Back to the Future? Thoughts on the Political Economy of Expanding State Ownership in Russia

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Introduction

The period since early 2004 has seen a significant expansion of the direct role of the Russian state in owning and managing industrial assets, particularly in 'strategic sectors' of the economy, such as power-generation machines, aviation, oil and finance. Increasingly, policy seems to have been focused less on market reforms than on tightening the state's grip on the 'commanding heights' of the economy. Many factors have contributed to this shift – factional, ideological, geopolitical and conjunctural – and, as will be argued below, there is not one single process at work, but several. This chapter seeks to understand what has been driving the expansion of state ownership in Russia over the recent past and what that expansion might imply for the future. Its central conclusion is that a great deal of the explanation for this trend is in fact structural. While press coverage and public discussion have largely focused on factional politics and the political conjuncture – particularly conflicts between the Kremlin and big business and rivalry among Kremlin 'clans' ahead of the Putin succession in 2008 – a deeper understanding of the growth of the state requires an examination of the interaction between state capacities and Russia's industrial structure.

The chapter begins with a look at the scale and scope of the recent expansion of state ownership. This is followed by an analysis of the interaction between Russia's economic structure and its political institutions, which highlights the role that the characteristics of specific branches of industry may play in Russia's political economy. The oil industry receives particular attention in this context. Finally, the chapter looks briefly at the implications of recent trends for Russia's future.

The scope of expanding state ownership

The trend towards state expansion is unmistakable. To be sure, the Russian government continues to stress its commitment to further privatisation and to economic development based on private entrepreneurship and competitive markets; individual acquisitions have consistently been explained as 'one-off' events dictated by the specific circumstances of particular companies or sectors. Each is in some way exceptional. Yet the overall scale of the expansion has been remarkable (Table 1). According to one recent estimate, the state-owned share of Russia's equity market capitalisation rose from just 20% in mid-2003 to 35% in early 2007.[2] To some extent, of course, this reflects the fact that the state's shareholdings are concentrated in oil and other minerals sectors, and the values of those companies have out-performed the market as a whole. However, that is far from the whole story: at the end of 2003, the state held about 11% of the

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2. Weafer and DePoy (2006); *Vedomosti*, 13 February 2007.

voting shares in Russia's 20 largest companies by market capitalisation. Three years later, the figure was 39% and rising. Since the composition of the top 20 changed very little, this increase

Table 1. Major state acquisitions, 2004-07

Company	Sector	Date	Mechanism
Guta Bank	Banking	August 2004	State-owned bank Vneshtorgbank purchases 85.8% stake with central bank support.
Mosenergo	Electric power	Summer-Autumn 2004	Gazprom raises its stake above "blocking" (25%+1) level.
Promstroibank St Petersburg	Banking	September 2004	Vneshtorgbank purchases a blocking (25%+1 share) stake.
Atomstroieksport	Nuclear construction	October 2004	Gazprom-controlled Gazprombank purchases 54% stake.
RAO UES	Electric power	Autumn 2004	Gazprom raises its stake to 10.5%
Tuapse oil refinery	Oil refining	December 2004	Rosneft purchases 40% from minority shareholders to take full control of the refinery.
Yuganskneftegaz	Oil and gas	December 2004	Rosneft purchases 76.8% stake from the firm OOO "Baikalfinansgrupp", the winner of a state-organised auction of Yuganskneftegaz shares to settle tax debts.
Tambeyneftegaz	Oil and gas	May 2005	Gazprombank purchases a 25% stake from Novatek.
Northgas	Oil and gas	June 2005	Gazprom regains control of independent gas producer Northgas, taking over a 51% stake following litigation.
Izvestiya (daily newspaper), *Chas pik* (weekly newspaper)	Media	June-September 2005	Gazprom-Media purchases control.
Gazprom	Oil and gas	July 2005	State-owned Rosneftegaz purchases 10.7% of Gazprom to raise state's direct stake in Gazprom above 50%.
Selkupneftegaz	Oil and gas	July 2005	Rosneft purchases 34% stake from independent gas producer Novatek.
Sibneft	Oil and gas	October 2005	State-owned gas monopoly OAO Gazprom buys 69.66% stake for $13.1bn.
Verkhnechonskneftegaz	Oil and gas	October 2005	Rosneft purchases 25.9% stake from Interros Holding.
AvtoVAZ	Autos	October 2005	State arms export concern Rosoboroneksport takes control over 62% and installs new management.
OMZ	Machine-building	November 2005	Gazprom-controlled Gazprombank purchases a 75% stake.
Ulan Ude Aviation Plant, Moscow Helicopter Plant, Kazan Helicopter Plant, Kamov Holding, Rosvertol, Moscow Machine-building Plant "Vpered", OAO "SMPP"	Aviation	2005	State-owned defence company Oboronprom takes control of these enterprises in the course of forming a single, state-controlled helicopter holding via the consolidation of shares already held by the state, purchase of additional shares and share swaps.
Power Machines (*Silovye mashiny*)	Machine-building	December 2005	Electricity monopoly RAO UES purchases 22.4% stake, raising its stake above 25%, and acquires voting rights to another 30.4% until end-2007.
Udmurtneft	Oil	June 2006	Rosneft acquires a 51% stake from Sinopec after the latter buys 96.7% from TNK-BP for an estimated $3.5bn.

