigenous communities, the so-called 'small peoples' of the North, are often explicitly mentioned in the SECAs. Companies commonly agree to pay compensation in case of damage or pollution in their traditional living areas. In addition, the SECAs oblige companies to conduct programmes for socially disadvantaged population groups and to invest

in programmes that benefit the local communities in their areas, e.g. by supporting social institutions and funding sports and cultural activities. The financial resources specified in the SECAs mainly pertain to the social investments expected of companies. However, the regional administration also provides financial resources in its cooperation with businesses. These resources include tax reductions and financial support for research and development. Financial obligations in the SECAs tend to be worded more specifically than expressions of commitment regarding non-financial cooperation. One can thus assume that the exchange of financial resources between business and state actors is treated as a priority by both sides.

The second type of resource exchange relates to administrative and organisational resources. The agreements stipulate that the regional administration is to provide environmental licenses and permissions (within their jurisdiction), as well as administrative support to facilitate the companies' business operations. In addition, the regional administration is obligated to ease bureaucracy and simplify administrative procedures to support the company's business operations. In contrast to the financial resources for which companies are primarily responsible, administrative resources are mainly provided by the regional administration.

The third and final area of resource exchange concerns information exchange between business and state actors. In the SECAs, companies agree to provide reporting on compliance with environmental and labour safety standards and to deliver information on activities designed for socio-economic development and environmental protection. Tax-related information is given priority. Companies agree to pay taxes and to deliver full information on corporate profits to allow for tax assessment through the regional administration. In addition, the SECAs stipulate that both sides are to provide information on the agreed social investments and the implementation process.

The adaptive nature of SECAs – additional agreements

Social investments are one of the most important resources exchanged between state and business actors. Consequently, the financial contributions of business actors are formulated as binding commitments in SECAs. Nevertheless, these agreements are adaptive in nature. Although companies commit to social investments, their exact financial volume is subject to renegotiation in changing socio-economic conditions. The SECAs' adaptive nature is manifested in the additional agreements (AAs) that accompany the main agreement and specify the companies' financial obligations (if not fixed in the SECA). The frequency of conclusion varies from company to company, as the following analysis shows. In general, AAs are signed annually, but if necessary, the parties conclude them several times a year.

Our database includes 75 AAs that were concluded between the KhMAO's administration and the largest oil and gas companies operating in the region between 2010 and 2019. We are aware that there are in fact more such agreements, but some of them were unavailable and not listed on the regional administration's website. Nevertheless, this data helps us to understand trends in state–business contractual relationships in KhMAO. The overview of the additional agreements signed in the past ten years demonstrates that Lukoil is an 'AA champion' in the region (see [Table 2](#)), concluding the most AAs (37%), followed by Surgutneftegaz and Gazprom Neft. Indeed, Lukoil signed 18

Table 2. Additional agreements to the SECAs of the largest oil and gas companies, 2010–2019.

Company	Number of AAs	%
Gazprom	3	4
Gazprom Neft	8	11
Lukoil	28	37
Rosneft	5	7
Russneft	7	9
Salym Petroleum	3	4
Sibur	6	8
Slavneft	5	7
Surgutneftegaz	9	12
TNK-BP*	1	1
Total	75	100

Source: Authors' own compilation.

*Company merged with Rosneft in 2013.

AAs to its SECA 2013–2018 alone. The high number of agreements shows that the company is very careful in specifying the financial volumes of its investments.

In analysing the AAs, we differentiate between document type (DocType) and regulation type (RegType). The document type defines which time period is regulated by the respective AA. *Ex ante* AAs specify provisions of the main agreement for the next year in advance. *Ex nunc* AAs are concluded to update the current obligations within the same year. *Ex post* AAs retroactively alter the contract provisions to readjust target obligations in line with the company's actual social expenditures. The second, RegType parameter highlights the financial result of renegotiation – whether the financial volume of the corporate investment has increased, decreased or maintained the status quo compared to the previous agreement. Note that status quo maintenance entails the fixation of a new investment amount for the next period, the confirmation of the same expenses for the same issues as stated in a former agreement, and the redistribution of the same amount of money to other issues.

