Section 6. Institutional Issues

6.1. Public Sector and Privatization

6.1.1. Public sector dynamics in the Russian economy

The Russia's Government has adopted no other privatization programs over the last two years, as it did in the 2000s, since the Forecast Plan (Program) for the Federal Property and the Guidelines of Federal Property Privatization for 2011–2013 was adopted in November 2010. However, it is these documents that contained numerical data on federal state unitary enterprises (FSUEs) and joint stock companies (JSCs) in which the Russian Federation had a participating interest as of the beginning of a calendar year. Therefore, there is no sufficient information for making an impartial assessment of the dynamics of the foregoing components in the public sector in 2012. Nevertheless, it is possible to assess some basic trends on the basis of the information provided by the heads of federal government authorities and the Federal Agency for State Property Management (*Table 1*).

Table 1

The number of organizations using federal property, and property units registered with the federal property register in the period between 2012 and 2013 (units)

Date	FSUEs	partially state-owned JSCs	FSEs	State-run assets	Land plots	
					units	ha
as of January 1, 2012	…	2933	…	1369446*	…	1007930198
as of mid-October 2012	1927	2587	21127	86630	314490	…
as of February 1, 2013	1795	2325	20246	87382/ about 250,000**	314490/ 238420***	1.2bn / 554m***

* – total property units registered with the federal property register;
** – in the numerator – based on the materials of the Ministry of Economic Development and Trade of Russia on "Federal Property Management" to the State Program on Federal Property Management through to 2018, in the denominator – based on the report made by the Minister of Economic Development, A. R. Belousov at the Russia's Government's meeting held on February 7, 2013;
*** – in the numerator – total including non-registered lands, in the denominator – only registered lands.
Source: www.rosim.ru; www.economy.gov.ru, Deputy Minister of Economic Development, head of the Federal Agency for State Property Management O.K. Dergunov's report on "The Enhancement of State Property Management Quality" made at the Collegium of the Ministry of Economic Development and Trade of Russia on November 30, 2012; the Federal Agency for State Property Management's materials on "Federal Property Management", 2013; the report made by the Minister of Economic Development, A. R. Belousov at the Russia's Government's meeting held on February 7, 2013.

The number of partially state-owned JSCs decreased by more than 1/5 (approx. by 600 units) over 13 months (since early in 2012 to February 1, 2013), including the period between mid-October 2012 and early in February 2013 – approx. by 260 units. The number of FSUEs reduced approx. by 130 units, state-run enterprises increased by more than 750 units for a fraction of 4 months. Total area of the federally owned lands increased by 19% (or just short of 200m ha) over 13 months (in the period between 2012 and February 1, 2013).

Thus, as of February 1, 2013, 1795 FSUEs, 2325 partially state-owned JSCs, 20246 federal state establishments (FSE) were the key property units of the federal property management system.

Most (77%) of the unitary enterprises were governed by owners represented by federal executive authorities jointly with the Federal Agency for State Property Management, 15% of FSUEs were owned by state academies of sciences (Russian Academy of Sciences (RAS) and sectoral academies of sciences), 4% by the Ministry of Defense of Russia, another 2% of enterprises were governed through different state corporations (SCs) and the Presidential Property Management Department.

Fully state-owned JSCs governed by the Federal Agency for State Property Management accounted for 52% of 2325 JSCs, whereas JSCs with less than 2% of state-held interest accounted for 25% of these.

With regard to the management of partially state-owned JSCs, Minister of Economic Development A. R. Belousov pointed out in his report at the Russia's Government Meeting on February 7, 2013 that public sector employees accounted for 65% of the management of state corporations (inclusive of audit committees). In 2011, 1,500 professional directors, including 362 independent directors and 1143 professional agents, were appointed to the management body of about 700 partially state-owned JSCs.

However, the materials of the Ministry of Economic Development and Trade to the State Program on Federal Property Management through to 2018 contain information about 1512 professional agents and 601 independent directors. These figures are most likely to belong to 2012, because the figures for 2011 provided by the head of the Ministry of Economic Development and Trade of Russia are more or less correspond to those published in the previous review of the Russia's economy. However, the issue of professional directors in federally owned JSCs remains to be unclear. One may assume that a share of JSCs with professional directors increased notably in the last year in response to a decrease in the number of partially state-owned JSCs rather than growth in the number of professional directors.

Sixty six (or 2.8%) of such economic agents (a total of 2325 units) are included into a special list, and decisions on the key management issues of such economic agents are subject to Russia's Government decrees. However, most of such companies have no key performance indicators linked to approved provisions on senior management remuneration. Only 20 JSCs of the special list 66 JSCs have provisions on remuneration and 18 have approved key performance indicators which are linked to approved provisions on labor remuneration.

According to the Ministry of Economic Development and Trade, as part of the development of Russia's Government draft orders on the nomination of candidates to boards of directors (supervisory committees) of the JSCs included into the special list, the number of independent directors in the board of directors of such companies will be much (by 45%) bigger in the 2012–2013 corporate year (from 85 persons in the 2011–2012 corporate year to 123 persons in 2012–2013). However, the number of professional agents and state employees will be

slightly smaller (from 222 persons in 2011–2012 to 212 persons in 2012–2013) and (from 165 persons in 2011–2012 to 164 persons in 2012–2013)[1] respectively.

However, according to mass media[2], the Ministry of Economic Development and Trade of Russia suggested to increase from 140 to 163 government employees in the board of directors of the OJSCs included into the special list, which was approved by the Russia's Government Order No. 91-p,. It is the new 6 companies (e.g., Russian Hippodromes and Avtomatika Concern) included in the list that were partially responsible for the increase.

However, this process has an effect on the companies which were included into the list long time ago. For example, only 6 of 16 leading companies (Gazprom, Russian Railways, Alrosa, Rostelecom, etc.) had 19 public sector employees in the board of directors in 2012 with 45 nominees for 2013, thereby the number of public sector employees is expected to increase almost in all of these companies (except for State JSC Oboronkomplex). All in all, the number of companies, in which the number of public sector employees is going to increase (17 units), is of a little bigger than that of the companies (11 units) in which the number of public sector employees is declining (e.g., OJSC Prioksky Non-Ferrous Metals Plant, the State Research Center of the Russian Federation Concern CSRI Elektropribor, JSC, and the Center for Shipbuilding and Maintenance Technologies).

The number of independent directors was suggested to change almost the same way, i.e. increase their number in 19 companies, decrease in 11 (including Vneshtorgbank, Rossian Agricultural Bank, Zarubezhneft, Channel One Russia, Russian Space Systems), while the total number of independent directors was scheduled for increase by 1.2 times (from 90 to 108 persons).

The real estate portfolio owned by federal government bodies includes more than 430,000 buildings and facilities located on 72,000 land plots with a total area of 32m ha. Buildings, facilities and premises account for 93%, movable property for about 5%, aircrafts and sea ships for another 1% of the state-run enterprises (87382 units).

The aggregate nominal value of all of the foregoing assets registered with the federal property register amounts to nearly Rb 12 trillion. However, the Head of the Ministry of Economic Development and Trade of Russia stated that this value is a lot bigger and their real market value is more than Rb 100 trillion. It was the first time since Such figures were officially announced for the first time ever.

It is to be recalled that in March 2010 the Federal Agency for State Property Management published information on that the state property register had been completed for the first time since 1991. Systematic work on the register preparation began upon the approval of the Provision on Federal Property Accounting and the Federal Property Register Maintenance in the Russia's Government Decree dd. July 3, 1998, No. 696. The currently existing Provision on Federal Property Accounting was adopted nine years ago in response to the Russia's Government Decree dd. July 16, 2007, No. 447 "On the Enhancement of Federal Property Accounting", when the previous provision ceased to be in force.

Thus, the state property register was prepared over a period of about 12 years, i.e. throughout the entire decade of the 2000s, whilst such information was needed badly as early as the first half of the 90s, at least upon the completion of the voucher privatization in the mid-1994 when the privatization process remained intensive enough. The foregoing is a good illustra-

[1] www.economy.gov.ru, December 5, 2012.
[2] Ushakova D., Public sector employees again will be assigned to watch businesses, www.izvestia.ru, December 17, 2012.

tion of the quality of state economic policy administration, in particular of how the state performed its functions.

This is why the dispersion of state property appraisals is by no means surprising. Its total nominal value depends directly on the registry data completeness in terms of its quantitative and qualitative characteristics[1]. With regard to the fair market value, it depends largely on the category of assets and appraisal methods. The blocks of shares in joint stock companies which were established long time can be valued against stock market quotations, whereas such assets as unitary enterprises, public establishments, lands, and real estate are hard to appraise.

For example, the principal real-estate appraisal methods are based on the comparative approach (available data on recent similar transactions), cost-based approach (based on full reproduction net of depreciation) and income-based approach (based on estimates of future incomes generated from the use of assets). It is obvious that the foregoing parameters can hardly be relied upon even for the appraisal of real estate itself, let alone the assets owned by unitary enterprises and establishments, because of the lack of similar transactions or the non-recurrent nature thereof. Well-known are the problems of taxation of physical bodies' property which occur because of the difference in the appraisal of apartments performed by the Bureau of Technical Inventory (BTI) and the appraisal based on residential property market prices, as well as when cadastral value of a land is determined. In addition, a big share of state property is used in non-profit activities (e.g., education, healthcare) and during performance of public functions (e.g., national defense, security), and the income generated from these activities and functions is an indirect result of its functioning.

This is why the provided market value assessment of state-owned assets is rather a potential value.

A circumstantial evidence of this is the market value assessment of an interest in the companies included into the MICEX index and directly owned by the Federal Agency for State Property Management (Rb 2.3 trillion)[2], and relatively moderate values of the budget revenues in the 2000s (much higher than in 2011–2012 though).

According to the Rosstat's public sector composition monitoring, the quantity dynamics of public sector economic agents in the period between the mid-2010 and mid-2012 can depicted as follows (*Table 2*).

As is seen from *Table 2*, the total number public sector organizations decreased by 7.5% over the two years (between July 1, 2010 and July 1, 2012) (or by more than 5,600 units), to amount to about 69,2,000 units as of July 1, 2012.

It was the 27.0% decrease (or by almost 1950 units) in the number of unitary enterprises that was mainly responsible for the foregoing. Though being relatively less bigger, the reduction (by 5.6%) in the number of public establishments was more significant in absolute magnitude (by more than 3,400 units). By July 1, 2012 the number of business entities with more than 50% of state-held interest reduced most, by 8.2% (or approx. by 320 units). However, the number of business entities in which more than 50% interest is held by public sector business entities increased by 4.4%, a gain of about 100 units. As a result, as of the beginning of 2011,

[1] In his report at the Russia's Government meeting on February 7, 2013 the Head of the Ministry of Economic Development and Trade of Russia said that federal property inventory was scheduled to be completed this year.

[2] The amount would increase up to Rb 6.1 trillion if a state interest in the most expensive companies with indirect state control (e.g., Gazprom, Rosneft, Sberbank, Rostelecom) is taken into account Russia has evaluated its own property for the first time ever/ Vedomosty, 08.02.2013, www.finance.rambler.ru

the number of these economic agents exceeded 2,400 units to reach its maximum since they were included into the public sector of the economy at the very end of 2002.

