

A summary of the politico-economic changes taking place during Vladimir Putin's first term of office

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Key points

1. The most significant achievement of Vladimir Putin's team over the three years of his term of office is the realisation of legislative changes, which may constitute a base for further – more detailed – political and economic reforms. This is, to a certain degree, a return to the economic tasks set out by a team of reformists in the early 1990s, which were impossible to realise at the time due to conflicts between the Kremlin and legislative powers.

2. The political reforms introduced during Putin's term of office aimed primarily at increasing the Kremlin's control over Russia's socio-political life. This goal has been achieved to a large extent. In effect, it has given rise to a growth in the authority and position of the Kremlin, on the one hand and, on the other, to the authoritarianisation of Russia's political system.

3. Within the economic sphere, over the past three and a half years, a land reform was carried out (enabling land sales transactions in the Russian Federation), and changes were also introduced within the budgetary-fiscal sphere and the pension system. Russia was crossed off the Financial Action Task Force's (FATF) blacklist and granted the status of a market economy by the EU and the USA. Simultaneously, however, pressure from various groups from the president's entourage opposing the reforms, and also business and regional elites, meant that reform projects often lost their liberal undertone and radicalism already at the stage of forming a legal base. For this among other reasons, the changes initiated in almost all spheres of the Russian economy in many cases proved to be inconsistent and incomplete. Problems with their implementation and the slow pace of structural reforms did not allow for the strengthening of spheres other than the raw material sector or making the Russian economy less dependent on the situation on foreign raw material markets. Therefore, the main goals of President Putin's economic reform programme have not been realised.

4. Non-legislative changes undertaken by the presidential circle were also of particular significance for Russia's present situation. These chan-

ges had no legal basis and resulted from informal actions undertaken or inspired by the authorities. As a result of these activities, the president gained a loyal majority in parliament, increased the role of security services in the country, simultaneously putting a stop to the direct influence of big business on the Kremlin's political decisions. Non-legislative changes have also led to the restriction of freedom of speech and pluralism of information in Russia.

5. It seems that the reform process initiated by President Putin still depends primarily on the support of the Kremlin. Because of this, the continuation of reforms over the coming years will be closely linked with Putin's position following his likely re-election in March 2004, and his political determination to continue with the changes. Aside from internal factors, petroleum prices on the global market will also be of key significance for the reform process. Such dependence is limiting Russia's chance for real modernisation over the next few years.

Introduction

Following his rise to power in 2000, Vladimir Putin presented a comprehensive socio-economic programme for the development of Russia through to 2010¹. This programme was prepared by a team of economic experts from the Centre for Strategic Studies (CSS)² led by St. Petersburg's German Gref. In spite of the fact that this document was never accepted in its entirety, and only its main assumptions were approved, as of 2000, short- and medium-term socio-economic government programmes have been based on the same principles.

The medium-term goal of this development strategy through to 2010 was the reduction of the widening gap between Russia and developed nations. The long-term goal, on the other hand, was the restoration and strengthening of Russia's position as a leader on the global scale³. The reforms of Russia's political system, social policy and the modernisation of the economy were intended to help achieve these goals.

The aim of this study is to describe and analyse political and socio-economic reforms, as well as non-legislative changes initiated under Vladimir Putin's presidency. New reform activities will probably not be initiated over the six months remaining until the presidential elections. For this reason, it is already possible to summarise the changes achieved in the political, economic and social spheres during President Putin's first term of office.

A description of the political and economic reforms and also of non-legislative changes, which took place in the Russian Federation over the past three and a half years, has been included in Part I of this study. The conclusion hereof attempts to summarise the actual achievements of President Putin's team, and to answer the question concerning perspectives of the reform process and factors determining the shape thereof.

Reforms and changes

Reforms realised during Vladimir Putin's presidency have taken place on two levels.

On the one hand, reforms were carried out on the basis of legislative changes prepared by the government (the CSS's strategy) or the President's Administration, and voted on by the parliament. These primarily concerned the economy, but also political matters. Actions undertaken in these areas aimed, above all, at strengthening and centralising the state, as well as implementing changes of a market character in the Russian economy.

On the other hand, other transformations also took place in Russia that did not result from legislative changes, but from informal activities either undertaken or inspired by the authorities. Most of these aimed at increasing the control of authorities over public life (political and economic institutions, media, etc.).

1. The most significant political reforms

1.1. The administrative-territorial reform

The main assumption of the administrative reform was to strengthen the federal centre's control over the Federation's entities.

The first stage of the reform was initiated just after Vladimir Putin took over the presidency of the Russian Federation (RF). In May 2000, the President issued a decree concerning the division of the Russian Federation into seven federal districts (*okrugs*)⁴, in which the formation of regional departments of federal structures (public prosecutors' offices and the Interior Ministry, among others) was gradually initiated. In accordance with a subsequent decree, also issued in May, each district was headed by an authorised representative of President Putin, who was to ensure that the President's constitutional rights were exercised in the region⁵. The role of the President's representatives was, *de facto*, to directly inform the Kremlin of any significant processes taking place in the region on the one hand, and to influence regional politics so as to protect the interests of the centre on the other.

Subsequent clauses from the administrative reform package introduced the possibility of the

president dismissing regional heads⁶ on the basis of a court verdict, and dissolving local parliaments. Governors, on the other hand, were granted the right to dismiss the mayors of larger towns in their own regions. It is worth noting, however, that over more than three years since these reforms were accepted, the Kremlin has not yet resorted to using the mechanisms established at the time for dismissing regional heads. Informal mechanisms (blackmail, the nomination for another position, etc.) were used instead in the few cases when governors were removed.

In summer of 2000 parliament adopted a law changing the procedure of electing the upper chamber of the Russian parliament – the Federation Council. Instead of *ex officio* governors and heads of local parliaments, the chamber is presently composed of regional representatives of legislative and executive powers nominated by regional authorities (the governor and the parliament). Governors, upon leaving the Federation Council, lost immunity and direct access to the process of law making and lobbying on the highest level their own interests or the interests of their regions. The heads of the Federation entities have been assembled in a newly appointed institution of an advisory nature – the State Council, whose rank is decidedly lower than that of the Federation Council. The Federation Council, with the removal of governors, has also lost its former significance.

Another level of administrative reform was the activation of the process of adapting regional legislature to federal legislature (a large part of the legislative attainments of the regions, which, under Yeltsin's presidency, gained an advanced level of independence, was inconsistent with federal legislature). In this process, a series of legislative acts of RF authorities were nullified on the strength of the Constitutional Tribunal's verdict and the decision of courts. Regional supervision of the process of "standardising legal space" was taken over by the president's authorised representatives in the regions. However, it has not yet been possible to complete this process: a number of entities, in particular the most independent (Tatarstan, Bashkiria), continue to torpedo the process of adapting their legislations, e.g. by leaving references in their re-

gional constitutions to the sovereignty of the republics⁷.

The latest phase of the administrative reform carried out thus far is the already initiated local government reform (it has passed the first reading in the Duma). Its purpose is to specify the scope of competences and the source of financing for local governments (partly at the expense of regional authorities)⁸. These changes were negatively evaluated by regional authorities. At present, during the pre-election period, federal authorities have decided to hold back the pace of the reform, as they need the support of the governors during the elections.

Legal changes within the scope of the administrative and budgetary reform have had the largest influence on the change in relations between the centre and the regions. However, Moscow is supplementing this legislative advantage by affecting regional authorities through the use of informal methods. Mention should be made of the following informal instruments lying at the Kremlin's disposal: control over the General Prosecutor's Office (the ability to "blackmail" regional leaders by law enforcement agencies), security services (access to compromising information), the Accounts Chamber (the ability to manipulate the region's financial control results), the Central Election Committee (the ability to influence the election process in the regions), and also the ability to pressure business representatives active in the province. Such mechanisms have been used in the case of authorities from regions of key significance to the state, rich in natural resources (e.g. Primorsk Krai, Irkutsk or Krasnoyarsk Krai⁹), as well as in the case of federal elections.