The overwhelming majority of AAs (75%) maintain the status quo regarding expenditures, with most of them (65%) fixing new financial volumes for the future (see Table 3). It is worth noting that 31% of all status quo agreements focused on the redistribution of

Table 3. Additional agreement regulation and document types

RegType	Number of AAs	%
Increase	14	21
Decrease	3	4
Status quo:	51	75
<i>Fixation</i>	33	65*
<i>Confirmation</i>	2	4*
<i>Redistribution</i>	16	31*
Total analysed	68	100
No Data	7	
Total	75	
* % of status quo documents		
DocType	Number of AAs	%
Ex ante	7	9
Ex nunc	41	55
Ex post	27	36
Total	75	100

Source: authors' own compilation.

fixed amounts of corporate investment for other purposes without raising the total sum. This is a testament to the adaptivity of the contractual relationships. The remaining one-fourth of the documents showed an increase or decrease of the financial volumes as stated by the contract. The companies' expenditures have in general been growing over the past ten years. There were only three cases where companies managed to lower their financial obligations to the regional administration – once by Lukoil and twice by Surgutneftegaz – and in each case the change was a retroactive one. The DocType parameter further supports the idea that SECAs are adaptive in nature. Most additional agreements were concluded either to introduce ad hoc amendments to the ongoing expenditures (ex nunc, 55%) or to actualise expenditures made in the previous periods (ex post, 36%).

Therefore, signing additional agreements in essence allows the parties to readjust mutual obligations and to align them according to changing demands in regional welfare provision. State and business actors are given the opportunity to regulate their mutual obligations in a flexible manner via SECAs. The adaptive nature of SECAs is thus beneficial to both sides, which in part explains the emergence of this form of contractual relation as a specific mode of interaction between state and business actors at the sub-national level.

Social Investments via SECAs in KhMAO

In the following section, we compare the corporate social investments to the other financial resources of the region and analyse how the companies' contributions, declared in the SECAs, relate to the budgetary capacities of the regional administration. Regional tax revenue, which depends on profit taxes paid by companies registered in KhMAO (first and foremost by Surgutneftegaz), is in fact highly volatile as a result of fluctuations in oil prices. Despite this volatility, drawing on the data of financial expenditures fixed in the SECAs and additional agreements and on our estimates (based on general trends in the countries' social investment amounts), we can establish a relation between regional tax revenue and the largest companies' total financial contributions.

Table 4 presents actual and estimated social investments by the ten selected companies to show the range of total financial contributions to which the companies have committed themselves in the contracts with KhMAO's regional administration. Our data

Table 4. Social investments of the largest oil and gas companies in KhMAO, million rubles.

Company	2017	2018	2019
Gazprom	n.d.	n.d.	n.d.
Gazprom Neft	365	365	621
Lukoil	1611	1484	1499
Rosneft	1400*	2000	2000*
Russneft	61	63	65
Salyr Petroleum	80*	80	80
Sibur	50	50*	50
Slavneft	100	100*	100*
Surgutneftegaz	4419	4311	4644
Transneft	n.d.	n.d.	n.d.
Total	8086	8453	9059

Source: Authors' own compilation based on SECAs.

*Estimates based on previous and next year's amount.

highlight that, over the past three years (2017–2019), overall social investment amounts to approximately 8–9 billion rubles.² During the same period, according to the regional Department of Finance, KhMAO's tax revenues ranged from 165.4 billion rubles to 249.9 billion rubles.

The data show that the extra-taxational financial contributions by the companies through agreements with the regional administration relate to an estimated 3–5% of the total tax revenue of the region. These findings support the argument that authorities in fact profit from corporate resources beyond regular taxation and receive substantial support for welfare provision from the companies. As our study focuses primarily on large federal oil and gas players, the extra-taxational contributions by all companies in KhMAO can play an even more significant role in comparison to its tax revenue.

Variations in contractual relations in KhMAO

KhMAO's regional administration is particularly interested in cooperation with large oil extraction companies (APEK Report 2020). Together, they build the core group coordinated by the governor in KhMAO. Seven of the ten companies belong to this group: *Gazprom Neft*, *Lukoil*, *Rosneft*, *Russneft*, *Salym Petroleum*, *Slavneft*, and *Surgutneftegaz*. Their business operations in the region depend on the exploration of natural resources, which has ecological and social consequences for KhMAO's population, especially for indigenous peoples in the Russian Far North (Tulaeva and Tysiachniouk 2017). To assess the administration's contractual relations with different companies, we suggest comparing their 'profits' – the revenue generated by oil extraction, with their 'obligations' – the contractual commitment to deliver social investments.

In the following analysis we use each company's share in the total oil extraction and each company's share in the financial contributions in 2017 as proxies for identifying the various types of contractual partners (see Table 5). Insofar as the companies' oil extraction capacities and social expenditures (as regulated in the SECAs) have remained relatively stable over the past three years, the data allows for generalisation and discussion of the variations in the contractual relations in the region.