Table 2

The number of public sector organizations registered with territorial offices of the Federal Agency for State Property Management and government bodies for management of state-owned property of the constituent territories of the Russian Federation in the period between 2010 and 2012

Date	Total*	SUEs, including state-run enterprises	Government agencies	Partially state-owned business entities	
				over 50% of state-held interest (interest)	over 50% interest is held by public sector business entities
as of July 1, 2010*	74867**	7230	61493	3915	2229
as of January 1, 2011*	73498**	6761	60266	4051	2420
as of July 1, 2011*	72047**	6245	59483	3928	2391
as of January 1, 2012*	69689**	5805	57839	3733	2312
as of July 1, 2012*	69251**	5282	58049	3593	2327

* – federal property accounting is subject to the Russian Government Order dd. July 16, 2007, No. 447, "On the Enhancement of Federal Property Accounting";
** – including organizations whose state registered articles of association contains no specific types, and excluding joint stock companies in which more than 50% interest is held on the basis of joint state and foreign ownership.
Source: On the development of the public economic sector in the Russian Federation in H1 2010 (pp. 7 –11), in 2010 (pp. 7 – 11), in H1 2011 (pp. 7 – 11), in 2011 (pp. 7–11), in H1 2012 (pp. 7–11). M., Rosstat, 2010–2012.

Over a year from mid-2011 till mid-2012 total number of public sector companies reduced by 3.9% (or by almost 2,800 units).

It was a reduction of 15.4% (or by almost 1,000 units) in the number of unitary enterprises that was mainly responsible for the foregoing. The reduction in the number of public agencies was far smaller, only 2.4%, its absolute value was found to be bigger vs. unitary enterprises (more than 1,400 units), while public government agencies saw an increase in absolute number in H1 2012. At the same time, the number of business entities with more than 50% state-held interest decreased by 8.5% (or more than 330 units). The number of business entities in which more than 50% interest is held by public sector business entities reduced by 2.7% (more than 60 units), whereas their number increased a bit in H1 2012, like in the case with public agencies.

The latest crisis raised a question of its effect on the state as manufacturer of (works, services) in the economy. The Rosstat's monitoring only partially supports the view of growing state participation in different final figures of economic performance (*Table 3*).

Table 3

Public sector's share by basic economic indicator in the period between 2009 and 2012, %

Indicator	2009	2010	2011	HI 2012
1	2	3	4	5
Volume of shipped goods produced by the company, completed works and services wo subcontracting :				
- mineral recourses production	11.5	9.8	16.5	16.6
- fuel and energy recourses production	11.1	9.0	16.7	16.5
- manufacturing sector	9.5	8.7	9.9	9.3
- production and distribution of electric power. gas. and water	14.0	17.8	24.0	25.8
Scope of construction works performed w\o subcontracting	3.8	4.1	4.0	3.9

cont'd

1	2	3	4	5
Passenger turnover at transportation companies *	63.2	56.1	65.3	61.7
Volume of commercial transportation (dispatch) of cargos by transportation companies (net of companies involved in pipeline transportation)	76.6	78.4	38.1	79.1
Commercial cargo turnover performed by transportation companies (net of companies involved in pipeline transportation)	93.8	93.6	36.4	94.3
Communication services **	13.9	15.2	13.4	13.8
In-house research and development costs	74.4	73.4	73.8	72.5
Volume of paid services rendered to the general public	16.5	18.9	18.8	18.6
Capital investments from all sources of financing ***	22.8/ 17.1	24.5/ 17.8	28.8/ 21.3	26.0/ 19.7
Net proceeds from sales of goods, works, services (net of VAT, excise taxes and other similar mandatory payments)	10.6	18.9	11.6	11.4
Average staffing number	24.6	24.9	24.9	25.7

* – save for municipal electric passenger transport organizations;
** – net revenues from sale of goods, products, works, services (net of VAT, excises and other mandatory payments);
*** – in the numerator, net of small enterprises and volume of investments which can't be observed through direct statistical methods.
Source: On the development of the public economic sector in the Russian Federation in 2009 (pp. 13, 45, 47–48, 49, 52, 60–61, 62, 66–67, 87), in 2010 (pp. 13, 46, 48–49, 50, 53, 61–62, 63, 67–68, 88), in 2011 (pp. 13, 35, 37–38, 39, 42, 50–51, 52, 56–57, 77), in H1 2012 (pp. 13, 33, 35–36, 37, 40, 42–43, 44, 48–49, 69). M., Rosstat, 2010–2012.

However, as it can be seen from *Table 3*, in 2011 and H1 2012, like throughout the entire period of the 2000s, that the public sector had an insignificant share in most indicators (not more than 15–20%) with a slightly bigger share in the field of investments (20–30%) and employment (about 25%).

However, official statistics reported an increase in 2011–2012 vs. 2009 in the public sector's participation share in mineral production (including fuel and power), в production and distribution of electric power, gas and water, communication services, capital investments, paid services to the general public, and such a generalized financial indicator as net proceeds from sales of goods, works, services (net of VAT, excises and other mandatory payments)

The public sector had most substantial share in the production and distribution of electric power, gas and water, approaching 26% (against 14% in 2009) at the end of H1 2012. It should not be left unnoticed that the public sector's share increased substantially to 16.5% in the mineral production (including fuel and power) in H1 2012 against 10 to 11% in 2009 – 2010.

A special emphasis should be placed on cargo transportation. On the one hand, the 2011 statistics showed a drastic decline in the public sector's share in cargo transportation and cargo turnover figures (up to 36–38%), whereas in H1 2012 their values resumed the level of 2009–2010 (more than 76–78% and 93% respectively). On the other hand, in H1 2012 a share of the public sector in the passenger turnover of transport companies was found to be far less than in 2008–2009[1] after a notable increase in 2011 (more than 65%).

A more sophisticated analysis of the situation reveals that the public sector was dominating (railway cargo shipment and passenger transportation, forest regeneration, production of sodium carbonate, domestic R&D costs) only in a few types of activity at the end of 2011 and in H1 2012.

[1] The foregoing trends need to be adjusted as to the results shown in 2012 in general for the figures describing the cargo transportation sector.

In most other cases the share was less than 20%, save for oil production, including gas condensate (in H1 2012 the public sector accounted for 21.4% against 20.9% in 2011), cargo and passenger air transportation, as well as vehicular traffic (net of small businesses), in all statistically recognized types of paid services[1] in which the public sector accounted for less than a half anyway. In addition, the public sector accounted for more than 20% in the inland water transport industry in H1 2012.

It should be noted, however, that the foregoing data should rather be regarded as minimal given the complexity of measuring the public sector's share for the following reasons: (1) limited reliability of the Rosstat's data amidst the multistage corporate control system employed at many state-owned enterprises, which excludes several levels (by analogy with private companies), (2) impossible impartial and reliable assessment of the state indirect effect on property relations based on the results of the anti-recessionary measures taken in 2008 – 2009 and (3) potential incompleteness of accounting by public agencies.

6.1.2. Privatization Policy

Since the Privatization Program for 2011–2013 adopted by the Russia's Government in November 2010 covered a three-year period at the moment of its approval, it was subsequently amended and restated, more intensively in 2012 than in the preceding year. A total of 36 respective legal acts and regulations have been adopted by the Russia's Government Order dd. November 27, 2010, No. 2102-p since the adoption of the Forecast Plan (Program) of Federal Property Privatization and the Guidelines of Federal Property Privatization for 2011–2013, of which 24 were adopted in 2012 against 11 ones in 2011 (another one was adopted as early as the very end of 2010).

The amendments made in 2012 are distinguished mostly by a serious radicalization of privatization plans with regard to the largest companies in which a state-held interest was allowed to be reduced by extending a list of assets proposed for privatization.

It is to be recalled that the original version of the existing privatization program included 10 such companies, whereas in 2011 it was only a decrease in a state interest in the Federal Hydrogeneration Company (RusHydro) and United Grain Company (UGC) that was specified, retaining a 50% control interest plus one share.

All in all, the process of privatization of the largest JSCs in 2012–2013 was specified by the Russia's Government Order dd. June 20, 2012, No. 1035-p.

The United Grain Company (the state ceased to participate in the charter capital of the company), Sovcomflot (50% less one share), Rosagroleasing (49.9% less one share), VTB Bank (25.5% less one share), Russian Railways (25% less one share), Sberbank (7.58% less one share)) were referred to as the largest companies, in which (except for Sberbank and Russian Railways) the state is going to discontinue its participation by 2016. The same was announced with regard to many other companies, namely Zarubezhneft, RusHydro, INTER RAO UES, Sheremetievo International Airport, Aeroflot, Rosselkhozbank and ALROSA). A state-held interest is subject to reduction in some of the companies such as Transneft, FGC UES, UralVagonZavod (up to 75% plus one share), the United Shipbuilding and Aircraft Building Corporation (up to 50% plus one share)).

In addition, in 2012 it was suggested to reduce by 90% a state-held interest in OJSC ROSNANO by issuing and selling additional shares; beginning with 2013, to sell Ros-

[1] In this context, it is the transport, medical, convalescence, and educational services that can be highlighted in statistical reports.

neftegaz's interest and discontinue its participation in Rosneft by 2016 (provided that OJSC Rosneftegaz is allowed to act as investor during privatization of fuel-and-energy companies before the beginning of 2015 and submits a program of financing of such transactions, providing for the use of dividends from the companies' shares held by the said joint-stock company).

In the meantime, in 2012 Rosneft itself closed the largest transaction in the history of the Russian market for corporate. In the fall of 2012 Rosneft was reported to have bought TNK-BP.

Different documents were already signed with the both of the previous shareholders (British Petroleum and AAR Consortium comprising Alfa Group, Access Industries and Renova Group of Companies) which provide for selling of the shareholders' equal interest (50% each) in TNK-BP. The AAR Consortium's interest was valued $28bn, whereas the BP's only $17.1bn, but the latter also must receive the Rosneft's treasury shares (12.84%) being on the BP's books. In addition, BP entered into an agreement on the purchase of an extra block of NK Rosneft shares (5.66%) from OJSC Rosneftegaz which holds more than 75% of Rosneft shares. Once these transactions have been closed, BP would hold 19.75% of Rosneft shares, including a 1.25% interest which BP already holds. The transactions are expected to be closed in H1 2013 as soon as they are approved by regulating authorities.

The foregoing will definitely strengthen Rosneft's position both in the Russian fuel and energy industry and the world market. However, the need for a substantial amount of financial resources (inclusive of fundraising) to close the transactions might minimize a possible effect of optimization of assets and production performance, increased capitalization, and improved image of the company, which in turn may have an impact on privatization perspectives in the future.