When summarising the outcome of the changes in relations of the centre and the regions, one should note the double nature of these processes. On the one hand, with the help of legal changes and informal activities, Moscow was partly able to achieve the most important aim of the administrative reform: to stop disintegrative tendencies in the Russian Federation and restrict the regional elites' influence on a federal level. On the other hand, however, the positions of governors remained very strong within the territo-

ry of their regions. This situation did not change with the introduction of a president's authorised representative in the federal districts. With no serious financial instruments, the president's representatives are currently almost solely carrying out supervisory functions. The Kremlin has been unable to break up regional politico-business clans; it is also rarely able to influence the election results in the respective entities of the RF. As a result, the Kremlin's dependence on the informal support of governors (e.g. during elections) is still considerable. The series of actions undertaken by Moscow proves its awareness of regional leaders' potential so, in specific situations, the Kremlin chooses compromise solutions¹⁰. Such solutions inspired by the Kremlin include allowing governors to remain in power for more than two terms of office¹¹, postponing reforms of the local government or the power engineering sector, which regional leaders are against.

1.2. The reform of the party system and electoral legislation

The reform of the party system began in 2001. In July, parliament accepted the act "on political parties". This act enabled only political parties or coalitions formed by them to participate in elections. Simultaneously, criteria according to which parties operate in the RF were toughened¹², which led to a considerable reduction in the number of political parties (there are presently around 50, five to six of which are of real importance). The authors of these changes also (or maybe primarily) intended to increase the authorities' influence on the party scene – the procedure for registering parties and verifying their work in practice has already been used to place pressure on opposition political organisations¹³.

The process of reforming electoral legislation was initiated in 2002 by the passing of several legislative acts in the Duma. These included, among others: the Voting Rights Act (June 2002), the act on the electoral systems of parliamentary elections (November 2002) and presidential elections (December 2002) and the act on the computer system calculating the votes (January 2003).

The intention of the authors of the party and election reform complies with the leading tho-

ught behind other moves to restrict political pluralism: the elimination of smaller groups from the election game (by raising the electoral threshold to 7 percent)¹⁴ and increasing Moscow's influence on regional elections. Clauses of the reform of the electoral legislation allow for the increase of the influence that the Central Election Committee has on regional committees (together with the right to veto the verdict of the regional committee). These clauses also introduce a ban on the existence of regional parties and the command to adapt regional majority electoral systems to the mixed federal system (which in practice translates to the handing over of 50 percent of seats in regional parliaments to federal parties). A concession made to the regions was the lowering of the level of required voting turnout to 20 percent in regional elections¹⁵.

Clauses of the act on regional elections became binding in July 2003, so it is too early to verify their effectiveness. On the other hand, the party reform can already be considered a success of the Kremlin: it was able to increase its control over processes on the party scene whilst simultaneously maintaining the guise of pluralism. Non-party initiatives of citizens were in practice deprived of the ability to participate in Russia's political life. Generally, changes concerning the operation of political parties and election procedures are cementing the current arrangement on the political scene, dominated by the executive power with the marginal role of the political parties, often constituting an instrument of the Kremlin.

1.3. Reforms of the judiciary system and the institution of the public prosecutor

The package of draft bills reforming many spheres of justice was prepared by the President's Administration and passed through parliament with practically no amendments.

Within the reform of the judiciary system and public prosecutors' office, the Russian parliament has adopted, among others, codes of arbitration procedure, civil procedure and penal procedure, as well as a number of acts concerning individual groups of professionals (lawyers, judges, etc.). The most significant changes to be introduced include the strengthening of courts at

the expense of public prosecutors' offices (transferring the decision concerning arrests and searches from the competence of public prosecutors to courts), granting public prosecutors the exclusive right to initiate proceedings (other "power" ministries were earlier authorised to this task as well), levelling the rights of the public prosecutor and the barrister appointing juries in courts (this process is currently being realised) and transferring economic disputes to courts of arbitration¹⁶. Furthermore, in April 2003, the Duma adopted in the first reading, amendments introduced by President Putin to the penal code, providing for the mitigation of charges for petty crimes (or the exchange thereof for fines). Changes have also been introduced within the judiciary reform that may be seen as restricting the independence of the judicial branch of the government: the immunity of judges has been limited through the stipulation of the procedure of judges' penal and administrative responsibility (until now they enjoyed complete immunity). A principle of cadency has been introduced for the presiding judges in courts and the Kremlin's level of participation in nominating such persons has been increased. Furthermore, the term of office of judges has been limited through the establishment of a retirement age.

In conclusion it can be ascertained that the authors of the judiciary reform had been aiming to bring certain spheres of Russia's justice administration closer to the norms binding in democratic states. The effect of these changes was a fall in the number of cases (by 20 percent) and the number of people on remand (by half)¹⁷. The process of jury formation is also quite advanced – in most regions (around 70 including Moscow) these are already functioning. The chance for realising some clauses of the reform is additionally improved by the fact that funds for the judiciary reform were increased by 33 percent in the 2003 budget.

Simultaneously, however, the judiciary reform – similarly to other political reforms – assumed the maintenance of the Kremlin's informal control over judicature and public prosecutors. In Russia we are constantly dealing with the considerable "politicising" of courts and public prosecutors' offices. Some clauses of the reform (e.g. lowering the status of judges and restriction of

their immunity) strengthen the domination of executive powers over judicature. Therefore, one should presume that the phenomenon of exploiting organs of justice in the political battle will continue in the future¹⁸, and the independence of the government's judicial branch shall remain only a formal clause in the Russian Constitution.

1.4. Reform of the public service system

The reform of the state administration apparatus is currently at the legislative phase. The Duma has adopted in three readings the presidential act "on the RF's public service system", which is a general outline of the reform and is to be supplemented by a package of detailed acts.

This reform intends to introduce a division of the state service into a federal civil service, federal military service and federal law enforcement service, as well as a regional civil service of RF entities. It assumes the introduction of a competitive principle when staffing positions, the conclusion of agreements for the performance of functions, the creation of a mechanism to verify the competences of officials, as well as conditioning income on professional achievements. Despite these liberal ideas, the reform also provides for the conditioning of promotions on the number of years worked and creates opportunities for officials "with experience" leaving one sector (e.g. military officials) to immediately occupy high positions in another.

The need to reform the administration apparatus is enormous due to the overgrowth, lack of effectiveness and conservatism of Russian bureaucracy, as well as its degree of control over the Russian economy (the private sector as well) and politics. When evaluating the clauses of the framework act, it should be noted that the introduction of fixed mechanisms for the verification of the competences of officials would undoubtedly improve the quality of work carried out by the bureaucracy. (Presently some of the delays in realising certain reforms result from faulty secondary legislation created by bureaucracy at a medium and low level). On the other hand, the idea of increasing wages for better professional results could help decrease the level of corruption.

It is still too early to evaluate the results of this reform; no concrete secondary legislation has yet been prepared to supplement the framework

act. However, it can be expected that the resistance of bureaucracy itself will be a serious obstacle in the realisation of this reform. The present state of affairs (i.e. the system of informal personal relations, the exploitation of bureaucratic control over many spheres of public life) enables officials to reap diverse benefits. This fact allows us to presume that the bureaucratic reform will be one of the most complicated and long-lasting reforms and that it will require substantial political will from the reformers.

2. The most important socio-economic reforms

2.1. Budgetary-fiscal reform

The tax reform has initiated the process of modernising Russia's economy. High Petroleum prices, which have a significant influence on the amount of budgetary income, were conducive to the realisation of this reform. Changes to the fiscal system have been thorough, encompassing practically every tax and fiscal payment. The first changes were carried out already in 2001 with the decision to introduce, among other things, a 13-percent linear personal income tax for individuals (PIT) and a regressive social tax (social security contributions, etc. – initial rate of 35.6 percent). The most significant changes over the following years included, among others, the reduction of corporate income tax (CIT) to 24 percent, the almost complete resignation from turnover taxes and the replacement of natural resources payments with one tax¹⁹.

The main assumption of these changes was to simplify the tax system, depart from taxes and fiscal payments, which had been particularly difficult to collect, lower tax burdens imposed on the economy and, as a result, draw the largest possible amount of money out of the "grey zone" (shadow economy). Tax rates were reduced, however, taxpayers were simultaneously deprived of most tax reliefs, which, ultimately, did not always lower factual tax burdens. On the one hand this type of activity resulted from the rationalisation of reliefs offered by the state, on the other – it was a way of securing the state's budgetary stability.