Table 1. Continued

Company	Sector	Date	Mechanism
Sibneftegaz	Gas	June 2006	Gazprombank purchases a 51% stake from Itera.
Novatek	Gas	June-July 2006	Gazprom purchases a 19.9% stake for a sum reportedly exceeding $ 2bn.
VSMPO-Avisma	Titanium	September 2006	State arms export concern Rosoboroneksport purchases 41% stake for an undisclosed sum.
Komsomol'skaya pravda	Media	November 2006	Gazprom-Media buys the popular daily.
Yamal SPG	Gas	November 2006	Gazprombank-invest and Gazprominvestkholding buy 25.1 and 74.9% respectively, securing Gazprom's control over the Yuzhno-Tambey gas condensate deposit.
Yukos legacy assets	Oil and others	March-May 2007	Rosneft and Gazprom win bankruptcy auctions for stakes in Tomskneft, VSNK, Samaraneftegaz, Yukos Ladoga, Belgorodnefteprodukt, Bryansknefteprodukt, Voronezhnefteprodukt, Lipetsknefteprodukt, Oryolnefteprodukt, Penzanefteprodukt, Tambovnefteprodukt, Ulyanovsknefteprodukt, U-Tver, Yukos Petroleum, Aviaterminal and Yukos Aviation.

Note: The table excludes acquisition of foreign assets by state-owned companies.
Source: OECD from various sources.

reflected state acquisitions rather than changes in relative stock prices.[3] Indeed, between September 2004, when ConocoPhillips acquired 7.6% of Lukoil from the government, and October 2006, when a $30bn merger between aluminium giants RusAl and SUAl was announced, no major industrial or financial asset in Russia passed into the hands of a new *private* owner: all major changes of ownership involved acquisitions by the state or by state-owned companies.

The growth of the state has, of course, been most pronounced in the energy sector. In 2003, state-controlled companies accounted for about 16.0% of crude production. By early 2007, that figure had exceeded 40% and was still rising.[4] However, as Table 1 makes clear, the expansion of the state encompassed a wide range of sectors, many of which it would be hard to call 'strategic', even on the most elastic understanding of that concept. From a domestic political perspective, the expansion in media is perhaps most disturbing, reinforcing, as it does, concerns about 'managed democracy' in Russia. There has also been a wide variation in the circumstances that have prompted the state or state-owned companies to expand their holdings: the state has intervened in response to perceived market failures (such as the troubles at AvtoVAZ and in the military aviation sector) and also in response to apparent market success (Yukos). And while the government has initiated or supported some of the acquisitions as part of its industrial policies, cash-rich state companies have been behind much of the activity – sometimes over the vociferous objections of leading ministers but apparently with the implicit backing of officials in the Presidential Administration.