Though the privatization program for 2011–2013 has been extended substantially, no changes have been made in the estimated amount of federal budget revenues. In this respect it is worth recalling that the forecast plan includes a maximum of about Rb 1 trillion of privatization revenues to be generated within the period between 2011 and 2013, given the market conditions and in case the Russia's Government makes specific decisions on privatization of the largest companies' shares which are highly attractive in terms of investment. Without considering the foregoing aspects, only Rb 6bn of revenues from privatization was estimated for 2011, and Rb 5bn for 2012 and 2013 each.

It should be taken into account within the context of analysis of the federal budget revenues from privatization and sale of state property that as early as 1999 the revenues from the principal part of such assets (shares, and also land plots in 2003–2007) began to be referred to as sources of budget deficit financing. Revenues from sale of other assets (different types of property and land plots) were included into the revenue side of the budget.

Neither the main part, nor the annexes of the Federal Law dd. December 3, 2012, No. 216-FZ, "On the Federal Budget for 2013 and for the Planning Period for 2014 and 2015" contain information on any specific amount of revenues from privatization. The annexes thereto relating to sources of budget deficit financing contain only a summary of other types of sources without any specific reference.

The same is true with a project which the Russia's Government submitted to the State Duma for consideration. It is only an explanatory note attached thereto that specified revenues from federal property privatization as a stand-alone source of federal budget financing, in addition to public borrowing.

It was announced that privatization of blocks of shares in large Russian companies which may attract investments would continue. Almost all of such companies were included into the list provided in the privatization program for 2011–2013 (as amended and restated). Such privatization will be based on the Russia's Government's decisions in setting specific dates and methods of privatization, and with due consideration of the market situation as well as recommendations of the leading investment advisors. Such measures would allow the federal budget to generate revenues of Rb 427.7bn in 2013, Rb 330.8bn in 2014, Rb 595.1bn in 2015.

Comparing the foregoing data with the estimates of the Ministry of Finance of Russia, one may see a notable increase in forecast revenues from state property privatization vs. the data that were available two years ago in the core documents of the Ministry[1], let alone the figures provided by the privatization program for 2011–2013 (*Table 4*).

Table 4

Analysis of federal budget revenues from privatization in the period between 2011 and 2015, billions of rubles

Source	2010	2011	2012	2013	2014	2015
The Forecast Plan (Program) for Federal Property Privatization for 2011–2013		6.0	5.0	5.0		
Fiscal Policy Guidelines for 2011 and the Planning Period for 2012 and 2013		298.0	276.1	309.4		
Fiscal Policy Guidelines for 2012 and Planning Period for 2013 and 2014		298.0	276.1	309.4	300.0	
Fiscal Policy Guidelines for 2013 and Planning Period for 2014 and 2015				380.0	475.0	385.0
Draft of the federal budget for 2013 and the Planning Period for 2014 and 2015 (explanatory note)				427.7	330.8	595.1

Though in the relatively recent Fiscal Policy Guidelines (FPG) for 2013 and the Planning Period for 2014 and 2015 dated July 18, 2012 revenues from privatization were forecasted to increase by 12.6% (against Rb 380bn) in 2013, they are expected to decline by 30% (against Rb 475bn) in 2014. Thus, the forecast of privatization revenues was considerably higher for 2015, by more than 1/5 times (against Rb 385bn).

It is hard to say whether such goals are attainable or not, given the specific amount of federal budget revenues from privatization, because it depends both on the list and value of assets to be privatized, which depend on evaluation methods and market conditions.

In general, commitment to market conditions and recommendations of the leading investment advisors having the required resources, experience and business record, given the government exclusive right in the privatization sector and actual lack of external control over privatization make it possible to obtain a decent compensation for privatized assets. The existing mechanism of budgeting process, when the text of adopted budget law contains no instructions for privatization in the context of budget revenues, leaves a wide and unlimited space for making any decisions in respect to the list, terms, and sale-format of privatized assets.

For example, the amendments and modifications relating to ROSNANO and Rosneft, which were made in June 2012 to the privatization program for 2011–2013, have no direct relationship with the generation of federal budget revenues, and the allowance for allocation of revenues from privatization of JSC ALROSA (with coordination of sale of shares held by regions and municipalities) to the infrastructural development of the Republic of Sakha (Ya-

[1] The Fiscal Policy Guidelines for 2011 and the Planning Period for 2012 and 2013, the Fiscal Policy Guidelines for 2012 and Planning Period for 2013 and 2014.

kutia) is likely to encourage a reduction in budget revenues, all the more so, because no scale and proportion of such usage of privatization revenues are specified whatsoever.

Furthermore, it was specified in the explanatory note to the federal draft law "On the Federal Budget for 2013 and the Planning Period for 2014 and 2015" that the formation of the Reserve Fund and the National Wealth Fund allows for a part of oil and gas extra revenues to be used as a substitution for federal budget financing sources subject to a decision by the Russia's Government[1].

A similar possibility of financial maneuvering was allowed for by the amendments to the previous federal budgets: for 2011 and the Planning Period for 2012 and 2013[2] and for 2012 and the Planning Period for 2013 and 2014)[3], when oil and gas revenues which were generated during the implementation of the foregoing budgets were allowed to be used for the substitution of Russia's borrowings and/or revenues from sale of state-held interest and other forms of state-held interest in the charter capital of companies, or for other legally supported goals[4].

In addition, a subordinate role of privatization revenues in financing the federal budget deficit is worth noting, because these revenues are much smaller (by more than three times in 2013–2014, by more than two times in 2015) than the amounts of the expected public borrowings.

However, in addition to a possible adverse effect on the implementation of the privatization program due to a severe aggravation of the macroeconomic situation (e.g., a second round of crisis or global recession), there are visible risks relating to poor transparency of privatization processes, lack of transparency required for plans and methods of privatization of large companies, and the state gives no reasons (arguments) for decisions it makes. Given always an acute and controversial public response to privatization of large companies, the latter remains most important so that the 'rules of the game', mutual obligations of the state and buyers are clear for the general public. Also, there is a serious drawback in making no analysis of potential effects of privatization, practicability, alternative costs, potential risks, and impact on the development of specific markets, industries, regions, and the national economy at large.

So far the announced abrupt turn in the course of privatization away from public control in more than 10 largest nationally important companies has not been accompanied by any balancing measures, except for the possibility for the Russian Federation to exercise a special right ('golden share') in the management of less than a half of joint-stock companies (United Grain Company, Zarubezhneft, RusHydro, Aeroflot and ALROSA).

Regardless of many statements on the need to make the privatization process more transparent by the beginning of March 2012, to date, government authorities have provided no generalized data on the privatization process progress in 2012. No such data, except for information on the amount of budget revenues, was provided in the report of the Head of the

[1] Though no information about it can be found in text of the Federal Law dd. December 3, 2012, No. 216-FZ "On the Federal Budget for 2013 and the Planning Period for 2014 and 2015".

[2] Under the Federal Law dd. December 13, 2010, No. 357-FZ "On the Federal Budget for 2011 and the Planning Period for 2012 and 2013" (as amended and restated by the Federal Law of June 1, 2011, No. 105-FZ).

[3] Under the Federal Law dd. November 30, 2011, No. 371-FZ "On the Federal Budget for 2012 and the Planning Period for 2013 and 2014" (as amended and restated by the Federal Law of June 5, 2012, No. 48-FZ, which raised the threshold value. If the amount of oil and gas revenues exceeds this value, they may be used as described above).

[4] The latter refers to the preceding year budget only – amendments made by the Federal Law dd. July 28, 2012, No. 127-FZ.

Ministry of Economic Development and Trade at the Russia's Government meeting on February 7, 2013.

Indirect signs, the data provided in the foregoing report on that a total of 284 unitary enterprises have been included into the privatization program over the last three years, of which 70% have already gone public, and the data on privatization of FSUEs in 2010–2011 (a total of 205 units)[1] may lead to a conservative conclusion of privatization of about 100–140 enterprises in 2012.

With regard to privatization of blocks of shares, mass media previously reported with reference to the press office of the Federal Agency for State Property Management that 273 blocks of shares in joint stock companies[2] were sold in 2012 as part of the privatization program, which is approx. one fourth less than in the preceding 2011. This figure exceeds the figure of the pre-crisis period of 2008–2010, whereas it is less than that reported in 2006–2007.

A total of six privatization transactions, each being valued more than Rb 1bn, were closed or nearly closed in 2012.

The largest of the six transactions was closed in September, when a 58% interest in Sberbank held by the Central Bank of Russia was sold at Rb 159.3bn. The transaction features a seller special public status which differed from the normal role of government authorities when it comes to property management, and gave rise to special amendments to the budget to allow budget revenues to be generated from this source. It was established in the beginning of December 2012 that a part of the revenues generated by the Central Bank of Russia from the sale of the Sberbank shares, whose amount was calculated as the difference between the amount of revenues from the sale of the said shares and their book value, net of sale costs of the said shares, were to be transferred to the federal budget by reducing accordingly a part of the revenues generated by the Central Bank of Russia in 2012[3], which is payable to the federal budget.

A second largest transaction took place late in September 2012, when a 100% interest in SG-Trans OJSC was sold at Rb 22.77bn. SG-Trans is the largest railway carrier in Russia, which is involved in transportation, storage and sale of liquefied petroleum gas, and has a big stock of special railway tankers. Sistema JSFC[4] won the tender in which four bidders participated. Renaissance Capital acted as bidding process organizer.

In addition, in the beginning of the fall of the preceding year, BNP PARIBAS BANK CJSC which in compliance with the Russia's Government Order dd. November 3, 2011, No. 1920-r acted as bidding process organizer of a federally held interest in Apatite OJSC, 26.67% of a state-held interest in this company was sold, accounting for about 20% of the charter capital thereof. The best bid (Rb 11.1bn) was offered by FosAgro OJSC (the agent re-

[1] However, this value reflects the number of FSUEs on which decisions on terms and conditions of privatization were made, but they haven't gone public yet. For example, in 2011 only a total of 42 JSCs were registered at 143 enterprises which were subject to privatization according to relevant decisions.

[2] Russia will generate about Rb 3 trillion from privatization in four years, 07.02.2013. RBK provided this information with reference to the Federal Agency for State Property Management in January 16, 2013, though no such information is available in the Federal Agency for State Property Management's website.

[3] Under the Federal Law dd. December 3, 2012, No. 247-FZ, "On the Federal Budget for 2012 and the Planning Period for 2013 and 2014".

[4] SG-Trans will pay 22.77bn Rb to buy Sistema JSFC), www.OilCapital.ru, September 28, 2012.

ceived an offer from two bidders, whereas a total of six bids were received from Russian and foreign legal entities, of which only three submitted their bids)[1].

A state-held interest (55% of the charter capital or 73.33% common shares) in the Vanino Commercial Seaport (the Khabarovsk Territory) was sold at Rb 15.5bn to MECHEL-Trans LLC, and VTB Capital was appointed as the sole executer of the state order to sell on behalf of the state an interest in the foregoing OJSC as early as February 2012.

A far less amount (Rb 2.2bn) was generated from a blocking shareholding (25.5%) in the Murmansk Commercial Seaport, which was sold to two buyers (SUEK OJSC and Alfa Capital Holdings (Cyprus) Limited). The transaction was arranged by Raiffeisen Investment LLC[2].