The first stage, which Russia has already completed, was the creation of legal foundations for

a new, more transparent tax system. In course of time, this system will be subject to further changes leading to the factual decrease of tax burdens in Russia. The further lowering of taxes, however, depends on the budgetary reform, the rationalisation and limiting of expenditure from the public coffer. These changes, however, are closely linked with the reform of budgetary relations of different levels, which have been taking place since 2001. The main principle of these changes was the assignment of individual taxes to a concrete budget: federal, regional or local, alongside the simultaneous clear division of competences and financial responsibilities.

The tax reform, in spite of many problems and the manipulation of clauses during the legislation process, has rendered Russia's fiscal system much more simple and transparent. Russian authorities state that the tax collection process has also become more effective. Moreover, the improved budgetary situation has allowed for the liquidation of overdue wages in the budgetary sphere (for the time being this only includes federal budget debts) and the actual increase in wages in this sector.

Despite the changes in the fiscal system, it has only been possible to lower the tax burdens to the economy to a small degree. It is estimated that in 1999–2000 the level of tax burdens in the economy was around 32–34 percent in relation to the GDP and, in 2003, there are plans to reduce these burdens to 30.7 percent of the GDP. The results of the realisation of the main goal of the changes – drawing the citizens' income out of the “grey zone” – are also limited. According to different calculations, around 60 percent of business activities in Russia are conducted outside the legal framework²⁰.

2.2. Pension reform

The need for a pension reform was proven by various analyses presenting unfavourable demographic tendencies (an ageing society, negative natural growth). They testified that the hitherto pension system won't be able to perform its obligations. Therefore, it was necessary to abandon the system in which pensions are financed from the contributions of those presently working and move to a system where each employed person saves money for their own pension.

In 2002 a “second pillar” was formed, in which the accumulative part of pension contributions are stored²¹. *Vneshekonombank* has been entrusted with accumulating these contributions, while private pension funds will be allowed to invest these monies only as of 2004. It's already evident that, due to the lack of necessary secondary legislations, this process will be drawn out. According to estimates, around 90 percent of those insured will not select a pension fund and their contributions will continue to be invested by *Vneshekonombank*. In accordance with the pension reform act, the accumulative part of pension contributions will be invested mainly in Russian securities.

The pension reform was a necessary step for ensuring pension security, however, its success will largely depend on the situation of Russia's financial market. Without effective banking and insurance systems or an effective stock market, it will not be possible to invest pension contributions in a manner ensuring a decent pension to those currently working²².

2.3. Banking system reform

The weak banking system is one of the factors slowing down the growth of the Russian economy. That is why the reform of this system is of key importance for economic modernisation. The financial crisis of 1998 brought about an almost complete destruction of this system in the RF. Its post-crisis reconstruction aimed at the real engagement of the banking sector in rebuilding the Russian economic structures by strengthening the role of banks as intermediaries between investors and those saving money. As an effect of the changes carried out in the financial sphere, it was possible to reconstruct the banking system and make it stronger in many ways as compared to the pre-crisis system, yet still too weak to take on the weight of these transformations.

Russia's banking sector is very small²³ and it is dominated (as regards the asset amount and the number of branches) by state potentates: *Sberbank*²⁴ and *Vneshtorgbank*. The state has majority interest in over twenty banks and minority interest in several hundred other banks. Most private banks work almost exclusively for the needs of their owners, i.e. large industrial-financial

groups. Of the 1,300 banks existing within the RF in 2002, fewer than 250 had a capital exceeding the minimum binding in the European Union (Euro 5 million). At present, banks finance only around 5 percent of investments in Russia. They prefer offering loans to traditional export branches; the term of repayment of 70 percent of these loans does not exceed one year²⁵.

The banking sector's reform programme, jointly prepared by the government and the central bank, is being realised at a very slow pace. It has been possible to remove the central bank from the group of *Vneshtorgbank's*²⁶ shareholders; however, the CBR still remains the owner of Sberbank or foreign Russian banks, such as *Moscow National Bank* (in London). Commercial banks in the Russian Federation are obligated, as of 1 January 2004, to adopt international standards concerning accounting and financial reporting. However, it has not yet been possible to accept the act guaranteeing bank deposits (at present only *Sberbank's* individual deposits are guaranteed by the state)²⁷.

2.4. On the way to the World Trade Organisation

One of the most important aims of Russia's modernisation process was the opening up to the world and intensification of foreign trade, as well as gaining equal status in international trade and opportunities for influencing its rules. An important stage in the realisation of this policy is membership in the World Trade Organisation (WTO), which would include Russia in the group of over 140 countries deciding about the stages of trade liberalisation.

Russia declared its will to join the General Agreement on Tariffs and Trade (GATT – the WTO's predecessor) in 1993; however, the negotiation process and the adaptation of Russian law to WTO standards only began in 2000. The government's subsequent decisions to lower and unify customs rates for certain groups of goods, simplify trade agreement principles and, as a consequence, adopt the Customs Code by the parliament in spring 2003, have liberalised Russian trade exchange and facilitated access to the Russian market.

Despite intensive adaptation process and the introduction of many changes to its law, Russia has not yet been able to meet all the demands set by WTO member countries. Many controversial issues remain concerning Russia's membership conditions (including the insurance sector and subsidies for the agricultural sector). On the other hand, Russia's industrial lobby, which is not willing for Russia to open up to the world, is trying to extend the accession process and negotiate beneficial conditions for itself and is unwilling to accept compromises during negotiations. Time is against Russia – outside the WTO, Russia cannot influence the establishment of new international trade principles during the current WTO negotiation round in Doha²⁸.

2.5. Land reform

The introduction of land ownership was one of the most important stipulations raised by Putin regarding the guarantee of ownership titles in Russia. The Land Code adopted in September 2001 and the act on the transactions of agricultural land of June 2002, have introduced the sale of land. The ownership title to land (restricted for foreigners) was to stimulate the development of the real estate and mortgage-secured loans market. However, in order for this right to be executed, it is necessary to adopt secondary legislations mainly at the regional level. An obstacle is the lack of regulations concerning the cadastral register, as well as a shortage of money for geodesic measurements and for the registration of individual plots of land (this concerns agricultural land in particular).

The success of the land reform depends, to a large extent, on regional authorities. However, these authorities, according to their needs, either try to create the appropriate conditions for land transactions, or slow down the reform's realisation process. Some regions still lack the necessary secondary legislations, while other entities of the Russian Federation are legalising land transactions (land trade already took place in the past in some of these areas, despite the lack of federal regulations) and developing their real estate markets. Additional problems have appeared in the process of setting land prices. The administrative fixing of land prices led to a great diffe-

rentiation in prices between the regions as well as within one region.

The decision to allow for land sales (both industrial and agricultural) is quite revolutionary for the Russian situation. It enables the development of many branches of the economy, e.g. the banking sector. However, difficulties in bringing this law into force limit these opportunities considerably and cast doubts on the further development of the real estate market, for example. In accordance with the data provided by the Ministry of Economic Development and Trade, in 2002, once the Land Code came into force, 45 thousand industrial land purchase transactions were registered in Russia (i.e. almost twice as much as for previous years). However, this result is much lower than the government had been expecting²⁹.

2.6. The reduction of excessive bureaucratic regulations

Acts reducing the dominating role of the state in regulating economic life were adopted in July 2001. These concerned, among other things, a considerable restriction of the types of business activities requiring licensing; the simplification of the registration procedure for new companies; and also the protection of entrepreneurs' rights (the number of state inspections carried out in companies have been reduced, and the inspection procedures have been made less disturbing). However, as it turned out, some clauses in these acts were inconsistent with the binding law, e.g. the police act (to which policemen carrying out the inspections adhered). Furthermore, clerical staff proved to be completely unable to undertake their new roles of helpers, both in the psychological sense (it requires a diametrical reversal of the present clerk-citizen relationship), as well as the technical sense (a considerable increase in tasks along with the insufficient computerisation of offices). An attempt to simplify company registration procedures has not lead to the reduction of queues or waiting time. On the contrary, it has increased the difficulties faced by entrepreneurs. This "de-bureaucratisation" attempt has also failed to solve Russia's corruption problems³⁰.