3. Bushueva (2006).

4. These comparisons are based on 2003 production data; obviously, differences in the rate of production growth in 2004–05 have altered somewhat the relative shares of different companies in total output.

The legal and political onslaught against the oil company Yukos has, of course, been the most visible and controversial sign of the shift towards greater state control. The expropriation of Yukos assets in a series of auctions to settle tax debts and bankruptcy claims has represented the largest and most crudely engineered instance of re-nationalisation to date.[5] Nevertheless, the Yukos case remains unique as an instance of straightforward, judicially administered expropriation: no other company has found itself under the kind of pressure brought to bear on Yukos, and most other state acquisitions have involved at least the appearance of orderly commercial transactions. However, it would be difficult to argue that the state has been paying fair market value for its new acquisitions: many of the businesses listed in Table 1 changed hands after their previous owners came under mounting regulatory, legal and political pressure. Various members of the Sakhalin oil and gas consortia came under such pressure prior to selling stakes to Gazprom and Rosneft, and so did the owners of Tambeyneftegaz, Nortgaz and Novatek, to name but three. In the case of AvtoVAZ, the takeover was executed without any formal purchase being necessary. Thus, while the methods used to bring assets back into state ownership have generally been somewhat more civilised than the heavy-handed tactics used against Yukos, they have often involved a degree of coercion that would be hard to reconcile with any respect for property rights. The methods by which the state has been making acquisitions are thus as much a source of concern as is the fact of increasing state ownership.

It would be a mistake to see this expansion of the state as proceeding according to some well defined plan – different groups appear to be pursuing different agendas, often in rivalry with one another. However, the process is neither random nor chaotic: there is clearly a coherent *approach* towards resource sectors, which merit special consideration, and the general context is favourable towards state expansion in general. The once bankrupt Russian state now has both the cash and the coercive capacity to acquire what it wants, and private owners are unpopular and widely regarded by the public as illegitimate, which makes them particularly vulnerable to official pressure.[6] Moreover, the authorities in Russia, anxious to pursue ambitious development goals very rapidly, appear increasingly impatient of indirect methods of economic governance, such as regulation, and wary of the uncertainties involved in reliance on market-based solutions. For politicians in a hurry, direct intervention offers a degree of (apparent) control and certainty about outcomes that reliance on markets cannot. All this, then, makes for an environment in which a number of state actors have the means, the motive and the opportunity to extend the state's control over important industrial and financial assets.

Russian industrial structure and state control

Underlying all of the above considerations is the industrial structure that Russia inherited from the Soviet Union. When a state's production/export structure is highly concentrated – as Russia's undoubtedly is – the character of its leading sector(s) can shape its political economy, especially if state institutions are relatively weak.[7] The politics of state ownership are thus influenced by the

5. For a close look at the affair, see Tompson (2005).

6. This is partly the authorities' doing. Russia's new private owners have never been popular, owing to memories of the chaotic and often criminal privatisation processes of the 1990s; however, the authorities have in recent years acted so as to undermine, rather than reinforce, the legitimacy of past privatisations and thus to keep these questions alive on the political agenda.

7. See, in particular, Shafer (1994).

sectoral characteristics not only of Russia's mineral sectors but also of much of its heavy manufacturing.