Another large transaction in 2012 was the acquisition by Summa Group of an interest (50% less one share) in the United Grain Company by private subscription. A total of Rb 5.951bn was generated. The transaction was arranged by Troika Dialog, a subsidiary of Sberbank, which selected the winner.

There were smaller privatization transactions, namely sale of an interest in the OPKH Stud Farm Leninsky Put OJSC (the Krasnodar Territory, 100%, Rb 1869.969m) and the Ob-Irtysh River Shipping Line (Khanty-Mansyisk, 25.5%, Rb 474.589m).

The Russia's Government Decree dd. August 27, 2012, No. 860, on "The Provision on Organization and Sale of State or Municipal Property in Electronic Form" which was long awaited after the amendments to the law on privatization in May 2010, became an important event from the privatization process point of view.

It was a negative background, which occurred for the first time over the last few years, that became the key difference between the privatization process of 2012 and in the preceding year.

The negative background was triggered by the notorious events relating to Oboronservis JSCo in the fall of 2012. Furthermore, the sale of assets which were considered investment-attractive was also responsible for it.

The Federal Anti-Monopoly Service (FAS Russia) revealed signs of violation during the sale, by private subscription, of an interest in the United Grain Company (UGC) in May 2012, namely by 'preventing economic agents from buying additional shares issued by UGC thereby reducing the number of potential investors'. In this respect, the FAS Russia forwarded a letter to the Russia's Government in which it suggested to sell the UGC shares through public offering.

There were 6 bidders, including Louis Dreyfus, one of the world's largest grain traders. It was only Basic Element, whose interests were represented by Kuban Agricultural Holding Company, that expressed its discontent about the form of placement of UGC additional shares. In the mid-May Basic Element announced that 'the qualified investor selection criteria are nontransparent' and 'the placement of additional shares in the form of private offering fails to comply with the principles of free competition'[3]. Though shortly after that announcement a case was filed against UGC OJSC and Troika Dialog CJSC to the FAS Russia, but it was finally dismissed for absence of violations of the competition act by the foregoing economic agents.

Published facts of misuse and withdrawal of assets from the recently (in the fall of 2008) established Oboronservis JSCo reveal clearly the totality of the problems being faced in the

[1] www.rosim.ru, 07.09.2012.
[2] www.rosim.ru, 25.12.2012.
[3] Lanin D., FAS Russia is ready to dispute the UGC privatization, www.bfm.ru/news, June 15, 2012.

field of state property management and privatization, namely (1) lack of well-defined criteria of the need for privatization, in particular with respect to different types of activity in the military and national defense sector, (2) controversial advantages of corporatization in terms of retaining assets and serving the interests of the state, (3) the issue of manageability by and accountability to the state of integrated entities established at the initiative of the state, (4) it impossible for the state to get a compensation for previously contributed assets if their sale has been initiated by a holding company, while being exposed to the risk of a situation when a 'shell' of the parent company, which have sold its most valuable production or financial assets, becomes an entity for corporate governance or subsequent privatization, (5) a wide space for corruption becomes available in evaluating assets to be sold only subject to the provisions of the Federal Law "On Valuation Activity in the Russian Federation" in case of refusal to apply a price established by government authorities as the lowest price threshold in selling certain facilities.

It is to be recalled that Oboronservis JSCo is a large integrated entity comprising 9 subholdings, a 100% interest (less one share) of each was contributed to its charter capital. The same mechanism of asset control was provided for unitary enterprises and JSCs when the subholdings' capital was built up. Total number of enterprises which were scheduled for integration into the sub-holdings is impressive, even after some adjustments in 2011: Oboronstroi (58 units), Remvooryzheniye (56 units), Spetsremont (45 units), Aviaremont (39 units), Voentorg (34 units), Agroprom (30 units), Kransyaya Zvezda (20 units), Oboronenergo (11 units), Slavyanka (4 units). It is worth noting that Oboronservis JSCo itself, whose 100% interest is held by the state, was in the list of strategically important enterprises only for a year and a half (from the end of 2009 till April 2011) regardless of an obvious strategic importance of its affiliates.

The decision of the military entity's new management to suspend the sale of military assets and conduct inventory of the previously closed transactions was one of the short-term effects of the Oboronservis JSCo case.

A wider look at the situation from the perspective of the public sector at large would actualize an issue of the need and conditions for selling non-core assets of partially state-owned companies (JSCs in the first place) whose diversified nature may have both an adverse and a positive effect on the evaluation of an offered state-held interest.

In this respect, the Ministry of Economic Development and Trade and the Federal Agency for State Property Management suggest that the companies included into the forecast plan of privatization for 2011–2013 should not sell their non-core assets, because preliminary sale of such assets may deteriorate their investment attractiveness and result in less budget revenues. Thus, making a list of privatization for companies which are going to be released from the obligation to sell their non-core assets, inevitably becomes the subject matter to be agreed upon between different groups of interests, including those companies which generally prefer to retain such assets for many reasons (established relationships, the possibility for the personnel to receive benefits in kind, social responsibility, prestige, etc.). The scale of the asset disposal process would become quite limited without non-core assets of most structurally diversified large companies[1].

The Sale of a 100% interest in SG-Trans was disputed by Rosneft whose subsidiary RN-Trans filed a lawsuit against the bidding process organizer, LLC Renaissance Broker, to

[1] Kiseleva M., Privatization will help state-owned companies retain their non-core assets www.izvestia.ru, November 22, 2012.

invalidate the restrictions on participation in the privatization process. Initially, the court took the side of RN-Trans by prohibiting Renaissance Broker to further proceed with the sale of the federally-held shares. Later, however, the court lifted the injunction, and Rosneft renounced its claims and dropped the case. According to unofficial information, it happened after Sistema JSFC, a new owner of SG-Trans, provided Rosneft with a guarantee to enter with Rosneft into a long-term contract on transportation of liquefied petroleum gas [1].

Given the FAS Russia's refusal to allow Gazpromtrans to participate in the transaction, one may see a trend for prohibiting the largest partially state-owned companies from participation in privatization. Even earlier, late in 2011, Gazprom Energoholidng withdrew its claim to buy IES Holding, the largest private energy company. Initially, Gazprom entities were expected to hold a 75% interest in the new entity.

A resale, as reported in January 2013, of a state-held interest in the Vanino Commercial Seaport which was purchased by MECHEL a month and a half prior to the resale, raised the question of not only valuation of privatized assets, but also a real motivation of Russian businesses in the course of a new wave of privatization.

On the one hand, the MECHEL management explained this transaction by the need to look for a base to sale the coal from the Elginsk minefield in Yakutia. The management looked into the option of constructing a new coal terminal as an alternative to the purchase of the port. Six bidders other than MECHEL participated in the tender for the state-held interest. Finally, the state-held interest was sold at Rb 15.5bn, with an asked price of Rb 1.5bn, though MECHEL had the strongest debt burden among all of the Russian mining companies. On the other hand, its subsidiary MECHEL-Trans LLC reported that new 'investors are not interested in cargo transshipment trough the Vanino Commercial Seaport'. Neither the composition of new owners, nor the amount of the resale transaction was specified.

Finally, MECHEL retained only a 1.5% of the port capital, another 73.3% of common shares (55% of the charter capital) was transferred to the new owners, 28.1% was held by En+Group, an affiliate with Basic Element business group. MECHEL representatives reported that the group acted as the leader of a consortium of investors with whom it concluded an agreement on non-debt funding if MECHEL gains control of the port. Shortly after the resale, South Korean companies were mentioned among new owners, including Pohang Iron and Steel Company (Posco) which had an agreement on cooperation with the Russian company. Later, it was reported that three Cypriote companies (Open Trade Limited, Segmino Investments Limited and Travine Trading Limited) became new owners.

It is quite obvious that this fact contradicts the announcements made by the top political leaders about focusing on higher transparency and 'deoffshorization' of the economy. However, according to the statement made by the Head of the Ministry of Economic Development and Trade at a briefing which was held after the Russia's Government meeting on February 7, 2013, this news is not considered as triggering a deep concern[2].

Finally, one may add that the sale transaction of the state-held interest in the Vanino Commercial Seaport was not the first one. In 2011, the results of the previous sale of the in-

[1] The results of SG-Trans privatization were recognized by a government order, www.rupec.complexdoc.ru, November 22, 2012.

[2] Lanin D., MECHEL sailed through Vanino, http://www.bfm.ru/articles, January 19, 2013; the Ministry of Economic Development and Trade of Russia sees no 'threat' in that three offshore company have obtained control of the Vanino port, 07.02.2013, ITAR-TASS. Delovye Novosti.

terest were cancelled after the buyer refused to discharge its payment obligations[1] and was charged by arbitration court to pay Rb 75.114m

Thus, the second year of the first in the Russian history 3-year privatization program (2011–2013) was marked by numerous scandals based on a set of issues which are typical of the Russian privatization (providing rationale for a fair price of privatized assets, real motivation for participants, defining buyer selection criteria, ensuring transparency, regulators' claims). Obviously, the foregoing provide no support to build up a positive image of the new wave of privatization.

In the mid-December 2012, a collegium of the Accounts Chamber of the Russian Federation (AC) analyzed the results of the preparation and implementation of privatization plans for 2011–2014. The collegium revealed that no regulatory and methodological documents regulating the content of expenditure commitments required for privatization were in place. It was revealed during the audit that the Ministry of Economic Development and Trade failed to ensure transparency of the procedures for making decisions on the terms and conditions of privatization of certain companies[2].

However, a series of sales of an interest in the most important Russian companies is expected to take place this year.

For example, as early as the summer 2012, UBS Bank LLC and Deutsche Bank LLC were selected as sellers (organizers of the sale) of a federally held interest in the Novorossiysk commercial seaport and Sovcomflot[3].

In February 2013, agents were selected to sell a 7% interest in ALROSA. A branch of Goldman Sachs (Russia) LLC provided the best bid with the lowest commission charged for the organization and sale of the interest, which would be recommended as agent to the Russia's Government. The foregoing bank was recommended to include at least one Russian bank into a consortium of banks which is to be established to execute the transaction, given the objectives to develop the stock market and establish an international financial center[4].

The Moscow Stock Exchange, an integral part of the process of creation of the International Financial Center in Moscow, is expected to become a floor for privatization of Alrosa OJSC and placement of additional shares of VTB Bank OJSC. According to Dergunov O., the Head of the Federal Agency for State Property Management, with reference to the Ministry of Economic Development and Trade, Alrosa together with Transneft and Russian Railways can be viewed as locomotives for raising Russian pension accruals and savings.