A comparison of companies' social investments with their share in oil extraction, in combination with the absolute amounts of their financial contributions fixed in the SECAs, reveals four different forms of contractual relationships. If companies' profits and obligations correspond, they can be considered a '*regular partner*'; in cases where they earn more and pay less – '*underpaying*'; otherwise – '*overpaying*'; and if by smaller and fixed amounts – a '*second-order partner*'. Among the systemically relevant companies

Table 5. Oil extraction and social investments of largest companies in KhMAO, %.

Company	Share in oil extraction	Share in social investments
Gazprom Neft	7	5
Lukoil	16	20
Rosneft	43	17
Russneft	2	1
Salym Petroleum	3	1
Slavneft	6	1
Surgutneftegaz	22	55
Total	100	100

Source: Authors' own compilation based on regional statistical information and SECAs.

– the big three, accounting for over 80% of oil extraction and over 90% of SECA expenditures – Lukoil can be considered a *'regular' partner*, who's extra-taxational contribution is significant (with a share of 20%) and in general corresponds to its extraction capacities (a share of 16%). Rosneft, by contrast, whose social investments are comparable to Lukoil's (17%), is by far the largest extractor in the region (43%) and can therefore be described as an *'underpaying' partner* in comparison to other business partners of the regional administration. Finally, Surgutneftegaz can be considered an *'overpaying' partner* – it contributes most through SECAs (55%) while at the same time having a relatively moderate share in total oil extraction in the region (22%). The four other smaller players (in terms of social investment and extraction capacities) form the group of *'second-order' partners*. They have contractual commitments to deliver financial resources beyond taxation, but their contributions remain relatively fixed over time and are less significant compared to the big three.

'Regular' partner – Lukoil

Lukoil's extraction capacities in KhMAO are concentrated in the territories near the settlements of Langepas, Urai and Kogalym, as reflected in the company's name. The lion's share of Lukoil's social investments is directed to these areas. As determined in the SECAs with the regional administration, the company has spent approximately 1.2–1.6 billion rubles per year on socio-economic development in the region over the past decade, with a tendency to growth. In 2019, Lukoil planned to invest about 350 million rubles in projects in Kogalym, 150 million rubles in Langepas, and 80 million rubles in Urai, according to the SECA 2019–2023. Note that direct financial flows to the municipal administrations are calculated separately, in addition to the volumes negotiated with the regional administration. In addition to the projects in its operation areas, the company also provides financial support to projects in other districts.

A distinctive feature of Lukoil's contractual relationship with KhMAO's administration is that the company fixes all its expenditures through additional agreements to the SECAs. As mentioned above, the company accounts for the largest number of AAs, many of which are concluded ex post to ensure that the planned financial obligations correspond to its actual expenditures. In practice, the negotiations between Lukoil and the regional administration on the financial volume of the company's social investments usually start at 1200 million rubles, with the final sum and the list of concrete projects constantly being renegotiated and readjusted. In addition to the financed projects, the company is also obliged to make payments to the KhMAO's administration for measures aimed at maintaining the investment attractiveness of the region, supporting sport and cultural efforts, and the patriotic education of the youth. These payments amount to 40–70 million rubles each year. The only instance of lowering a financial contribution concerned this expenditure item. In 2014, the company raised the sum to be transferred to the regional administration to 660 million rubles (AA1 to SECA 2013–2018), which was then retroactively reversed to the 'normal' 60 million rubles in 2016 (AA8 to SECA 2013–2018).

All in all, Lukoil managed to achieve a proper balance between its business interests in the region, measured through its oil extraction capacity, and its contribution to the socio-economic development of KhMAO beyond taxation. The company has also emphasised its particular interest in establishing a constructive relationship with the regional administration by demonstrating the relevance of its operation area: Lukoil's CEO, Vagit Alekperov, signs most of the SECAs in situ with Governor Komarova, in Kogalym.