The problem may be summarised as follows. An unusually large share of Russian industrial production is generated by sectors that are capital intensive and characterised both by a high degree of asset specificity[8] and significant economies of scale. Such sectors tend to be subject to very high barriers to entry and exit, and are generally dominated by a small number of large companies. This presents two political problems, which can be particularly acute in situations of state weakness. First, as Sutela (2005) has observed, someone must own these companies. Secondly, regardless of who owns them, such companies tend to be very demanding vis-à-vis the state: their size means that they are likely to be very politically powerful and their asset specificity is likely to make them relatively inflexible – that is, faced with changing circumstances, they will find it difficult to adapt themselves and will therefore lobby the government to adapt its policies in order to support or protect them. Faced with such companies, weak states, in particular, often find state ownership appealing, as they feel threatened by the power of private owners, whether foreign or domestic. Where the state's administrative, extractive and regulatory capacities are weak, state leaders may fear exploitation by private owners, whom they will find difficult to govern. They may also fear 'state capture'.[9] Moreover, if the polity is insufficiently robust, conflicts among domestic private owners could prove difficult to contain and might even be destabilising: one need only recall some of the '*kompromat* wars' in Russia's recent past to see the relevance of this concern for Russia's rulers. Finally, foreign domination of leading sectors may be seen as politically unacceptable to sovereignty-conscious elites, particularly where natural resources are concerned. Clearly, if foreign ownership is rejected and domestic private ownership is regarded as dangerous, then state ownership remains the only feasible solution.[10]

That, to put the matter very briefly, is what seems to have happened in Russia. Given its industrial structure, Russia would probably have a fairly high concentration of ownership of industrial assets in any circumstances, but this concentration was even greater in the early 2000s as a result of the flawed privatisation processes of the 1990s, which were largely geared to excluding foreigners and ensuring that the country's most valuable industrial assets passed into the hands of a few very well connected businessmen. The state thus found itself faced with the need to govern an economy dominated by a small number of relatively large private companies – companies, moreover, whose owners had demonstrated their willingness to meddle extensively in electoral and policy-making processes in order to advance their interests. Both the legal order in Russia and the state's administrative and regulatory capacities were and are weak. There was thus an obvious temptation to rely on direct control rather than on contract, regulation and taxation. In the Russian case, this temptation was probably all the greater precisely because, whatever its

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8. In other words, assets to support particular purposes would have far lower value if they were redeployed for any other purpose and might, indeed, prove extremely expensive or even impossible to redeploy in any case.

9. On the concept of 'state capture', with particular reference to transition countries, see Hellman *et al.* (2000).

10. Cf. Chaudhry (1993).

other weaknesses, the Russian state possesses very substantial coercive capacities, capacities that are arguably out of all proportion to any of its other capabilities.[11]

Re-nationalising the oil sector: the return of the 'obsolescing bargain'?

The foregoing arguments apply with particular force to minerals sectors, particularly oil. Most major oil-producing countries have state-dominated industries, and this is also true, albeit to a lesser extent, of many other mineral sectors. Indeed, Russia prior to 2003 was the only major oil exporter in the world with a predominantly private oil industry. The leading role of the private sector was an anomaly, and it might thus be argued that Russia is merely moving towards the international norm.[12]

If we ask *why* major mineral sectors tend to be state-dominated worldwide, at least two factors, in addition to those discussed above, would seem to merit attention. First, state ownership of the subsoil is almost universal; if private companies are to be involved in resource extraction, then they will act as the state's agents rather than as resource owners in their own right. The contracts involved will therefore need to be very well designed and very carefully monitored in order to ensure that agency losses are kept to a minimum and that the state's property rights are not violated. The more technically complex the conditions of extraction, the more difficult this will be.[13] Secondly, politicians are likely to want to dispose of resource rents as freely as possible, particularly in societies where democratic accountability is in any case low. Capturing resource rents from private agents via contract and taxation may be more efficient than reliance on direct control, but it is also more transparent than reliance on a state-owned company, whose cash flows and investment plans can be manipulated for political or personal gain. If politicians wish to maximise their freedom to appropriate the rents for themselves or to allocate them to favoured constituencies, they will prefer opacity.