However, the latter of the aforementioned companies is currently subject to legal restriction on privatization. This is why the Ministry of Economic Development and Trade of Russia in conjunction with the concerned government authorities have been working on relevant amendments to the legislation in order to create conditions for the privatization of Russian Railways' shares, in particular amendments to the Federal Law dd. January 10, 2003, No. 17-FZ "On the Railway Transport in the Russian Federation". As soon as the amendments are made to the relevant legislation, a work would be performed jointly with the company and advisors on detailed structuring of the transaction which the Ministry of Economic

[1] The amount of that transaction (Rb 10.8bn) was 40% less than the sale price of 2012 (Rb 15.5bn), although the sale price was found to be a bit over the asked price (by 11.6 times against 10.3 times).
[2] Lanin D., The state sold Rb 200bn of assets, www.bfm.ru/articles, December 29, 2012.
[3] www.economy.gov.ru, July 19 and August 1, 2012.
[4] www.rosim.ru, 21.02.2013.

Development and Trade of Russia in conjunction with the Federal Agency for State Property Management plan to launch in 2013[1]

6.1.3. State participation in the economy and structural policy

2012 was marked by more notable vs. the preceding year changes in the list of strategically important enterprises and joint stock companies. Sixteen OJSCs were included into and 6 unitary enterprises and 2 OJSCs excluded from the list.

The most significant entry in the list of strategically important enterprises was made in May 2012, a 100% interest in Systemic Operator of United Energy System and a majority shareholding in three other systemically important companies of the electric power industry (Federal Grid Company of United Energy System (FGC UES), Interregional Distribution Grid Companies Holding JSC (Holding IGDC) and Federal Hydropower Generating Company (RusHydro). A micro interest (less than 0.01%) in Rosneft[2] was included into the list of strategically important JSCs under same presidential order.

One more federal unitary enterprise and three OJSCs (FGC UES, Holding IGDC and RusHydro) saw changes in the format of their presence in the foregoing list. The FSUE, an aircraft navigation scientific and research institute, was affiliated with the State Civil Aviation Research and Development Institute, an enterprise with similar core activity, with the latter having been included into the list of strategically important enterprises. The three OJSCs experienced more serious changes, i.e. the entire state participation in a very important electric power industry was reformatted.

It is to be recalled that after the completion of a long-lasting restructuring in the electric power industry, including the wind-up of RAO UES of Russia in the summer of 2008, the state acquired a majority shareholding in two infrastructural companies, namely FGC UES (79.55% of federally held interest) and Holding IGDC (54.52% of federally held interest).

Decisions which were made in the second half of November 2012, provide for renaming the latter as Russian Grids OJSC and contributing almost the entire federally held interest in FGC UES to its charter capital as payment for the placement of additional shares by Russian Grids OJSC in response to an increase in its charter capital while the state direct participation in FGC UES was retained by holding at least one share.

The charter capital of Federal Hydropower Generating Company OJSC (RusHydro) is also expected to be increased, with a federally held interest being at least 60.5%. The state plans to contribute an interest in 4 OJSCs (2 minority and 2 blocking interest) and cash in the amount of Rb 50bn or less from the federal budget allocation for 2012.

The foregoing amounts of a federally held interest in Russian Grids JSC (54.52%), FGC UES (less than 0.01%) and RusHydro (60.5%) were registered for these companies in the list of strategically important JSCs. Such decisions contradict to a certain extent not only the supplements to the privatization program for 2011–2013 which were adopted in June, but also the last-year establishment of a lower threshold of state corporate control for RusHydro, 50% plus one share. It is to be recalled that pervious (in December 2010 and July 2011) amendments to the existing privatization program provided for contributing a federally held interest in 12 OJSCs (in addition to other assets) to the company's charter capital. It should be

[1] www.economy.gov.ru, February 21 and 27, 2013.

[2] More specifically, it is not quite clear why such an asset was included into the federal property, because late in 2004 a President's order provided for contributing a 100% interest in Rosneft to the charter capital of Rosneftegaz which was included into the list of strategically important enterprises at the same time.

noted that two of them (RAO Energy Systems of East and Sakhalin Energy Company) were mentioned again in the Presidential decree on RusHydro in November, but with a new amount interest to be contributed. However, the contribution of almost the entire federally held interest in FGC UES to the charter capital of Russian Grids JSC[1] differs largely from that announced in the supplements to the existing privatization program, a fairly moderate reduction in state-held interest (up to 75% plus one share).

Unlike the bulk of similar decisions on the establishment of integrated entities, which were typical of the entire period of market reforms, the recent decisions relating to the electric power industry provide for the introduction of new tools of state control influence on partially state-owned companies.

With regard to the new Russian Grids OJSC (former Holding IGDC), the Russia's Government must support the preparation of a draft shareholder agreement between the Russian Federation and the company, which would regulate participation of Russian Grids' representatives in the management of FGC UES for the purpose of retaining state control of the company, and the development strategy of Russian Grids itself.

Furthermore, an agreement is to be concluded between federal authorities (the Ministry of Economic Development and Trade and the Ministry of Energy) and RusHydro, which would regulate flow of cash contributed to its charter capital to finance construction of certain facilities of the electric power industry at the Far East (two central heating and power plants and two hydroelectric power stations). Under the agreement the said ministries must conduct preliminary evaluation of utilization efficiency of the cash contributed for capital investments, and ensure proper cash spending for each of the construction facilities.

The need for such control tools is evident in response to a wide spread practice of recapitalization of different companies with federal budget funds. RusHydro, in which afterwards, at the end of 2012, a decision on the placement of additional shares resulted in a conflict of interests in the board of directors in which no federal government officials participated, and in 2013 the company came to the attention of law enforcement agencies as a result of severe criticism by the President of Russia, is a good example for raising a question of having additional tools for state control of budget-funded companies[2].

In general, the President of Russia and the federal government were focused on improving transparency of partially state-owned companies in the preceding year.

In particular, a group of 21 companies was selected as early as December 2011, whose top managers (together with their relatives) must disclose their income to the government, including all beneficiaries of all counterparties of the companies. As of the end of March 2012, the managers in 18 of the 21 companies failed to accomplish this instruction in full, some of them failed to provide such information or provided incomplete information. More than 200 cases of concealment of important information by managers were reported.

New instructions were therefore issued to ensure the provision of full data. In addition, an obligation to report to the government and employer about conflicts of interests will be entered in the list of duties of managers at partially state-owned companies as part of their labor contracts. Agreements with counterparties must disclose a full chain owners in full, otherwise

[1] Changes in the amount of a state held interest registered with the list of strategically important enterprises were insignificant for Russian Grids JSC.

[2] After the events relating to RusHydro, the Accounts Chamber of the Russian Federation raised a question of the need to conduct audit in all state-owned companies and state corporations (SCs).

such an agreement may be cancelled. Tax residents must provide a full information on foreign assets they hold and transactions therewith[1].

Transparency of partially state-owned companies is still a problem, above all, it terms of completeness of information about ultimate beneficiaries[2].

It should be noted that the issues of improving transparency were relevant for state corporations (SC) as well, regardless of a special law adopted as early as the end of 2010. Under the law, every state corporation is to establish a board of directors or supervisory board being in charge of adopting a long-term program of activities, a labor remuneration system for its personnel, and a profit allocation procedure. State corporations are subject to mandatory audit of their annual financial statements. They also must publish their strategy and annual reports in the Internet.

Getting back to the upcoming changes in the configuration of state participation in the electric power industry, it should be noted that amendments to the applicable legislation on regulation of the industry are expected to be drafted, which, among other things, would allow the Russian Federation to control the governance of the unified national (all-Russia) electric power grid through direct or indirect interest (at least 50% plus one share) in the charter capital of the grid. If this provision is adopted, it would remind to a certain extent the law on the specifics of disposal of shares in RAO UES of Russia of 1998, in a state interest was 51%, though at that time the all-Russia energomonopoly also included power generating assets which are currently not included into Russian Grids JSC. With regard to a possibility for the state to hold indirectly a 100% interest, it should be noted that the currently applicable law on gas supply of 1999 established a threshold in the charter capital of the owner of the Unified Gas-Supply System, which must be at least 50% plus one share for a total state-held interest and the assets owned by joint stock companies in which the Russian Federation holds more than 50% interest (a regulation on exclusive direct state-held interest of at least 35% was in force until the end of 2005).

Besides the electric power industry, the structural policy plan has decisions relating to the geodesy and agricultural sectors.

The existing Moscow Aero-geodesic Predpriyatiy FSUE is to be restructured into Roscartography OJSC, with subsequent contribution to its charter capital a federally held interest (100% less one share) in OJSCs which are to be established through corporatization of 32 FSUEs. A controlling interest in Roscartography (51%) is already in the list of strategically important enterprises. About 230 real estate units are scheduled for contribution to the charter capital of the existing Rosspirtprom OJSC, and 83 real estate units[3] to the charter capital of Russian Hippodromes OJSC which is to be established.

Regarding the military defense industry, the following entities are to be expanded. Tactical Missiles Corporation JSC (through contribution of stakes in 12 JSCs, including 6 minority stakes, 3 blocking stakes, 3 controlling stakes, and a 100% stake less one share), Concern Granit-Electron OJSC (contribution of a 100% interest less one share in a OJSC which is to be established through corporatization of a FSUE), Concern Morskoye Podvodnoye Oruzhiye – Gidropribor OJSC (through contribution of stakes in 4 JSCs, including 2 controlling and 2 blocking stakes), "Shipbuilding & Shiprepair Technology Center" Joint stock corporation

[1] Top managers of state-owned companies failed to disclose their income, www.finmarket.ru, 20.03.2012.
[2] Putin: State-owned companies still remain to be transparent, www.bfm.ru/news, 13 February 2013.
[3] This explains a sharp increase in the number of units subject to privatization which fall under the 'Other units' category in the privatization program for 2011-2013.

(through contribution of a controlling stake in a OJSC), Concern Oceanpribor (through contribution of stakes in 8 JSCs, including a 100% interest less one share, one controlling stake, the rest are blocking stakes), UralVagonZavod Scientific & Research Corporation (through contribution of stakes in 7 JSCs, including a 100% interest less one share, 2 blocking stakes, the rest are minority stakes). In addition, it is worth noting the establishment of Federal State Unitary Enterprise "State Research and Production Space Rocket Center "TsSKB-Progress" on the basis of the similarly-named FSUE, by contributing a 100% interest (less one share) in 2 other OJSCs to its charter capital.

State-owned assets in the defense industry have been consolidating in a different manner.

For example, in the summer of 2012, the Federal Agency for State Property Management represented by CAMELOT LLC, a specialized entity, held a mortgage asset auction. The auction was opened by the composition of bidders and the form of bidding. A stake in Baltiysky Zavod OJSC was tendered at an asked price of about Rb 222m. Zapadny Shipbuilding Center OJSC (a subsidiary of the United Shipbuilding Corporation) offered the highest bid of Rb 224,3m[1] and won the auction.

The Russian Federation regained its control of Klimovsky Specialized Ammunition Plant (JSC "KSPZ") (Moscow Region) by having been awarded a stake in the plant, after a legal claim of the Federal Agency for State Property Management was satisfied in court[2].

Some of the state corporations continued growing.