2.7. Power engineering reform

The reform of the energy monopoly United Energy Systems of Russia (RAO UES) and the liberalisation of Russia's energy sector are of fundamental importance for reforming Russia's entire economy. The battle between supporters of this reform and its influential opponents, continuing for over two years, finally ended on 21 February 2003 when the Duma adopted a package of bills on the restructurisation of RAO UES and the operating principles of the RF's energy market. As a result of disputes on the shape of this reform, the legal basis for the restructurisation of Russia's energy sector is a compromise. The effect of this compromise between the reform's supporters and its opponents is the maintenance of the state's full control over the regulation of energy prices.

A fundamental restructurisation shall encompass RAO UES itself. The reform divides the monopoly into state-controlled spheres (energy transportation and power management), as well as spheres which will operate on the free market and will become privatised – energy production (power plants) and energy sales.

The realisation of the actual reform will begin with a several-year delay (its commencement was initially planned for the turn of 2001/2002). Deadlines for the different stages of energy market liberalisation, which were precisely outlined in the original text of the act, have been removed. This, in theory, should facilitate the introduction of legal amendments before the subsequent stages of the reform take place, yet it actually extends the timeframe of the liberalisation process³¹.

2.8. Railway reform

Russia is very dependent on railway transport, which carries out almost 85 percent of freight transport³². The legal basis for the reform of the Russian railways was accepted in December 2002. The changes that were agreed upon restrict the state monopoly in railway transport only to a small degree and, as a result, do not provide much opportunity for introducing competition into the sector.

A joint stock company (RAO) Russian Railways (RR) is to be founded during the first stage of the changes (summer 2003), 100 percent of shares in

this company will be state-owned. The company will take over most of the Railway Ministry's present estate (from railway rolling stock plants to health clinics in the furthest corners of Russia), with the exception of land that is of strategic importance to the state, e.g. the land on which railway tracks are located. Together with the formation of the RR, private carriers are to be allowed onto the railway market on "non-discriminatory terms". However, these conditions have not yet been precisely outlined and, according to preliminary documents prepared by the Railway Ministry, it is the RR's management who will decide who is allowed to use the railway network. In such circumstances it will be difficult to speak of free competition between private carriers and the state monopoly.

During the second phase of the reform (by 2006) the RR is to assign daughter-companies to run long-distance and suburban passenger transport, as well as the transport of goods. The aim of this decision is also to depart from "cross financing", i.e. financing deficits in passenger transport by higher tariffs on the transport of goods.

An obvious effect of this reform is the increase in transport tariffs whereas the condition of the railway rolling stock, the timeliness or quality of the transport remains practically unchanged³³.

2.9. The municipal reform

The need to carry out a municipal reform was demonstrated by the disastrous condition of infrastructure, not even capable of providing inhabitants with basic services such as water supply, electricity or heating. Subsequent winters, during which inhabitants froze in their apartments, showed the extent of problems in this sector. However, authorities delayed the reform fearing a fall in social support that would be brought about by the inevitable rise in payments.

The government's programme to change the situation in the municipal sector appeared in mid-2001 and concerned mainly the change in financing municipal services. The basic assumption of this programme was to stop subsidising companies providing such services and transfer all costs to the citizens. At the same time, the state decided to create auxiliary mechanisms addressed directly to the poorest citizens.

The acts constituting the reform basically omitted the issue of the performance of municipal companies, their effectiveness and investment policy. The government hoped that, through the introduction of market prices for municipal services, competition would appear on the market and solve the problems with the companies' debts to gas and electricity suppliers, and the lack of finances for investments.

Municipal infrastructure, the condition of which is worsening from year to year, has, to some extent, forced political approval for this unpopular reform in the pre-election year (parliament adopted the municipal reform act in April 2003). The ruling party have safeguarded themselves, however, by introducing a transition period (which will end after the elections), during which the rise in payments for selected social groups is to be limited. Additionally, regional authorities will take on a large part of the responsibility for the course of this reform.

The reform of this sector has basically only resulted in the rise of prices, which did not match the improvement in the quality of services provided. Despite expectations, increases in rent and other payments did not bring about the co-ordinated opposition of regional elites, only sporadic protests of the population. Still, the introduction of market principles into the municipal sector provides an opportunity for attracting investors to the sector, because the sector requires the modernisation of its entire infrastructure in order to be able to operate effectively³⁴.

3. Reform of the "power structures"³⁵

Evidence of the great significance of "power structures" for Russia's current authorities is, first of all, the amount of money dedicated for this purpose. National protection and internal security expenses will cover 25 percent of the federal budget in 2003 (i.e. 4.5 percent of the GDP). In recent years, the amount of money assigned to the "power structures" continues to increase. In 2003, 2.6 percent of the GDP will be dedicated to national protection while for most NATO member countries this indicator does not exceed 2 percent (the USA is an exception with expenditure equal to over 3 percent of the GDP).

3.1. Military reform

Presently the reform of the armed forces is basically limited to the professionalisation of the army. A crucial argument for the need to professionalise the armed forces was most probably the collapse of the recruitment system inherited after the Soviet army and preserved almost without changes. A fall in the number of potential recruits has added to problems linked with the declining morale of soldiers (crime and desertion common in the Russian army) and the evasion of military service at the beginning of the present decade. Russia has entered a demographic low for this age group, which is expected to hit a “rock bottom” low in 2010–2011. It wasn't until autumn 2001 that RF authorities made the decision to take professionalisation into account in their plans to reform the armed forces.

The first stage of changes was the experiment in changing the system of completing army units, initiated in September 2002 at the 76th Pskov Paratroop Division. The division's transition from a conscription approach to contracting recruits was to form a basis for the future professionalisation of the entire army.

The next stage of the reform began on 21 November 2002, when the Russian government accepted the concept for professionalising the armed forces presented by the Defence Ministry. According to Defence Minister Sergei Ivanov, units of the land forces, paratroops and marine infantry should change to the contract system within four years (2004–2007). The professionalisation of the army would be accompanied by a reduction in the basic military service so that, with the full completion of the armed forces with contracted soldiers, military service would be no longer than six months and would be restricted to basic reserve training.

An important stage of the military reform will be the final assent of the federal programme for 2004–2007 concerning “the filling of military posts of the non-commissioned officer and soldier ranks in the units of the Defence Ministry and other power structures, primarily, by military men completing military service in the contract system”. The president of the RF approved this document in July 2003.

3.2. Changes in the security services sector

In early 2003, President Putin admitted that the hitherto performance of the “power block” couldn't be considered effective enough or internally coherent. On 11 March 2003, Putin issued decrees on the strength of which the Federal Security Service (FSS) was strengthened. These decrees were approved by the Duma in June this year. At the beginning of July 2003, the process of consolidating the “power structures” was initiated. According to declarations, this will guarantee internal security in the country, help in the fight against crime, terrorism and drug trafficking. It should be noted, however, that the changes being introduced are in fact a return to solutions proven to be effective in the past. In its structure, the FSS will be a reminder of its predecessor, the KGB.

The main effect of changes in the “power structures” is the increase in the FSS's importance and influence. However, it is too early to judge whether or not this will increase the effectiveness of the system. It is not yet known how the FSS will use its authority.

4. Non-legislative changes

4.1. Changes in the Duma and on the political scene

The most important non-legislative change on Russia's political scene was the gaining by the Kremlin of a loyal majority in parliament, which increased its control over the legislative process.

Owing to the skilful use of the Kremlin's political and administrative potential (including state media) in the parliamentary elections of 1999, the pro-presidential party Unity achieved considerable success. Two years after the elections, influential Kremlin officials succeeded in actually incorporating Unity's most dangerous rival, Fatherland-All Russia into the party and turning the two into a party loyal to the Kremlin – United Russia. The Kremlin was also successful in gaining the co-operation of other parties – People's Deputy, Russian Regions, which, together with United Russia, form a stable, pro-Kremlin majority in the lower chamber of parliament³⁶. Furthermore, in exceptional circumstances, the

president and key officials from the President's Administration are able to mobilise a constitutional majority (i.e. a majority authorised to carry out amendments to the Russian Constitution) by way of bargaining with other parties – e.g. Russia's Liberal Democratic Party or the Alliance of Right-Wing Forces.

In order to obtain political benefits, the executive branch often used informal instruments of pressure on the parties. Among such instruments worth mentioning are the granting of positions and privileges to deputies, regulating access to popular state-owned media, control over public prosecutors, courts or security services holding information about the activities and financing of parties or the private lives of party members. The authorities also applied the “*divide et impera*” principle, supporting schismatic tendencies in opposition parties – e.g. in the Communist Party of the Russian Federation³⁷.