'Underpaying' partner – Rosneft

Rosneft's key extracting subsidiary, Yuganskneftegaz, is responsible for approximately 30% of the company's oil extraction, which used to belong to Mikhail Khodorkovsky's Yukos. Its core operation area covers the Nefteyugansk, Surgut and Khanty Mansi districts, where the company's largest oil extraction facilities are located. After the merger with TNK-BP in 2013, Rosneft expanded its operation area to the Nizhnevartovsk district and several other areas of KhMAO. Interestingly, after the deal, Rosneft did not take on all of TNK-BP's social obligations, as per its SECA. In 2013, TNK-BP planned to invest about 1.2 billion rubles in socio-economic development in the region, with almost 900 million investments in Nizhnevartovsk and an additional 200 million rubles in the Nizhnevartovsk district. A year prior, Rosneft had spent approximately 1.5 billion rubles via a SECA with the regional administration. In 2014, a year after the merger, the volume of Rosneft's financial commitments amounted to approximately 1.9 billion rubles for all of its new operation areas (including former TNK-BP areas), with a decrease in social investment in Nizhnevartovsk and its district to approximately 240 and 80 million rubles, respectively – a reduction of over 70%.

Compared to its oil extraction capacity in the region, the company falls under the category of 'underpaying' partner in terms of its social investments. In 2015, its financial contribution to regional socio-economic development was 1.4 billion rubles. On 11 May 2018, Rosneft's CEO, Igor Sechin, signed an agreement with Governor Komarova for the payment of 1.5 billion rubles in social investment (AA6 to SECA 2014–2018). Two weeks later, at the St. Petersburg International Economic Forum – the most prominent economic event in Russia – this sum was increased to 2 billion rubles (AA7 to SECA 2014–2018). The increase concerned not only the projects in Rosneft's operation areas but also the company's sponsoring of social programmes implemented by the regional administration – from 234 to 311 million rubles. Despite its significant contribution to socio-economic development in the region, Rosneft's profits from oil extraction in KhMAO make it reasonable to expect more in terms of the financial volume of its social investments.

'Overpaying' partner – Surgutneftegaz

Surgutneftegaz is the largest corporate taxpayer in Russia and in KhMAO, where the company is registered. In 2014 it paid 148 billion rubles in profit tax, and in 2018 the amount paid was 161.2 billion rubles (Kommersant, 21 October 2019). The company generates up to 50% of the entire tax revenue in the region. In addition to taxation, Surgutneftegaz also contributes most to regional socio-economic development among the large producers, although its extraction capacity is moderate. Between 2013 and 2015, the company invested 1.5–2.5 billion rubles in the construction and maintenance of social infrastructure. Over the past three years, the agreed financial volume of the company's contribution amounted to approximately 4.5 billion rubles per year, which is more than Lukoil and Rosneft combined. Notably, Surgutneftegaz's core position in the development of KhMAO is underpinned by the fact that it is the only company to use its own form to list its social investments, which is different from the standard form used in SECAs with other companies.

Since KhMAO's budget depends heavily on profit tax payments, volatilities in the oil and gas market immediately affect the well-being of regional finances. Insofar as the company reported negative profit growth in 2016 (due to macroeconomic challenges), the regional budget saw a 35% reduction in profit tax revenue – from 100.5–65.5 billion rubles. In the following year, when Surgutneftegaz received a tax refund, KhMAO's profit tax revenue once again declined by 31%, amounting to 45.2 billion rubles. As macroeconomic conditions again generated profits for the oil industry in 2018, the regional profit tax revenue rapidly increased to 2.6 times this amount, reaching the 121.3 billion ruble mark. Despite the volatility of tax flows from Surgutneftegaz in 2016, the company massively increased its financial contributions, based on its SECA with the region. While the company ex ante planned to spend about 2 billion rubles in 2016, the amount was later raised to 14.5 billion rubles (AA6 to SECA 2014–2018). The final sum was directed to several large construction projects, among them a flagship project in Surgut: construction of the Palace of Arts, for over 8 billion rubles. The maintenance of this building alone costs the company 1–1.4 billion rubles annually – comparable to Lukoil's total expenditures, as defined in the SECAs with the regional administration. In 2016, Surgutneftegaz thus compensated for the decrease in tax payments to the regional budget by increasing its social investments in the region. This illustrates the extent to which corporate social investments, and CSR activities in general, often have a compensatory character in Russia: the state obliges business actors to contribute when state capacities are limited.

'Second-order' partners – Gazprom Neft and Co

This group of companies is responsible for 8% of all social expenditures by oil extractors. A distinctive feature of their social investments is their 'fixed price'. For instance, between 2014 and 2018, the largest 'second-order' actor, Gazprom Neft, contributed 365 million rubles annually to regional socio-economic development. The company's main focus is the regional capital of Khanty-Mansiysk (267 million rubles) and the surrounding district (80 million rubles). An additional 25 million rubles flow to projects undertaken by the regional administration annually. The actual additional agreement highlights the increase in Gazprom Neft's financial contributions to the city of Khanty-Mansiysk (up to 367 million rubles) and its sponsorship of the administration's social projects – up to 181.5 million rubles in 2019, and up to 30 million annually for 2020–2021 (AA7 to SECA 2016–2019).