For example, the Russian Federation is to contribute to Rostekhnologyi a 100% interest in MMPP "SALUT" to be established on the basis of the similar-named federal state unitary enterprise, by contributing to its charter capital a 100% interest in other OJSC, a scientific and research institute, as well as federally held minority stake in another 2 OJSCs. All these assets are subsequently to be contributed to the charter capital OBORONPROM OJSC United Industrial Corporation. Another 6 FSUEs are subject to corporatization and contribution of ROSATOM assets to their charter capital.

Vnesheconombank SC was included into a future scheme of indirect state corporate control of Rostelecom OJSC which is expected to be reorganized by taking over Investitsionnaya Kompania Svyazy OJSC (better known as Svyazinvest) and excluding the former from the list of strategically important enterprises, provided that the Russian Federation jointly with Vnesheconombank have a control of more than 50% of common shares in Rostelecom.

Reorganization of the state segment in the telecommunication sector is currently at the stage of floating additional shares of Svyazinvest, as part of which the state is going to transfer core assets to the holding (including stakes in Central Telegraph OJSC, Bashinformsvyaz and other companies). To retain its stake in Svyazinvest (25% plus one share, the rest is held by the sated), Rostelecom must contribute cash to be able to take part in the floating of additional shares. In its turn, Svyazinvest must use the cash to reacquire 6.55% common shares of Rostelecom from its subsidiary Mobitel LLC. Svyazinvest must obtain an even smaller stake (approx. 1.91% common shares) in Rostelecom in exchange for a 50% stake in Skylink CJSC.

[1] However, a similar auction of encumbered stakes in Severnaya Verf OJSC was cancelled due to the lack of bids. www.rosim.ru, 06.07.2012, 08.08.2012.

[2] Previously, in executing the RF President's and Russia's Government's instructions on the contribution of a state-held interest of 26% in Klimovsky Specialized Ammunition Plant JSC to Rostekhnologyi, in 2009 the Federal Agency for State Property Managementy found out that a stake of 25% in the plant was withdrawn from the federal ownership by having been debited from the federal account in compliance with a court order.

However, an interest held by Svyazinvest as the principal shareholder of Rostelecom is still smaller, even after an increase, than a controlling interest (41.84% of the capital and 45.29% common shares). The state, represented by the Federal Agency for State Property Management and Vnesheconombank, owns 7.43% of common shares (6.86% of the capital) and 2.45% of voting shares Rostelecom (2.26% of the capital) respectively[1].

The foregoing interest was transferred to the Federal Agency for State Property Management early in 2012 by another state corporation, the State Agency for Deposit Insurance (DEA), which acquired it in the summer of 2009 from KIT Finance bank as part of the financial rehabilitation of the latter, and then more than once asked the government to get rid of the interest.

It was at that time when Vnesheconombank acquired a 10% interest in and became a shareholder of Rostelecom. Later, however, Vnesheconombank's interest shrank as Rostelecom was reorganized by taking over eight companies owned by Svyazinvest in the spring of 2011[2], and conviction of shares. Svyazinvest intended to acquire the interest under the agreement concluded with Vnesheconombank in the summer of 2010. However, the agreement was terminated last year when the price of Rostelecom shares dropped below the 2009 value specified in the agreement, i.e. against the price which Vnesheconombank paid for the shares in 2009.

The floating additional shares of Rostelecom should be followed by taking over Svyazinvest which is to cease to exist. The state jointly with Vnesheconombank are going to remain the controlling shareholders of the united telecommunication company. However, the current process of Rostelecom reorganization by taking over Svyazinvest is slower than the timeframe (by March 2013) specified by the government[3].

Vnesheconombank plays an important role as creditor of enterprises in the real sector of economy.

For example, in 2012 Vnesheconombank considered a question of replacing the management team at Machinery & Industrial Group N.V., a large machine building business group involved in the production of agricultural, road-building machinery, train cars, and special-purpose products. It is to be recalled that in 2010 the concern obtained a loan of Rb 15bn from Vnesheconombank in exchange for a 100% interest in the parent company, provided that the existing management should be retained, and there should be a buy-back option in seven years. However, Vnesheconombank considered not only an option of replacing the management team at Machinery & Industrial Group N.V., but also selling the assets in which Ural-VagonZavod, Russian Machines corporation, and IST Group were interested. The role of Vnesheconombank in assessing the prospects of Machinery & Industrial Group N.V. is getting more important, because this year the concern is to redeem a syndicated loan of a group of banks, including Sberbank[4].

A decision to transfer a series of federally owned air transport assets to the regional level is an example of another recently forgotten line of state ownership policy.

[1] In addition, Rostelecom's subsidiary Mobitel and Gazprombank (5.24% and 9.66% respectively) remain Rostelecom shareholders.

[2] These companies include seven interregional communication companies, namely Volgatelecom, Dalsvyaz, Severo-Zapadny Telecom, Sibirtelecom, Uralsvyazinform, Central Telecommuncations Company (Centrtelecom), Southern Telecommunications Company (STC), plus Dagsvyazinform.

[3] Chernoivanova A. Svyazinvest fails to comply with the presidential timeframe, www.gazeta.ru, 12.12.2012.

[4] Popov E. Vnesheconombank restarts Machinery & Industrial Group N.V., Kommersant, No. 129 (4914), 17.07.2012; Machinery & Industrial Group N.V. may sell Promtractor Vagon, www.iguru.ru, 25.02.2013.

For example, the Yamal-Nenets Autonomous District became the holder of a 100% interest in Novy Urengoy United Air Group OJSC and Salekhard Airport. In the period till 2015 the Yamal-Nenets authorities intend to generate investments as part of public private partnership for comprehensive reconstruction, construction and upgrade of the air transport infrastructure of the airports at Novy Urengoy and Salekhard, at least Rb 4880.3m and at least Rb 2471.3m, respectively. The Rostov Region became the holder of a federally held interest (more than 38%) in Rostov on Don Airport OJSC[1]. The regional government authorities intend to generate at least Rb 800m of investments as part of public private partnership for reconstruction of the airport airfield infrastructure facilities and at least Rb 15bn for construction of a new airport facility (Uyzhny) (exclusive of the airfield and facilities of the unified air-traffic management system) in Rostov on Don.

Besides the aforementioned transaction which was initiated by Rosneft, there were more examples of activity of partially state-owned companies in the market of corporate control that are worth noting. For example, Sberbank paid $60m to acquire a 75% interest in the charter capital of Yandex Money. However, the amount seems to be miserable as compared to TNK-BP[2].

The regulations of the Russia's Government Decree dd. November 1, 2012, No. 1127 are intended to play an important role for regulation of public sector companies' activity in the market of corporate control.

Pursuant to the document federal executive bodies must till October 1, 2013 make amendments to the charters of open joint stock companies in which the state holds more than a 50% interest (save for credit institutions), which entitle the board of directors (supervisory board) of such OJSCs to determine the position of such OJSCs or their representatives when the management body of their subsidiaries or affiliated business entities considers the purchase of share holdings (participating interests in charter capital) in other business entities, also during their foundation, provided that the price of such transaction is at least 15% of the book value of the assets of a subsidiary or affiliated company as specified in the accounting records as of the latest accounting date. A similar regulation was also introduced with regard to business entities in which federal state unitary enterprises hold more than 50% of shares (participating interests in charter capital), where decisions to acquire an interest (participating interests in charter capital) in other business entities, also during their foundation, are subject to the approval of the board of directors (supervisory board) of such business entities.

Respective amendments were made to the Russia's Government Decree approved on December 3, 2004, No. 738, the 'Provision on the Management of Federally Held Interest in Joint Stock Companies and the Exercise of the Special Right (Golden Share) of the Russian Federation to Participate in the Governance of Joint Stock Companies', and the Russia's Government Decree dd. December 3, 2004, No. 739 "On the Authority of Federal Executive Bodies to Exercise the Ownership Right to the Assets of a Federal State Unitary Enterprise".

Furthermore, it was established that federal executive bodies' proposals as part of the drafting of instructions for state representatives in the board of directors (supervisory boards) of OJSCs with a state-held interest more than 50%, on the subject of acquisition by their subsidi-

[1] Furthermore, the region became the owner of the units and facilities at the Rostov on Don airfield (exclusive of the airfield and facilities of the unified air-traffic management system). The units and facilities of such airports as Bolshoye Savino (the Perm Territory), Novy Urengoy and Salekhard (Yamal-Nenets Autonomous District) were transferred to the region in the same manner.

[2] Kozlova N., Sberbank has found the "Money". – B: Profil, 01/2013, pp. 38-40.

aries or affiliated business entities of an interest (participating interests in the charter capital) in other business entities, also during their foundation, in the case when the Articles of a company reads that it shall be within the scope of the board of directors (supervisory board) of a joint-stock company to determine the position of the company or its representatives (when the management of subsidiaries or affiliated business entities considers the agenda of a general meeting of shareholders and a meeting of the boards of directors), must be presented with an explanatory note describing the reasons, as well as the materials required for decision-making in accordance with the established procedure.

6.1.4. Budget effect of the state property policy in the period between 2000 and 2012

Budget revenues relating to state-own assets continued to grow substantially in 2012, like in the preceding year. However, not all sources saw growth vs. 2010–2011.

It should be reminded that all federal budget revenues from state-owned property units can be divided into two groups in terms of nature and sources thereof. One group includes revenues from the use of state-owned property (renewable sources). The second group comprises revenues of single origin, which are non-renewable; because once they are sold the state assigns the title thereto to other legal entities and individuals, incl. as part of the privatization process (non-renewable sources).

Presented below (*Table 5* and *6*) are the data on the revenues (save for the data on the preceding year) specified in the laws on the implementation of the federal budget for the period of 2000 – 2012, with regard to the use of state-owned property units and sale thereof only in the form of tangible assets [1].

[1] No consideration was given to federal budget revenues from mineral tax payments (including aquatic biological resources, revenues from the use of forest resources and mineral resources), compensation for losses in agricultural productivity relating to forfeiture of agricultural lands as a result of financial operations (revenues from allocation of budget funds (revenues from balances of budget funds and allocation thereof, from 2006 also revenues from management of funds allocated in the Stabilization Fund of the Russian Federation, revenues from allocation of money accumulated during state-held shares auctions), interest from domestic budget loans extended with federal budget funds, interest on sovereign loans (cash inflow from foreign governments and legal entities thereof as repayments for loans extended by the Russian Federation, revenues from enterprises and organizations as payments of interest and guarantees on loans issued to the Russian Federation by foreign governments and international financial organizations)), from the provision of paid services or compensation for government expenses, transfer of profit to the Central Bank of Russia, some types of payments from public and municipal enterprises and organizations (patent fees and registration dues payable for official registration of software, data banks and integrated circuit layouts and other revenues which prior to including 2004 formed an integral part of payments due by government organizations (apart from revenues from the Vietsovpetro Joint Venture since 2001 and allocation of a part of the profit of FSUEs since 2002)), revenues from exercise of product sharing agreements (PSA), revenues from disposal and sale of confiscated and other property converted into state income (including properties whose title was transferred to the state by way of inheritance or gift, or contributions), revenues from lotteries, other revenues from the use of state-owned properties and title (revenues from exercise of rights to intellectual activity (R&D and technological works) of military, special and double purposes, revenues from exercise of rights to the state-owned results of scientific and research activity, revenues from operation and use of motor road assets, motor road tolls payable for vehicles registered overseas, and other revenues from the use of state-owned property assets), as well as from permitted types of activity of organizations, federal budget revenues from sale of precious metals and stones as part of the national reserve of the same. Also see the notes to Tables 5 and 6 on the relevant periods.