Therefore, at present, we are facing a considerable increase in the Kremlin's control over the parliament. This enables the Kremlin, in many cases, to pass acts aimed at reforming numerous spheres of politics and the economy. It should be noted, however, that by declaring loyalty to the president, some factions and individual deputies in the Duma are simultaneously representing the interests of big business, regional leaders or other groups of influence. Such a conflict of interests sometimes reflects on the law (also with regard to reforms) and is harmful for the state³⁸. Moreover, the Kremlin's party and parliamentary base (often constructed by centralised administrative methods) is not a homogenous organism; it is ephemeral and often blatantly incompetent. The authorities are trying to improve the rather poor public performance of pro-Kremlin parties by way of mass propaganda in state-owned media.

4.2. The increased role of the security services in politics

Together with Vladimir Putin's rise to power, the share of the state security apparatus's employees in the ruling elites also rose considerably. When building his team Putin, a former security service officer, was basing, among others, on people with whom he had collaborated as an Intelligen-

ce Service officer, Federal Security Service head or the RF's Security Council secretary. The first years of his government became a period of a spectacular expansion for the representatives of security services, who flooded civil structures in the government, the President's Administration and other centres of politico-economic life, e.g. the media³⁹. According to the estimates of analysts, one in every four representatives of the most prominent Russian elites has a military education⁴⁰. “Militarised” elites include many representatives of the security services – intelligence and counterintelligence forces of the former KGB.

This influential group has certain characteristic features that often affect the policy they run. The “chekist” elite, according to analysts, has little democratic or modernising potential, and the activities undertaken or inspired by them have often led to the restriction of pluralism in many spheres of public life.

The potential of the “chekist” elite consists, among other aspects, in direct access to the president, a disciplined base, the ability to control other elites (by control over information concerning different spheres of public life, including compromising information). At the same time, the weaknesses of this group include, among other features, a lack of homogeneity, the lack of qualified specialists in many areas (e.g. in the economy) and staff deficiency plus, often, a lack of political intuition.

There are, *de facto*, two blocks of “chekists” – the Moscow “chekists” (having a financial base at their disposal as well as close relations with regional elites) and the St. Petersburg “chekists”, who have gained influence on politics with Putin's rise to power. The St. Petersburg “chekists” (although they play a much greater role in politics) do not have extensive financial resources, as they did not participate in the privatisation of the 1990s. From the beginning of Putin's presidency, this group has been attempting to accumulate its own financial base. On the one hand they took control over some of the state assets (Gazprom, Rosneft). On the other, they keep trying to force financial magnates to share their fortunes by appealing for the revision of privatisation results.

Chekists' assets comprise primarily state-owned companies – the battle for private assets has not yet yielded spectacular effects⁴¹. Therefore, the capital accumulated by this group is unstable as it depends on the maintenance of their positions within the state administration.

An effect of the “chekist” expansion is also their access to decision making not only in politics, but also in the economic or social spheres⁴². As a result of this group gaining strength in Russia, certain activities are coming back into use: the procedure of investigating denunciations by law enforcement agencies⁴³ and restrictions to the freedom of speech.

4.3. A change in relations between authorities and private business

During Boris Yeltsin's presidency, close ties developed between big business and authority in Russia, which ensured the direct influence of business on state politics. Vladimir Putin has initiated a series of processes in this sphere, which have changed the nature of relations between the state and big business:

- the direct influence exerted by industrial and financial magnates on state politics has been visibly reduced;
- representatives of big business have been forced to demonstrate their loyalty to the Kremlin – meanwhile, disloyal individuals (Vladimir Gusinsky, Boris Berezovsky) were subjected to economic and political repression. Ostentatious actions against “disloyal” businessmen or those presenting political ambitions have, to a large extent, resulted in the reduction of the oligarchs' political aspirations;
- the dependence of central authorities on the support of big business has decreased. This is a result of the state's positive financial situation, among other reasons, attained through the high prices of raw materials on global markets and the consequential stabilisation of the Russian budget. In spite of this, business is still used to finance various needs of the state or authorities (the reconstruction of public buildings, charity activities and financing pro-Kremlin political parties);
- alongside the existing, covert, corrupt lobbying of big business interests in the state administration, institutionalised and open forms of

communication between business and authorities have appeared⁴⁴.

As a consequence of the changes cited above, big business has lost its direct influence on the Kremlin's political decisions, yet it has maintained rather extensive influence within the economic sphere. Despite the “equal distancing of oligarchs” announced by President Putin, many of them have preserved a great potential of connections and informal links with state structures. The phenomenon of exploiting private (or semi-private) capital by authorities in their political interests still exists⁴⁵. Big business, through the use of civilised lobbying, as well as informal ties (which is much more common) is able to successfully strive for beneficial legislative solutions⁴⁶. Therefore, despite being politically weakened, business still constitutes one of the most powerful groups of influence that the authorities must reckon with.

4.4. An increase in the authorities' control over companies with state-owned shares

With Vladimir Putin's rise to power, the new presidential administration began the process of regaining state control over companies with state-owned shares. A crucial success of the Kremlin was the dismissal of Gazprom's long-time president Rem Vyakhirev and his replacement by the President's man Aleksei Miller. The initial period of his rule became a staff revolution in the company's top authorities and the battle to increase the monopoly's transparency. There are presently no members of Vyakhirev's team left in Gazprom's management. At the same time, the new team is trying to regain control over companies that are dependent or in close collaboration with the concern (SIBUR). However, the declared reform of the monopoly has not begun. This reform provides for the division of Gazprom into mining, transport and commercial structures and allowing other gas producers to gain access to the gas pipeline network. The liberalisation of the company's share market is only at the preparatory stage (currently in Russia only Russian citizens or companies are permitted to trade Gazprom's shares; the price of shares in Russia is half of those sold on London's stock market). The first stage of this process was the consolidation

of the shares held by the state, owing to which the RF's government and Gazprom's daughter-companies hold over 51 percent of the gas giant's shares⁴⁷.

Another important stage in restoring the control of the new authorities over state-owned property was the dismissal in January 2002 of Railway Minister Nikolay Aksionenko, strongly linked with Yeltsin's team. During Aksionenko's term of office, the Russian railway system became a "state within a state", working for the needs of its managers. The ministry had formed a parallel structure, which provided services for the ministry. This was a network of commercial (private) companies headed by the Corporative Financial Technologies company. Its head was the minister's son Ruslan Aksionenko⁴⁸. The minister was forced to resign due to abuse charges⁴⁹. He was replaced by Gennady Fadeyev, who had worked for the Russian railways for many years and was not linked with Putin. The Kremlin's influence on the ministry was supposed to be secured by deputy ministers loyal to Putin.

The strengthening of the Kremlin's control is also evident in other companies with state-owned shares: the energy monopoly RAO UES and Transneft (the exclusive owner of oil pipelines and petroleum terminals within the RF). With Putin's rise to power, the Kremlin decided to let the chairmen of both companies keep their positions, as the presence of managers of RAO, Anatoli Chubais⁵⁰, and Transneft, Semyon Vaynshtok⁵¹, guaranteed the realisation of the Kremlin's policy. Chubais has prepared the reform of the energy monopoly and forced it through the parliament, whereas Vaynshtok did not obstruct the use of Transneft as an instrument of state control over the petroleum sector or as a tool in Moscow's foreign policy⁵².

The regaining of control over state-owned companies by the President's Administration, on the one hand, enabled the "chekists" to accumulate their own financial base and, on the other – strengthened the Kremlin's position in contacts with big business.

4.5. Changes to freedom of speech and freedom of the press

Actions undertaken by Russian authorities over the past three years have led to an obvious restriction of the freedom of speech and information pluralism.

The authorities have inspired the liquidation of a number of opposition media (TV-6, TVS, *Obshchaya Gazeta*) or the replacement of management with persons loyal to the Kremlin (NTV, other media belonging to the opposition holding Media-Most)⁵³. State-owned media are both favoured and supported by authorities (e.g. through the restructurisation of their debts, a beneficial form of selling advertisements or granting exclusive access to information). The authorities' stance (lack of tolerance for criticism) does not favour the media offering information that differs from the official viewpoint. All this renders such undertakings economically unprofitable. It has also created a self-censorship phenomenon in the existing media: journalists and editors, fearing sanctions, are imposing restrictions on themselves when describing Russian authorities or events taking place in Russia. This is accompanied by the society's listlessness towards the actual existence of censorship in the media⁵⁴.