In such circumstances, nationalisation may appear a simple solution. Greater direct control makes it easier for state elites to appropriate and allocate resource rents; and managing a state-owned company may be – or may *appear* to be – easier than trying to govern powerful private players. In short, weak institutions prompt rulers to opt for feasible, if sub-optimal, solutions – in this case, a reliance on direct control and coercion rather than contract, regulation and taxation. The solutions adopted, in turn, create obstacles to institutional improvements, as second-best solutions often help to entrench the very weaknesses that gave them birth. Ironically, the same institutional weaknesses that generate incentives to rely on direct control also undermine the state's ability to manage state-owned companies well. In weak institutional environments, the creation of large state companies is likely to be associated with high levels of opacity, corruption and rent-seeking by insiders, who will be tempted to run the companies for

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11. Nor is nationalisation the only purpose for which they are used: it is often a matter of private companies 'voluntarily' undertaking social projects or infrastructure investment at the behest of the authorities. This is 'corporate social responsibility' *with attitude*.

12. As I have argued elsewhere, private domination of the oil sector was an anomaly, but it was a *positive* anomaly in economic terms; see Ahrend and Tompson (2006). The politics of the state's re-nationalisation of a large part of the oil industry are relatively easy to understand, but this development is unfortunate all the same.

13. See Ahrend and Tompson (2006) for a discussion of this issue.

their own benefit and will face strong incentives to resist increased transparency and accountability.

These considerations suggest that it is not the re-nationalisations of the mid-2000s that need explaining but the privatisation policies of the 1990s. The real puzzle may be the emergence of a private oil industry in Russia in the first place. The story is in fact fairly well known[14] and may be summarised very roughly as follows. A politically fragile regime succumbed to pressure from powerful regional, industrial and financial interests to break up and privatise the oil industry. In return, it gained badly needed domestic political support. Brief as it is, this two-sentence account points to some of the reasons for the reversal of course in the early 2000s.

To understand what has happened, it may be helpful to look first at the histories of an earlier generation of oil-producing states. Until the 1960s, a handful of international oil companies dominated the market, and oil-producing states had little option but to accept a substantial degree of foreign ownership and control over their reserves. Oil-producing states' need to attract large-scale investment gave the oil companies tremendous leverage over taxation, regulatory policies and questions of institutional design. Over time, however, the original bargains between the oil companies and host governments 'obsolesced',[15] as local elites' leverage increased. This resulted from a combination of learning within the state administration and the emergence of smaller competitors to the international majors, competitors who were willing to cede more revenue and greater managerial control to host governments in order to capture market share from their larger rivals. Governments also profited from the rise of western oil services companies, which provided yet another way to access the kind of technology and expertise that the majors provided. In these circumstances, developing countries were able to conclude more favourable contracts with foreign investors, and in many cases, to nationalise their respective oil sectors outright. The capital-intensive nature of oil extraction helped, of course, since it imposed high barriers to exit when states began to revise the original bargains.[16]

It is not difficult to see elements of the obsolescing bargain at work in Russia today. In the 1990s, a very weak regime made concessions to investors that it probably would not have made in other circumstances. These concessions became less palatable as oil prices rose, and the state's extractive and coercive capacities recovered. The role of the oil boom should not be overlooked here: a host government's assessment of the cost–benefit ratio of its bargain with investors is more likely to deteriorate if the investment is more profitable than anticipated. Dramatic oil price increases thus put the bargain under strain – and would have done so even in the absence of the kind of political conflicts that led to the state's confrontation with Yukos in 2003. The state's new assertiveness is hardly a surprise. Woodruff (2005) points to a more general problem of which this is but one example: when institutions are still relatively weak and in a state of flux, sharp jumps in the value of assets can make it harder to stabilise/secure property rights. The greater the incentives for predators to try to seize assets, the stronger a property rights regime needs to be. Dramatic jumps in asset values increase those incentives, prompting agents

14. For an overview, see Lane (1999).

15. See Vernon (1971) for the original model of the 'obsolescing bargain'. See also Jones Luong (2004); Moran (1974); and Tugwell (1975).