Table 5

Federal budget revenues from the use of state-owned property units (renewable sources) in the period between 2000 and 2012, m Rb

Year	Total	Dividends on shares (2000–2012) and revenues from other forms of capital participation (2005–2012)	Rental payments for state-owned land	Revenues from leasing of state-owned property units	Revenues from transfers of a part of after-tax profit and other mandatory payments payable by FSUEs	Vietsovinvest Joint Venture Revenues
2000	23244.5	5676.5	–	5880.7	–	11687.3[a]
2001	29241.9	6478.0	3916.7[b]	5015.7[c]	209.6[d]	13621.9
2002	36362.4	10402.3	3588.1	8073.2	910.0	13388.8
2003	41261.1	12395.8	10276.8[e]	2387.6		16200.9
2004	50249.9	17228.2	908.1[f]	12374.5[g]	2539.6	17199.5
2005	56103.2	19291.9	1769.2[h]	14521.2[i]	2445.9	18075.0
2006	69173.4	25181.8	3508.0[h]	16809.9[i]	2556.0	21117.7
2007	80331.85	43542.7	4841.4[h]	18195.2[i]	3231.7	10520.85
2008	76266.7	53155.9	6042.8[h]	14587.7[i]	2480.3	–
2009	31849.6	10114.2	6470.5[h]	13507.6[i]	1757.3	–
2010	69728.8	45163.8	7451.7[h]	12349.2[j]	4764.1	–
2011	104304.0	79441.0	8210.5[h]	11241.25[j]	4637.85	773.4
2012	228964.5	212571.5	7660.7[k]	3730.3[l]	5002.0	–

[a] – according to the Federal Agency for State Property Management of Russia, the Law "On the Implementation of the Federal Budget for 2000" contained no separate line for these; the amount of payments from state-owned enterprises (Rb 9887,1m) was specified (no specific elements were shown);
[b] – amount of rental for (i) agricultural lands and (ii) lands of cities and settlements;
[c] – total revenues from leasing of the property units secured to (i) research institutions, (ii) educational institutions, (iii) medical institutions, (iiii) public museums, public institutions of arts and humanities, (iiiii) archive institutions, (iiiiii) Ministry of Defense of Russia, (iiiiiii) organizations under the Traffic Ministry of Russia, (iiiiiiii) organizations providing services to public academies of science and (iiiiiiiii) other revenues from leasing of state-owned property units;
[d] – according to the Federal Agency for State Property Management of Russia, the Law "On the Implementation of the Federal Budget for 2001" contained no separate line for these; the value coincided with the value of other revenues from payments due by public and municipal organizations;
[e] – total amount of revenues from lease of state-owned property units (without specifying land rental);
[f] – amount of rental for (i) lands of cities and settlements and (ii) state-owned land after the delimitation of land ownership;
[g] – total revenues from leasing of the property units secured to (i) research institutions, (ii) educational institutions, (iii) medical institutions, (iiii) public institutions of arts and humanities, (iiiii) public archive institutions, (iiiiii) federal postal agencies under the Federal Communications Agency, (iiiiiii) organizations providing services to public academies of science and (iiiiiiii) other revenues from leasing of federally owned property units;
[h] – rental after the delimitation of land ownership and proceeds from sale of the right to conclude contacts on leasing of state-owned land (net of land plots owned by autonomous (2008–2011) and state-funded (2011) institutions);
[i] – revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby and on the basis of economic management by FSUEs: transferred for the purpose of state-status operating management (i) scientific institutions, (ii) institutions providing scientific services under the Russian Academy of Science and industry-specific academies of science, (iii) educational institutions, (iiii) medical institutions, (iiiii) federal postal agencies under the Federal Communications Agency, (iiiiii) public institutions of arts and humanities, (iiiiiii) public archive institutions and (iiiiiiii) other revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby and on the basis of economic management by FSUEs[1] (for 2006–2009 net of overseas revenues from

[1] In 2008-2009, FSUEs, as a source of revenues from leasing of property assets being under economic management thereby, were not mentioned, and leasing of property assets being under operating management by federal government authorities and the institutions established thereby excludes property assets owned by federal autonomous institutions.

permitted types of activity and the use of federal property units located overseas, which were not shown in the previous years[1]);
[j] – revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby (save for state-funded and autonomous institutions): transferred for the purpose of state-status operating management (i) scientific institutions, (ii) institutions providing scientific services under the Russian Academy of Science and industry-specific academies of science, (iii) educational institutions, (iiii) medical institutions, (iiiii) public institutions of arts and humanities, (iiiiii public archive institutions, (iiiiiii) on the basis of economic management by the Ministry of Defense of Russia and its subordinated bodies (2010), (iiiiiiii) federally owned with functions of disposing thereof being assigned to the Department for Presidential Affairs of the Russian Federation (2010) and (iiiiiiiii) other revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby (net of overseas revenues from permitted types of activity and the use of federal property units located overseas).
[k] – rental after the delimitation of land ownership and proceeds from sale of the right to conclude contacts on leasing of state-owned land (net of land plots owned by autonomous and state-funded institutions), as well as (i) rental for land plots located right-of-way federal motor roads for general use, which are owned by the federal government, and (ii) payment from the implementation of agreements on easements concerning land plots located right-of-way federal motor roads for general use for the purpose of construction (reconstruction), over-haul and operation of road service units, laying, reallocation, rebuilding, and operation of engineering networks, installation and operation of advertisement constructions;
[l] – revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby (save for state-funded and autonomous institutions): transferred for the purpose of state-status operating management (i) scientific institutions, (ii) educational institutions, (iii) medical institutions, (iiii) public institutions of arts and humanities, (iiiii) public archive institutions, (iiiiii) other revenues from leasing of property units which are operatively managed by federal state-run enterprises, (iiiiiii) federal government bodies, Bank of Russia, and agencies for public extrabudgetary funds management (net of revenues from the use of federal property located outside the Russian Federation, overseas revenues).

Source: The laws on the implementation of the federal budget for the period of 2000–2011, the Report on the Implementation of the Federal Budget as of January 1, 2013, www.roskazna.ru; the authors' estimates.

Proceeding to analysis of preliminary results of the budget effect of the state property policy in 2012 with regard to renewable sources, first of all, a drastic growth in dividends by 2.7 times against 2011 is worth noting, it was the biggest growth throughout the entire 2000s, except for a spike (by 4.5 times) in 2010 which was caused mostly by the low base effect in the preceding pre-crisis year (2009). Furthermore, in 2012, a growth of 7.9% in transfer of a portion of profits of unitary enterprises was the highest throughout the entire 2000s, whereas budget revenues from leasing of federal property units reduced by about 3 times and revenues from land lease reduced by 6.7%.

Revenues from property lease (Rb 3.73bn) were minimal against the record-breaking since 2000 values of dividends (Rb 212.6bn)[2] and transfer of a portion of profits of unitary enterprises (Rb 5bn), though land rent (Rb 7.67bn) was lower against the preceding year (2011)[3] only.

[1] According to the Federal Agency for State Property Management, revenues from the use of federal property assets located overseas (net of revenues of the Russian participant in Vietsovpetro Joint Venture), totaled Rb 315m in 1999 and Rb 440m in 2000. Thereupon, Overseas Management Enterprise, a FSUE, began to play the key role in organizing commercial use of federally owned immovable property assets located overseas.
[2] Initially, government authorities were surprised by this value, because they expected something around Rb 150bn.
[3] This value of land rent also includes the following items which were recognized in the budgetary reporting for the first time: (1) rental for land plots located right-of-way general-purpose federal motor roads which are owned by the federal government, and (2) payment from the implementation of agreements on easements concerning land plots located right-of-way general-purpose federal motor roads for the purpose of construction (reconstruc-

As a result, dividends accounted for the overwhelming part of federal budget revenues from renewable sources (about 93% against 76% in the preceding year), whereas other sources revenues accounted for rather token amount: land lease – 3.3%, profit transferred by FSUEs – 2.2%, leasing of federal property units – 1.6%.

Proceeding to the analysis of the federal budget revenues from privatization and sale of state-owned property (*Table 6*), it should be noted that since 1999 revenues from sale of a major part of such assets (shares, and also land plots in 2003–2007[1]) became classified as sources of financing of the federal budget deficit.

Table 6

Federal budget revenues from privatization and sale of property units (non-renewable sources) in the period between 2000 and 2012, m Rb

Year	Total	Sale of federally held shares (2000–2012) and other forms of interest holding (2005–2012)[a]	Sale of land plots	Sale of various types of property
2000	27167.8	26983.5	–	184.3[b]
2001	10307.9	9583.9	119.6[c]	217.5+ 386.5+0.4 (HMA)[d]
2002	10448.9	8255.9[e]	1967.0[f]	226.0[g]
2003	94077.6	89758.6	3992.3[h]	316.2+10.5[i]
2004	70548.1	65726.9	3259.3[j]	197.3+1364.6+0.04 (HMA)[k]
2005	41254.2	34987.6	5285.7[l]	980.9[m]
2006	24726.4	17567.9	5874.2[l]	1284.3[n]
2007	25429.4	19274.3	959.6[o]	5195.5[p]
2008	12395.0	6665.2+29.6	1202.0[c]	4498.2+0.025 (HMA)[r]
2009	4544.1	1952.9	1152.5[q]	1438.7[r]
2010	18677.6	14914.4	1376.2[q]	2387.0+0.039 (HMA)[r]
2011	136660.1	126207.5	2425.2[q]	8027.4[r]
2012	80911.3	43862.9	16443.8[q]	20604.3+0.338 (HMA)[r]

[a] – refer to sources of internal financing of the federal budget deficit, total amount of Rb 29,6m in 2008 (according to the data provided in the Report on the implementation of the federal budget as of January 1, 2009) was classified as federal budget revenues but not specified in the Federal Law "On the Implementation of the Federal Budget in 2008";

[b] – revenues from privatization of state-owned organizations classified as sources of internal financing of the federal budget deficit;

[c] – revenues from sale land plots and leasehold rights to state-owned land plots (specifying the land plots on which privatized enterprises are located) classified as federal budget revenues;

[d] – amount of proceeds from (1) sale of federally owned property classified as sources of internal financing of the federal budget deficit, (2) revenues (i) from sale of living quarters, (ii) from sale of public productive and nonproductive assets, means of transport, other equipment and other tangible assets, as well as (3) revenues from sale of intangible assets (IAs) classified as federal budget revenues;

[e] – including Rb 6m from sale of shares held by constituent territories of the Russian Federation;

[f] – revenues from sale of land and intangible assets, without specifying the amount of proceeds therefrom, classified as federal budget revenues;

[g] – proceeds from sale of state-owned property (including Rb 1,5m from sale of the property owned by constituent territories of the Russian Federation) classified as sources of internal financing of the federal budget deficit;

[h] – includes proceeds (1) from sale of land plots, which include immovable property units owned by the federal government prior to transfer, to be allocated to the federal budget, (2) from sale of other land plots, as well as

---

tion), over-haul and operation of road service units, laying, reallocation, rebuilding, and operation of engineering networks, installation and operation of advertisement constructions.