Other smaller companies demonstrate even greater stability in terms of the social investments to which they have committed in their SECAs. Slavneft spends 100 million rubles per year, with the lion's share directed to its operation area, Megion. Salym Petroleum also follows a 'fixed price' model of social investment in KhMAO, contributing 80 million rubles annually to its eponymous operation area in the Salym and Nefteyugansk district. While its annual financial volume remains stable, the list of projects is subject to renegotiation with the administration. The last company in the 'second-order' group of partners is Russneft, which also shows relatively stable social investment, ranging from 60 to 65 million rubles. In contrast to other companies, Russneft has not agreed on a list of social projects but instead directs about 40% of its financial contributions to regional socio-economic development on the basis of official requests by KhMAO's administration and another 60% in fulfilling the conditions of its license agreements with the region.

Discussion

The main findings of our analysis are as follows. *First*, state and business actors have chosen formal contracting via SECAs, as these contracts help formalising already existing informal practices of mutually beneficial relations in the region. The administration has a prime interest in accessing the companies' financial resources and thereby obtaining extra-taxational support for welfare provision. This financial supports allows the regional administration to fulfil the tasks assigned by the federal authorities. The extracting companies, in turn, receive contractual commitments from the regional authorities to administratively and organisationally support their business operations in the region. They also use the formalised agreements to limit the expectations of the state regarding the extent of their social investments. In addition, the companies employ the agreements to direct investments into their operation areas and to reduce the costs of coordination with other actors in the region.

Second, contractual commitments enable both sides to reduce uncertainties of the patrimonial capitalism in Russia and establish long-term reliable socio-economic planning, which goes beyond exclusive inter-personal deals and ad hoc cooperation. The SECAs thus structure resource exchange among the partners and formalise state-business interactions at the subnational level. As a result, strengthening formal procedures limits the overall informality and insecurity of SBR in Russia. Altogether, SECAs are a substantial source of extra-taxational support for the regional administration, as contractually agreed social investments are equivalent to 3–5% of the overall tax revenue of the region.

Third, SECAs provide a formal, yet adaptive and flexible mechanism for resource exchange in the region. Our analysis shows that in most cases (75 percent), the AAs are used to confirm the scope of the companies' social investments as a result of negotiations between the regional administration and business actors. In a minority of cases (25 percent), the AAs are aimed at altering the previously agreed financial volume towards either an increase or decrease of the previously set financial volume. Moreover, most of AAs are ex nunc or ex post agreements, which enables the parties to re-negotiate the conditions ad-hoc or balance the target expenditures retrospectively. The adaptive nature of the SECAs thus allows both sides to adjust the level of social investments to changing economic and political situation and to regulate their mutual obligations in a flexible manner.

Fourth, there is a variation in formal contractual relations between regional administration and business actors, with several patterns being possible. We distinguish between 'regular', 'overpaying', 'underpaying' and 'second-order' partners. The variation can at least partly be attributed to the ownership of the companies – state-private axis – and their connection to the region of operation – federal-regional axis. The combination of the two defines the role social investments play in the protection of business interests and points to power relations between state and business actors in Russia (Yakovlev 2014; Markus 2015). Providing social investment allows business actors to obtain and secure informal 'operation licenses' – the right to barrier-free operation and favourable treatment by the authorities – both in the country as a whole and in particular regions. Access to these licenses primarily depends on the position of business actors in federal power networks and the political support they enjoy.

From this perspective, the most powerful corporate actors in Russia, state-controlled Rosneft (headed by Putin's close associate, Igor Sechin), has been granted an unlimited operation license with no need to protect its business interests through additional social investments. It is therefore entitled to underpay. Lukoil, by contrast, the largest private oil company with diversified extracting and refining capacities across many regions, has put great effort into paying a 'fair price' for social investments (not overpaying and not underpaying) to maintain a good relationship with regional administrations and secure its operation license. As the Lukoil case shows, in contrast to state corporations, private (oligarchic) companies tend to take more care in signing formal agreements: they precisely define their obligations and fix expenditures in many additional agreements. As for the federal-regional axis, companies with a strong connection to the region, having most production capacities and headquarters there, tend to invest more than companies with diversified operation areas. Since most of Surgutneftegaz's extraction capacities are concentrated in KhMAO, the company accepts the role of 'overpayer' in its relations with the regional administration, both in taxation and in extra-taxational financial support. At the same time, second-order companies are expected to pay a fixed price for barrier-free operations in KhMAO, regardless of their ownership structure and power position at the federal level.