16. Eden *et al*. (2004:6) argue that bargains between states and multinationals in manufacturing sectors are far less likely to obsolesce, in large part because their investments tend to be smaller, more mobile and more closely tied to knowledge-based, firm-specific advantages.

to work all the harder to circumvent or simply overcome whatever legal or institutional protections are in place.

These arguments about economic structure and obsolescing bargains should not by any means be taken to imply that factors such as ideology, 'clan' politics, geopolitical calculations or rent seeking do not matter. On the contrary, they clearly form an important part of the story. It is also important to emphasise that political leadership does matter. Institutional weaknesses do not predetermine policy choices, in Russia or elsewhere, but they *do* structure the choices politicians face: the opportunities for pursuing private/factional interests, geopolitical ambitions or ideological visions via (*de facto* or *de jure*) nationalisation are largely defined by the structural features of the situation. This suggests, in turn, that the recent expansion of state control in Russia's 'strategic' sectors will not soon be reversed. While the political conjuncture could quickly change, the underlying structure of the Russian economy will evolve more slowly. It would therefore be unwise to expect a sharp reversal of course after the 2007–08 electoral cycle; those who believe that the Putin succession will bring a new wave of large-scale privatisation, as the incumbent elite tries to 'cash out', are likely to be disappointed. This makes it all the more important to understand what these shifts imply for the performance of the sectors affected.

The implications of state expansion for economic performance

Economically speaking, the expansion of state ownership in Russia since 2004 must be regarded as bad news. A large and growing body of research confirms that privately owned companies generally perform better than state-owned firms or those in mixed ownership, especially in sectors characterised by robust competition.[17] There is little reason to think that Russia will prove an exception to this rule. On the contrary, the Russian state's poor track record when it comes to owning and operating businesses would suggest the opposite: it has proved to be an exceptionally ineffective owner. At issue, then, is not merely the general question of state vs private ownership but the capacity of the Russian state, in particular, to manage large companies in technically complex sectors, given the country's institutional weaknesses.

A number of problems are already becoming apparent. First, policy-making in sectors where the state is particularly active tends to be characterised by long delays, frequent reversals of course and the prevalence of non-commercial considerations. Nowhere is this more evident than in the oil sector: the authorities have delayed reform of the subsoil legislation for years on end, while continuing to use the defects of the current licensing regime to pressure companies. Even apparently clear decisions, such as the much-discussed Gazprom–Rosneft merger, can be reversed almost without warning. Not surprisingly, the contradictions and delays that afflict government decision-making in most spheres of policy also affect the corporate decision-making of the companies it controls. This not only undermines the performance of state companies, it also creates problems for the remaining private companies in those sectors. The performance of private oil and gas companies, in particular, has been affected by the state's expansion, which has raised questions about whether and to what extent they can expect a more or less level competitive playing field in future.

17. For an overview of international experience, see Boardman and Vining (1995); on the Russian case, see Tompson (2002). See also Megginson and Netter (2001); Commander *et al*. (1999); and the work surveyed in Nellis (1998).

Secondly, the country's existing large state-owned companies are hardly models of good corporate governance,[18] and their recent histories suggest that expanded state ownership will result in poorer performance by the companies affected. In general, Russian state-owned companies are run for the benefit of corporate insiders and their patrons in the state administration. They also tend to be financially rather opaque (many observers have commented on their poor reporting practices), which makes them attractive sources of funding for informal political or policy initiatives that, for various reasons, the authorities wish to keep off-budget. Yet rent-seeking and abuse of position are only part of the problem: even if all the agents involved were honest, the system of corporate governance devised for the major Russian state-owned companies would ensure that they could not operate efficiently. The 'directive' system for agreeing the positions to be adopted by state representatives at board meetings is cumbersome and frequently ensures that decisions simply have to be put off – the state institutions involved are unable to agree common positions quickly enough. Moreover, the boards of state companies are dominated by state appointees, many of whom really do not understand either the board's role or the business itself and do not have incentives to invest time and effort into mastering these issues. In any case, the whole notion of state representatives in mixed-ownership companies contradicts Russian companies law, which insists that board directors do not represent specific shareholder interests. *All* directors are jointly and severally responsible to *all* shareholders. The directive system clearly violates that principle.