Throughout Vladimir Putin's presidency, several legal acts have also appeared, influencing the situation in the sphere of the freedom of speech (although they were of less importance than informal activities). In June 2000, the Security Council, dominated by representatives of the "power sector", adopted the "Doctrine of information security", postulating, among other issues, the battle against "the abuse of freedom of speech". In August 2000, the government issued a disposition regarding the installation of certain devices on telecommunication interfaces for monitoring the flow of information by the security services (this enabled, for example, a precise monitoring of websites). However, the security services themselves remained uncontrolled. The authorities attempted to amend the media law and restrict the work of journalists in special [extraordinary] circumstances. This amendment was eventually vetoed by President Putin. However, journalists themselves later voted on the convention obliging them to self-restriction in relating special events. Finally, in March 2003, the

Duma voted in the first reading, on the amendment to the media law, imposing additional restrictions on the media during the election campaign.

At present, viewpoints differing from the official ones can be found only in several low circulation papers or on the Internet. A large part of society obtains information on events in Russia and the world through state-controlled media. This way, the authorities' attempts of monopolising the transfer of information have been quite successful. This is particularly significant during the election campaign, which is already rolling, as the media are used to lead the political battle.

Conclusions

The methodology of the reform process in Russia

The practice of holding broad consultations at the legislative phase is typical for the reform process in Russia. Various lobbies (big business, the "power" sector, regional elites) have access to this process and aim at securing their interests in different spheres. As a result, these consultations often distort the original liberal direction of the reforms.

Consultations over the drafts of the reforms with groups of influence begin already at the conceptual stage (this often alters the shape of these acts). The consultations are continued at the stage of adopting the acts in the parliament. This takes on the form of a "zero reading" – the draft bill is worked on in parliamentary committees with the participation of deputies from different factions, officials of the President's Administration and other influential groups involved in the reform. In the case of controversial projects, the process of reaching an agreement can drag on even for years. The agreed upon project enters parliament and usually passes all readings with no major problems. A good example of this is the power engineering reform.

The aim of many reform projects is to purge different spheres of politics and the economy, and to break up any shady deals. This triggers resistance also during the realisation phase, after

the act is adopted in parliament and signed by the president. Many clauses of the adopted acts remain on paper, as Moscow lacks in the instruments and possibilities to bring them into force – either the resistance or incompetence of bureaucrats give rise to problems connected with the secondary legislation to the acts, federal acts are torpedoed on the regional level, and various financial problems also appear.

The effects of the implemented changes

President Putin's high level of social support following his election in 2000 has enabled the realisation of quite profound transformations within the political sphere. The implemented changes – legislative and informal – have resulted in the centralisation of the state and the strengthening of the Kremlin's control over all spheres of Russian political life. They have also increased political stability and pushed away the threat of the disintegration of the Russian Federation, which was very real under Boris Yeltsin's government. As a result of informal activities, the Kremlin has gained considerable control over the parliament and, in consequence, over the law-making process in Russia. It maintains a strong influence over the judicial branch and has led to the considerable increase in control over the media. Owing to this, the presidential circle has a guaranteed smoke screen of propaganda for its actions. Authorities have also been successful in stopping big business representatives ("oligarchs") and regional elites from direct participation in the making of strategic decisions. Thus, as compared to Boris Yeltsin's presidency, the power has been significantly concentrated in the hands of the Kremlin. In many cases this has been accompanied by a whole system of solutions contradictory to the principles of a democratic state. All this has contributed to Russia's political system resembling that of an authoritarian model.

The strengthening of the Kremlin's authority and the high level of income from gas and petroleum exports, securing Russia's financial stability, have enabled the intensification of economic reforms. These reforms have, to a large extent, constituted the continuation of transformations initiated in Russia in the early 1990s and based

on those achievements (such as an advanced privatisation process and strong private sector; the basis for a market economy system). Fiscal-budget, banking, pension and other reforms carried out under Putin's presidency have resulted in the improvement of Russia's image on the international arena. Despite the numerous economic problems still remaining to be solved, Russia has begun to be viewed as a politically and economically stable country (at least in the medium-term). Over the past year, the Russian economy has been granted the status of a market economy by the USA and the EU. Russia has been crossed off the FATF's blacklist (an international organisation battling against "dirty money laundering"), and has even been accepted as a member of this organisation and, most importantly – Russia has become a rightful member of the G8 group⁵⁵. The changes being implemented have also resulted in improved conditions for the running of business in Russia and the increased confidence of investors in the Russian economy. However, at present this manifests itself mainly in the reduction of capital outflow from Russia and not in the growth of direct foreign investments. At the same time, Russia is seen as a credible debtor increasingly more often, which is evident in the RF's increased rating⁵⁶ on the international arena.

Many economic problems continue to remain unsolved. Attempts at activating small and medium business, the battle against corruption and excessive bureaucracy have failed. Above all the slow pace of the structural reforms and the inconsistency in introducing economic transformations have made it impossible to reduce the economy's dependency on the export of raw materials. This slow pace also contributes to slowing down the rate of economic growth and does not allow for a radical change in Russia's economic model. As a consequence, Russia's dependency on raw products was even higher in 2002 than in previous years⁵⁷. Unsolved economic problems mean that it is difficult to consider Russia's freshly gained economic stability as permanent.

It is currently difficult to evaluate the real effects of the reforms conducted under Putin's hitherto presidency. Most of these can bring effects only in a medium-term perspective, when investors,

entrepreneurs and citizens accept the new law and recognise it as permanent, and the state administration elaborates effective mechanisms for carrying out the adopted legal acts.

Perspectives for the continuation of reforms within the scope of the present system

By the end of President Putin's first term of office, the future of reforms in Russia does not yet seem settled. Over the coming years we can expect both an acceleration and a slowdown in changes. The most probable scenario, however, seems to be the maintenance of *status quo* – the progressing, but slow and inconsistent implementation of reforms.

A high level of support for Vladimir Putin in the 2004 elections may induce the acceleration of reforms. If Putin is re-elected already in the first round, then his stronger social legitimacy may favour a more dynamic and uncompromising implementation of reform projects. The reform process may pick up pace under the condition that the strong president decides to dedicate his second term of office to the implementation of reforms, builds a homogenous reform-oriented team and skilfully manoeuvres existing groups of influence.

The reforms may be brought to a stop if the president's position is weakened, e.g. if he gains a poor election result. The modernisation process may also slow down if the priority of the second term of office is the issue of succession after Putin. This could become a cause of conflict around the division of properties within the RF. Representatives of the "power" sectors granted authority by Putin (the "siloviks"), despite large political influence, have not yet been able to acquire a significant financial base. In the face of President Putin's imminent departure (in accordance with the constitution, the 2004–2008 term of office should be his last), the "siloviks" may intensify their efforts aimed at the takeover of some estates of post-Yeltsinite financial magnates. The series of investigations initiated against the Yukos oil company in July 2003 can be considered a forecast of these actions. The continuation of this type of pressure on big business in

Russia with the use of courts, public prosecutors and other state bodies will inevitably worsen the RF's image among investors, simultaneously undermining the effects of the liberal reforms carried out over recent years. Another potential factor slowing down the reform process can be the destabilisation of the situation in Russia, which could be caused, for example, by the escalation of the conflict in Chechnya or the battle between the groups of influence if it should evade the Kremlin's control.

The intermediate scenario (maintenance of status quo) assuming the slow and inconsistent implementation of reforms can be realised if tendencies observed during Putin's first term of office are preserved, i.e. in the case of the joint appearance of factors supporting and restricting the reform process:

The reforms could be advocated by:

- the evident support of the president himself for selected liberal economic reforms;
- the strong representation of liberally oriented officials in the presidential team;
- the Kremlin's considerable control over legislature.

The reform process could be obstructed by:

- the necessity to take into account the interests of powerful groups of influence surrounding the Kremlin (particularly the "power" sector and big business);
- the deepening authoritarianism of the political system, which is leading to phenomena conflicting with the spirit of liberalism, including the partial politicalisation of the economy, the weakening of democratic social institutions (media, NGOs, etc.) and, at the same time, the paralysis of social control mechanisms;
- the often-present contradiction between the formal law and its practical execution by authorities. As a result, the recipients and potential beneficiaries of the reforms (e.g. foreign investors) approach the changes that are being implemented with distrust, aware of the fact that the new regulations don't always have to be respected by authorities or officials.