Conclusion

This article has analysed the contractual relations between state and business actors in KhMAO, as one of Russia's regions. Our analysis focused on the underlying reasons for concluding formal contracts in the highly volatile environment of Russian statist-patrimonial capitalism and on the different contractual patterns that have emerged between state and business actors in the region.

Above all, it contributes to the discussion of the role of formal contracts in predominantly informal, patrimonial contexts. The analysis shows that, although patron–client relationships that mainly rely on informal resource exchange, formalised coordination matters. State and business actors agree on formal contracts so long as agreements are mutually beneficial and allow for contractual flexibility. This is particularly the case in the sphere of regional social and physical infrastructure and welfare provision since they require a longer time horizon and coordination of multiple actors. Both sides choose formalisation that is *complementary* to informal practices and not the other way around (Helmke and Levitsky 2004) – it reduces some of the uncertainties inherent in the vertically organised patrimonial systems, thereby supporting the overall functioning of informal power networks. The process of negotiations of these agreements is a closed-door arrangement, neither decision-making nor the implementation are transparent, which again secures space for exclusive personal deals. This *limited formalisation* of the cooperation has its clear boundaries and does not interfere or substitute personal relations.

Furthermore, our analysis highlights that despite the strong power vertical and centralisation of the last two decades *horizontal cooperation* between state and business takes place but is closely intertwined with vertical incentives and pressures. For sure, federal power politics always affect the horizontal interaction at the subnational level: the power distance to the ruling patron proved to be an important variable for interpreting different patterns of cooperation. The SECAs, however, provide evidence for a horizontal

interaction between regional authorities and large companies, with both sides at the same time being tightly integrated into Putin's patronal pyramid. These agreements cannot be reduced to a 'hidden tax' imposed by the authorities (Perekrestov 2012). In this cooperation, neither side can dictate or alter the rules of the game unilaterally. On the contrary, in a context of a highly centralised patronal political system, at the regional level state and business actors try to establish a flexible contractual arrangement to satisfy their needs. As the companies are actively involved in the decision-making on where to direct their extra-taxational support, the lion's share of the companies' social investment is geographically earmarked, with the resource flows primarily directed toward their operation areas. At the same time, this cooperation is beneficial to the regional administration, as it strengthens the output legitimacy of the subnational authorities and helps them to fulfil the tasks they are assigned from the federal administration. In this sense, formal contracting between business and state contributes to the overall institutional stability of the authoritarian regime.

In the context of Russia's war against Ukraine and the subsequent international sanctions, the relations between state and business actors in Russia's regions have come under growing pressure. On the one hand, the war increases the dependence of regional administrations on additional financial inputs from companies to maintain socio-economic stability. On the other hand, the current economic downturn and the restrictions on international markets put Russian companies in a survival mode and reduce their opportunities for providing extra-taxational support to the state. The fragile balance between state and business actors, which is reflected in the SECAs can thus quickly erode under the new circumstances.

Certainly, KhMAO is a distinctive case, as the region is clearly dominated by the oil extracting industry which is closely embedded into federal power relations. However, the findings of this study allow for some generalisation about formal contracting and SBR in other regions as well. While the constellation of actors in this region is specific, the underlying reasons for formal contracting, as well as patterns of cooperation between administration and different types of companies, identified in this study, are not – and can be thus relevant for other cases in Russia. Altogether, we argue that a closer look at *formalised cooperation* between state and business actors at the subnational level is a promising avenue to follow when it comes to achieving a better understanding of how vertical and horizontal, formal and informal SBR are intertwined in Russian statist-patrimonial capitalism.

Notes

1. Bluhm, Katharina, Stanislav Klimovich, and Ulla Pape 2021. "Socio-Economic Cooperation Agreements and State-Business Relations in Russia's Regions, v. 1.0, Discuss Data." [do:10.48320/066142C8-FD21-4FD4-8200-FFE78E6B8561](https://doi.org/10.48320/066142C8-FD21-4FD4-8200-FFE78E6B8561).
2. Except Gazprom and Transneft, due to data unavailability.

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