A third, and related, problem stems from the tendency to appoint representatives of 'line ministries' to the boards of companies in the very sectors those ministries regulate; this leads to a conflation of regulatory and commercial functions. Far from effecting a clear separation of sectoral policy and ownership, the Russian government frequently combines the two. The direct involvement of line ministries in the governance of state companies is only part of the problem: sometimes the state effectively vests regulatory functions in state companies like Gazprom and Russian Railways. The major firm on a market may thus find itself regulating its rivals, with all the conflicts of interest that such an arrangement entails.

Unfortunately, it is not clear that the players involved have any incentive to correct these deficiencies Too many of them have good reasons not to want good corporate governance in state-owned companies. One of the clearest indications of this is the continued existence of thousands of state unitary enterprises or GUPs. These are state concerns that are not even organised as corporations. The GUP was only ever intended to be a transitional form of ownership – GUPs were either to be corporatised (usually as a prelude to privatisation) or converted into treasury enterprises, operating as state bodies subject to tight financial controls. Because GUPs were meant to be a temporary phenomenon, the legislative framework governing their activities was never fully elaborated. While amendments to Russian law in 2002 went some way to correcting this, the legislation remains problematic: property rights are poorly regulated and monitoring is weak. This has made the GUP a popular organisational form for state enterprise managers and bureaucrats who oversee them; GUP managers and the state institutions that oversee particular GUPs have often put up fierce resistance when attempts were made to corporatise them. Even if no privatisation is envisaged, corporatisation involves a degree of

18. See OECD (2005).

transparency and accountability that GUP insiders and their patrons in the bureaucracy often wish to avoid.[19]

The overly complex structures of state-owned corporations similarly reflect a desire to reduce transparency and accountability, by ensuring that valuable assets are held in subsidiaries, or subsidiaries of subsidiaries, of state-owned firms. Rosneftegaz, for example, was created solely in order to serve as a vehicle for holding state shares in Rosneft that were used as collateral for the financing of the state's purchase of Gazprom shares held by Gazprom subsidiaries. When the credits used to finance the purchase were paid off, Rosneftegaz was to be liquidated, and the shares it held in Rosneft and Gazprom were to be transferred back onto state's balance sheet. In fact, this did not happen, and the explanation given for Rosneftegaz's continued existence was that it allowed for greater 'flexibility' in the management of the assets in question.[20] Keeping the shares in question off the state's balance sheet ensured that they would not fall under the provisions of privatisation legislation and thus could be managed or even disposed of with far less scrutiny than otherwise. Income generated by the management or sale of the shares would also fall safely outside the norms of budgetary and privatisation legislation that would otherwise apply. It takes little cynicism and less imagination to see insiders' interest at work here.

As unpopular as many of the privatisations of the 1990s and early 2000s proved to be, they brought real economic benefits in their wake, in terms of improved performance.[21] It would be difficult to argue that the re-nationalisation wave of 2004–07 has brought any benefits whatsoever to ordinary Russians, nor are they likely to do so.

19. Ironically, managers have an incentive to resist, regardless of their motivations, since the benefits of corporatisation accrue to the owners, not management. For an honest, efficient and competent manager, corporatisation involves significant costs and no obvious benefits for him/her. Additional oversight and reporting will simply be a hassle. For any other manager, it represents a threat, as his/her dishonesty, inefficiency or incompetence risk being exposed.

20. *Vedomosti*, 24 and 27 July 2006, 28 December 2006.

21. See Tompson (2002) and OECD (2004).

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