Aside from internal factors, external factors will also be of great significance for the reform process, particularly the pace of global economy development, especially the situation on the raw

product markets, mainly the petroleum market. If oil prices remain high, then – paradoxically – the pace of changes may be slowed down. The country's favourable financial situation may advocate the postponement or mitigation of the unpopular consequences of economic reforms. On the other hand, should oil prices fall dramatically and permanently, the limited financial resources may restrict the state's reform possibilities. The fall in oil prices to a level that does not cause a crisis in Russia but forces a more rational management of budget resources may prove to be the most mobilising factor for carrying out these changes. This would induce authorities to search out alternative sources of income and seek a policy aiming at making the Russian economy less dependent on revenue generated by the fuel and energy sector.

Jadwiga Rogoża, Iwona Wiśniewska

¹ Osnovnye napravleniya sotsyalno-ekonomicheskoy politiki na dolgosrochnuyu perspektivu, 2000, the Russian Federation's Ministry of Economic Development and Trade, <http://www.economy.gov.ru/merit/79.htm>; a description of Putin's programme declarations in: Jadwiga Rogoża, Vladimir Putin – pre-election demands, Tydzień na Wschodzie 173, CES 2000; and Marek Menkiszak, President Putin's speech to the Federal Assembly, Tydzień na Wschodzie 221, CES 2001, Jadwiga Rogoża, Bureaucracy reform first of all: President Vladimir Putin's speech to the Federal Assembly, Tydzień na Wschodzie 266, CES 2002, Bartosz Cichocki, Russia – pre-election speech, Tydzień na Wschodzie 311, CES 2003.

² Marek Menkiszak, Who formulates the strategy for Russian reforms?, Tydzień na Wschodzie 194, CES 2000.

³ More information: Pekka Suleta, The Lure of The Authoritarian Temptation, Russian Economy The Month in Review – July 2000, Bank of Finland Institute for Economics in Transition; or Anna Wawrzycka, Iwona Wiśniewska, Vladimir Putin's economic programme, Tydzień na Wschodzie 189, CES 2000.

⁴ The decree has set up seven federal districts (FD): the Central FD (with its capital in Moscow), the North-western FD (St. Petersburg), the North Caucasus FD, later renamed the South FD (Rostov-on-Don), The Volga FD (Nizhny Novgorod), the Ural FD (Yekaterinburg), the Siberian FD (Novosibirsk) and the Far East FD (Khabarovsk). The districts do not form a constitutional element of the state's government system, only an administrative level for dividing the country. In accordance with the RF Constitution (art. 65), Russia is a federal state comprised of 89 entities, including 21 republics, 6 krais, 49 oblasts, one autonomous oblast, ten autonomous okrugs and two cities of federal importance – Moscow and St. Petersburg. All these entities are politically independent and possess equal political rights, but the autonomous okrugs are simultaneously included in the financial structure of the krais and oblasts in which they are located – e.g. the Taimyr Autonomous Okrug located in Krasnoyarsk Krai sends part of its tax income to the budget of Krasnoyarsk Krai.

⁵ It is worth noting that at the time five out of seven of the president's authorised representatives in the federal districts previously held positions in the security services and the army. These authorised representatives automatically became members of the RF's Security Council.

⁶ The president may dismiss the head of a region only if the given federal entity adopts acts that breach human rights in a serious manner, threaten the territorial integrity of the state and national security. In such situation the president directs the case to a court and the court decides on the dismissal of the representatives of regional authorities.

⁷ The respective stages of the administrative reform were more extensively described in the CES's analyses, including: Bartosz Cichocki, What federation?, Tydzień na Wschodzie 174, CES 2000; Bartosz Cichocki, The Kremlin strengthens its control over the Russian regions, Tydzień na Wschodzie 183, CES 2000, Bartosz Cichocki, Vladimir Putin has subordinated the regions, Tydzień na Wschodzie 191, CES 2000.

⁸ Three levels of authority formally exist in Russia – the federal authority (nationwide), regional authorities (within the Federation's entities) and local governments. Local governments, according to the Russian constitution, are not state bodies, however, they are to a large extent dependent on regional authorities (especially financially). It should be noted that in numerous entities of the RF local governments *de facto* don't exist.

⁹ The choice of the governor for Yakutia, a region rich in diamonds, was the subject of Moscow's bargaining with potential candidates for this post – eventually, under the pressure of the Kremlin, the ruling governor Mikhail Nikolayev backed out of the election race and the compromise candidate Vyacheslav Shtyrov ran in the election. An example of the interference of the Central Election Committee were the elections of a governor for Krasnoyarsk Krai in January 2003. As a result of informal settlements with Moscow, the governor of Primorsk Krai, Yevgeny Nazdratenko (more information in footnote 33) and St. Petersburg's governor Vladimir Yakovlev also withdrew.

¹⁰ This refers in particular to the pre-election period, as governors have the ability to influence election results (parliamentary as well as presidential) on the territory of the entity they govern.

¹¹ This was made possible by the interpretation of the RF's Constitutional Tribunal (9 July 2002); it is commonly believed that the Kremlin has commanded this decree.

¹² Jadwiga Rogoża, Summing up of the changes which occurred in the second year of Putin's rule, Tydzień na Wschodzie 261, CES 2002.

¹³ The opposition party "Liberal Russia" financed by the Kremlin's enemy, the magnate Boris Berezovsky, had problems while registering itself. This happened despite the fact that, according to experts, the party's statute questioned by the Ministry of Justice was almost identical to that of the pro-Kremlin "United Russia" party. "Liberal Russia" obtained its registration soon after Berezovsky was dismissed from his position as party leader.

¹⁴ This clause, however, will not be binding in the nearest elections but only from the 2007 parliamentary elections. Simultaneously, the above-cited act also contains a clause regarding the "four-party system" – at least four groups are to be in the Duma; if fewer than four parties cross the election threshold, the first four parties on the list of election results will be granted seats.

¹⁵ In the elections to the State Duma minimum voting turnout is 25 percent.

¹⁶ Marek Menkiszak, Acceleration of reforms in Russia, Tydzień na Wschodzie 233, CES 2001, Jadwiga Rogoża, Summing up of the changes which occurred in the second year of Putin's rule, Tydzień na Wschodzie 261, CES 2002.

¹⁷ Grigory Okhotin, Razgruzka tyurem: rezultaty khoroshye, perspektivy plachevnye, www.polit.ru, 21.10.2002.

¹⁸ One of the latest examples of this phenomenon is the case of the Yukos oil company. Following the manifestation in April 2003 of political ambitions by Yukos' chairman, Mikhail Khodorkovsky (the richest man in Russia with a personal estate worth around US\$ 8 billion) and Yukos's active sponsoring of parties not loyal to the Kremlin (SPS, Yabloko,

the Communist Party of the Russian Federation), the public prosecutor's office conducted a mass attack on the leading employees of the company (the renewal of former criminal cases, arrests, etc.). This caused the consortium measurable damages (financial as well as to its image in Russia and abroad) and became a serious warning for business circles against an excessive involvement in politics.

¹⁹ More information: Jadwiga Rogoża, Summing up of the changes which occurred in the second year of Putin's rule, *Tydzień na Wschodzie* 261, CES 2002; or Tax Reform in Russia – Update, *Russian Economic Trends*, August 2000, Russian-European Centre for Economic Policy (RECEP); or Russian VAT Reform: A Move Towards The EU Framework?, *Russian Economic Trends*, September 2000, RECEP.

²⁰ Kakha Bendukidze, Aleksei Kudrin, Vladimir Serbakov, *Nalogovaya reforma: Standart 2003, mart 2003, Ekonomika Rossii XXI vyeka*, www.ruseconomy.ru/nomer11_200303/ec07.html.

²¹ Employers pay 28 percent of every employee's wages into the pension system. Half of this amount reaches the federal budget as a social tax, and is then transferred to the State Pension Fund (SPF) for the financing of the "basic pension" (everyone who has worked for no less than five years is entitled to it). The amount of this pension is identical for everyone and is approved each year by the legislator. The other half of the contribution goes directly to the SPF, where it is entered into the taxpayers' individual accounts. However, only part of this money may be invested. Depending on the age of the taxpayer in 2002 this was 2–3 percentage points of the contribution.

²² Pension Reform in Russia, *Economic Studies*, November 2002, World Bank; or *Russia 2002 – A report of the transformation*, edited by Andrey Neshchadin, Warsaw 2002, The Eastern Institute, p.32-34.

²³ All assets from this sector are valued at around 35 percent of the GDP and the total sum of deposits – 19 percent of the GDP.

²⁴ *Sberbank* is the only bank operating in around one-third of Russia's regions.

²⁵ A report of the transformation ..., p. 35–37.

²⁶ In autumn 2002 the Central Bank of Russia (CBR) sold its shares in *Vneshtorgbank* to the Russian government.

²⁷ Chowdhury Abdur, *Banking reform in Russia: Winds of change?*, BoFIT online May 2003, Bank of Finland Institute for Economic in Transition; *Russia – Development Policy Review (Discussion Draft)*, March 2003, World Bank, p. 17-19.

²⁸ More in: *Rossiya na puti v WTO – Informatsionny buleten*, the RF's Ministry of Economic Development and Trade, http://www.wto.ru/bulletin.asp?f=bulletin_m.

²⁹ More in: Svetlana Ivanova, *Sbylas mechta Luzhkova*, *Vedomosti*, 26.06.2003 or Aleksandr Bekker, *Kupitye zemlu – sovetuyet Minimizhestvo predprinimateliam*, *Vedomosti*, 4.06.2003; or Dmitrii Simakov, *Zemla podeshveyet*, *Vedomosti*, 10.07.2003.

³⁰ *Russian Economic Report*, October 2002, The World Bank.

³¹ Ewa Paszyc, *Russia's energy sector will be reformed*, *Tydzień na Wschodzie* 300, CES 2003.

³² *Op.cit.* *Russia Development Policy...*, p. 21.

³³ *Ibid.*, p. 21–22.

³⁴ Gritsenko Grigorii, *Otkuda berutsa ubytki zhylykomkhozha?*, www.polit.ru 12.03.2003; Okhotin Grigorii, *Reforma nye reforma, ZhKKh nye ZhKKh*, www.polit.ru 13.03.2003.

³⁵ The "power structures" in Russia are the ministries, state agencies, commissions and committees that execute all types of "power" tasks and maintain the armed forces (army, guarding troops etc.). The power structures in Russia include the security services (the Federal Security Service and other structures), the Interior Ministry, the Defence Ministry etc.

³⁶ Unity and Fatherland-All Russia have maintained separate factions in the lower chamber of the parliament. Together with Russian Regions and People's Deputy they have 235 votes in the Duma (the usual majority is 226). In comparison, the Kremlin's presently most dangerous opponent, the Communist Party, together with its sympathising agro-industrial faction holds 126 mandates (www.duma.gov.ru).

³⁷ One of the Communist Party of the Russian Federation's most important politicians and chairman of the State Duma Gennady Seleznyov was removed from the CPRF (after he refused the CPRF's demand to resign from the position of Duma's chairman) and founded the Party of Russia's Rebirth, commonly judged to be a party inspired by the Kremlin to form an alternative to the communists.

³⁸ An example of this is the preservation in the Customs Code of the "tolling" procedures enabling, for example, companies from the aluminium sector to avoid paying taxes and customs duties. Aluminium necessary for the production of aluminium, which is imported and processed on Russian territory, remains the property of companies that are not registered in the RF – Russian companies only provide labour, therefore, they do not pay import duties for the imported aluminium or taxes from the revenue generated from the sale of aluminium.

³⁹ Presently, the Federal Security Service also informally controls the electronic system for calculating votes during elections. They also monitor the flow of information (e-mails and telephone conversations) by a special device installed on telecommunication interfaces. Finally, the "chekists" have influence on the media (e.g. on the state media holding VGTRK).

⁴⁰ The survey carried out by the Elite Research Institute at the Russian Academy of Sciences shows that, in comparison to the Yeltsin period, the share of people with a military background in the elites has increased by 20 percentage points over Putin's presidency (from 6.7 percent to 26.6 percent). Elites are considered to be Security Council members, parliamentarians, government officials, and the heads of federal districts. (Olga Krishtanovskaya, *Ryezhyim Putina: liberalnaya militokratiya?* in: *Pro et Contra*, vol. 7, no. 4, 2002, p. 158).

⁴¹ During the recent privatisation of the Slavneft oil company, claimants associated with the security services (Mezhprombank) lost to the representative of a Yeltsin oligarchic clan ("the Family") – Roman Abramovich.

⁴² The "chekists" have formulated strategies and reports concerning the economy, information security, the threat of religious extremism and a more general vision of Russia's development. These reports considered "untraditio-

nal” phenomena a threat to Russia’s stability and security (these phenomena included: religions other than Orthodox in the case of the report on religious extremism; the “abuse of the freedom of speech” and the influence of the West in the case of the information security strategy, etc.). A proposed solution was the restriction of the development of such phenomena within the RF or fighting against it.

⁴³ In April 2001, the RF’s Supreme Court stated that the procedure of examining citizens’ anonymous denunciations by the Federal Security Service does not constitute a violation of the law. The Supreme Court dismissed the charges of the “Human Rights Defence” group, which demanded that the FSS’s directive providing the initiation of investigations on the basis of anonymous signals, be cancelled (The Facts, CES, 24.04.2001).

⁴⁴ The so-called “white lobbying” (open, lawful means of defending business interests) is carried out, among others, by the Russian Union of Manufacturers and Entrepreneurs, uniting the most important big business representatives. The Union’s members participate in the process of preparing draft bills, they organise conferences regarding some of the reforms and take part in discussions on government projects.

⁴⁵ Gazprom, a partly state-owned company, helped the authorities to take over of the powerful opposition media holding Media-Most in 2001. Another example is the private petroleum company LUKoil, with whose help the Kremlin was able to “neutralise” TV-6 – an opposition television station.

⁴⁶ Due to the big business (especially Yukos) lobbying in the Duma, it was not possible to pass the bills on natural resources and on charges for the use of such resources. Both acts were inconsistent with the interests of oil companies.

⁴⁷ Ewa Paszyc, Two years of Aleksei Miller, *Tydzień na Wschodzie* 316, CES 2003.

⁴⁸ Sergei Mikheyev, Gdye tonko, tam i rvyotsa, www.politcom.ru, 4.01.2002.

⁴⁹ The public prosecutor’s office charged him with abusing his powers and subjecting the Ministry to damages in the amount of around RUB 11 billion.

⁵⁰ Anatolii Chubais, chairman of RAO UES from 1998, a member of Yegor Gaydar’s reform team.

⁵¹ Semyon Vaynshtok, engineer, working in the petroleum sector since 1982, associated with LUKoil.

⁵² Transnief has declared that further oil supplies to the Ventspils terminal in Latvia will depend on Transnief’s obtaining the terminal’s majority share package (more information, in: Ewa Paszyc, Withholding supplies to the Ventspils terminal – a competition or a privatisation “offer”?, *Tydzień na wschodzie* 294, CES 2003). The company also denied its approval for the construction of a trans-shipping port in Murmansk by Russian private oil companies (more information in: Ewa Paszyc, The “antimonopoly” project of petroleum companies, *Tydzień na Wschodzie* 290, CES 2003).

⁵³ In some cases (e.g. during a search at the Media-Most holding belonging to Vladimir Gusinsky) brutal actions of masked functionaries from security service units took place. These actions were undoubtedly inspired by the authorities and aimed at scaring other independent media.

⁵⁴ In 2001, 57 percent of Russians recognised the need for the existence of censorship in the media while 33 percent opposed censorship (survey by the “Obshchestvennoye Mneniye” Foundation, 22.03.2001). Other surveys carried out at the time showed similar results.

⁵⁵ The seven most highly industrialised countries of the world: France, Japan, Canada, Germany, the USA, Great Britain, Italy plus Russia.

⁵⁶ At present major rating agencies continue to place Russian debt securities in the “speculative” range – 1–2 levels lower than the investment level.

⁵⁷ *Op. cit.*, Russian Economic Report, October 2002, p. 4.