Recognizing these items as land rent seems to be reasonable, because their source is land plots, whereas the previously recognized revenues from the use of motor road facilities, road toll payable by motor vehicles registered on the territory of other countries are classified as other revenues from the use of property and rights owned by the state.

However, as opposed to 2011, the structure of revenues from renewable sources of the federal budget has no revenues generated by Vietsovpetro in terms of calculation of revenues of prior years.

[1] In 2003-2004, given the sale of leasehold right.

from sale of the right to conclude contracts on leasehold thereof, (3) from sale of land plots prior to the delimitation of land ownership, as well as from sale of the right to conclude contracts on leasehold thereof, to be allocated to the federal budget, classified as sources of internal financing of the federal budget deficit;
[i] – the amount (1) of proceeds from federally owned property classified as sources of internal financing of the federal budget deficit, and (2) revenues from sale of intangible assets classified as federal budget revenues;
[j] – includes proceeds (1) from sale of land plots prior to the delimitation of state ownership of land, which include immovable property units owned by the federal government prior to transfer,, to be allocated to the federal budget, (2) from sale of other land plots, as well as from sale of the right to conclude contracts on leasehold thereof, (3) from sale of land plots prior to the delimitation of land ownership, as well as from sale of the right to conclude contracts on leasehold thereof,, to be allocated to the federal budget, classified as sources of internal financing of the federal budget deficit;
[k] – the amount (1) of proceeds from federally owned property classified as sources of internal financing of the federal budget deficit, (2) revenues (i) from sale of living quarters, (ii) from sale of equipment, means of transport and other tangible assets, to be allocated to the federal budget, (iii) from sale of ship utilization products, (iiii) from sale of the property owned by SUEs, institutions and military equipment, (iiiii) from disposal of military products, equipment and ammunition, (3) revenues from sale of intangible assets (IAs) classified as federal budget revenues;
[l] – includes proceeds (1) from sale of land plots prior to the delimitation of state ownership of land, which include immovable property units owned by the federal government prior to transfer, (2) from sale of land plots prior to the delimitation of land ownership,, to be allocated to the federal budget, (3) from sale of other land plots which were owned by the state prior to the delimitation of state ownership of land and are not to be used for housing construction (the latter update is referred to 2006 only) and are classified as sources of financing of the federal budget deficit;
[m] – revenues from sale of tangible and intangible assets (net of federal budget revenues from disposal and sale of confiscated and other property converted into state income), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of military property, (iiiii) from disposal of military products, equipment and ammunition, (iiiiii) from sale of other federally owned property, (iiiiiii) from sale of intangible assets, classified as federal budget revenues;
[n] – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into state income), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of military property, (iiiii) from disposal of military products, equipment and ammunition, (iiiiii) revenues from sale of other federally owned property classified as federal budget revenues;
[o] – proceeds from sale of land plots prior to the delimitation of land ownership, which were owned by the federal government and are classified as sources of financing of the federal budget deficit;
[p] – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into public revenues, proceeds from sale of sequestered lumber), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of released movable and immovable military and other property available at federal government executive bodies in which military and equivalent to military services are envisaged, (iiiii) from sale of military products available in federal government executive bodies within the framework of military and technical cooperation, (iiiiii) revenues from sale of other federally owned property classified as federal budget revenues;
[q] – revenues from sale of land plots owned by the state (save for land plots of federal autonomous and state-funded (2011) institutions), classified as federal budget revenues;
[r] – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into public revenues, proceeds from sale of sequestered lumber, revenues from sale of special raw materials and fertile materials), include revenues (i) from sale of living quarters, (ii) from sale of the property operatively managed by federal institutions (save for state-funded and autonomous institutions (2011), (iii) from sale of released movable and immovable military and other property available at federal government executive bodies in which military and equivalent to military services are envisaged , (iiii) from disposal of military products, equipment and ammunition, (iiiii) from sale of military products availa-

ble at federal government executive bodies within the framework of military and technical cooperation (2008 and 2010–2011), (iiiiii) from disposal of military products, equipment as part of the federal special program on Industrial Utilization of Arms and Military Equipment for the period of 2005–2010, (iiiiiii) revenues from sale of other federally owned property, as well as revenues from sale of intangible assets (IAs) classified as federal budget revenues

Source: The laws on the implementation of the federal budget for the period of 2000–2011, the Report on the Implementation of the Federal Budget as of January 1, 2013, www.roskazna.ru; the authors' estimates.

In 2012, property-related federal budget revenues from non-renewable sources contracted by half to correspond approx. the value of 2004. First of all, revenues from sale of shares reduced drastically (2.9 times) and (Rb 43.9bn) were below, in absolute magnitude, not only the highest value of the preceding year (2011), but also the values of 2003–2004. According to the Federal Treasury's data on the implementation of the federal budget, budget allocations concerning this item were fulfilled by approx. 3/4.

Furthermore, revenues from sale of land plots increased a lot (6.8 times) to triple, in absolute magnitude, (more than Rb 16.4bn) the previous record values of 2005–2006. Revenues from sale of different types of property increased by 2.6 times (up to Rb 20.6bn) to overtop the previous maximum value of the preceding year (2011).

As a result, revenues from sale of shares accounted for more than 54% of total revenues from non-renewable sources in 2012 against more than 92% in 2011, whereas revenues from sale of land plots began to play a much more important role. The former accounted for more than 20% (against 1.8% in 2011), the latter – 25% (against 5.9% in 2011).

Total volume of the federal budget revenues from privatization (sale) and use of state-owned property units (*Table 7*) increased by 1.3 times in 2012 against 2011. Their value (about Rb 310bn) hit the absolute maximum since the beginning of the 2000s.

A share of non-renewable sources in total revenues from privatization (sale) and use of state-owned property units decreased by 2.2 times (to 26.1%) in 2011 against the preceding year, being similar to the value of 2006 and higher than in 2007–2010.

A share of revenues from the use of state-owned property units increased from 43.3% in 2011 to almost 74% in 2012. This value is maximum in absolute magnitude, exceeding by 2.2 times the total value in 2011, whereas revenues from privatization (sale) of property units decreased by approx. 40% against 2011, having reached its maximum throughout the entire 2000s.

However, according to the data provided by the Head of the Ministry of Economic Development and Trade in his report at the Russia's Government meeting on February 7, 2013, total revenues from property management amounted to Rb 433.6bn in 2012, of which revenues from privatization amounted to Rb 201.5bn.

One may assume that the latter represents the amount of revenues from sale of shares (Rb 43.9bn) classified as budget deficit sources of financing, and the revenues the Central Bank of Russia generated from sale of Sberbank shares, whose amount was calculated as the difference between the amount of revenues from the sale of the said shares (Rb 159.3bn) and their book value, net of sale costs of the said shares, were to be transferred to the federal budget by reducing accordingly a part of the revenues generated by the Central Bank of Russia at 2012 year end[1]. The difference together with the data shown in *Tables 5, 6* and *7* also

[1] In this respect it should be reminded that a part of the revenues generated by the Central Bank of Russia, which is to be transferred to the federal budget, is registered on the revenue side of the budget, in the property management item. According to the Federal Treasury data on the implementation of the Federal Budget as of Janu-

may result from accounting budget revenues from a bigger spectrum of sources with regard to the use of state-owned property.

Table 7

Structure of federal budget property-related revenues from various sources in the period between 2000 and 2012

Year	Total revenues from privatization (sale) and use of state-owned property units		Revenues from privatization (non-renewable sources)		Revenues from the use of state-owned property units (renewable sources)	
	millions of rubles	% of total	millions of rubles	% of total	millions of rubles	% of total
2000	50412.3	100.0	27167.8	53.9	23244.5	46.1
2001	39549.8	100.0	10307.9	26.1	29241.9	73.9
2002	46811.3	100.0	10448.9	22.3	36362.4	77.7
2003	135338.7	100.0	94077.6	69.5	41261.1	30.5
2004	120798.0	100.0	70548.1	58.4	50249.9	41.6
2005	97357.4	100.0	41254.2	42.4	56103.2	57.6
2006	93899.8	100.0	24726.4	26.3	69173.4	73.7
2007	105761.25	100.0	25429.4	24.0	80331.85	76.0
2008	88661.7	100.0	12395.0	14.0	76266.7	86.0
2009	36393.7	100.0	4544.1	12.5	31849.6	87.5
2010	88406.4	100.0	18677.6	21.1	69728.8	78.9
2011	240964.1	100.0	136660.1	56.7	104304.0	43.3
2012	309875.8/ 469175.8*	100.0	80911.3/ 240211.3*	26.1/ 51.2*	228964.5	73.9/ 48.8*

* – inclusive of the revenues the Central Bank of Russia generated from sale of an interest in Sberbank (Rb 159.3bn), which together with a total share of non-renewable sources is probably slightly overestimated, because it was transferred to the budget net of books value and total sale costs. Therefore, a share of renewable sources is probably underestimated.

Source: The laws on the implementation of the federal budget for the period of 2000–2011; the Report on the Implementation of the Federal Budget as of January 1, 2013, www.roskazna.ru; the authors' estimates.

However, given the revenues generated from the sale of an interest in Sberbank through the Central Bank of Russia, a share of non-renewable sources in total revenues from privatization (sale) and the use of state-owned property units, which accounted for about 51% in 2012, is smaller than that in 2011 (56.7%).

6.1.5. A New State-Owned Property Management Program

A national program of the Russian Federation adopted by the Russia's Government Order of February 16, 2013, No. 191-r., "Federal Property Management", was the most important event having an impact on the entire spectrum of ownership relations in the country.

According to the Head of the Ministry of Economic Development and Trade who made a presentation of the draft program at the Russia's Government meeting on February 7, 2013, this document offers a new federal property management concept as a replacement for the existing Concept of State-Owned Property Management and Privatization of 1999, the system of actions and measures, including respective key performance indicators and budget of the program, as well as sub-programs on state-owned tangible assets reserve management, provided for by the Concept of 1999.

The publication procedure for this document is worth noting from the technical legal point of view. Unlike the Concept of 1999 whose text was published in full in the Consultant Plus system, the Russia's Government Order dd. February 16, 2013, No. 191-r instructed the Min-

ary 1, 2013, revenues from the transfer of a part of the revenues generated by the Central Bank of Russia amounted to about Rb 166bn against Rb 153.1bn in 2011.

istry of Economic Development and Trade to post only those parts of the said program which contain neither information constituting State secrets, nor classified inside information on its official website and the Internet portal for public programs.

The version of the new national program posted by the Ministry of Economic Development and Trade has some references to the Concept of 1999, but provides no information about the new concept of federal property management[1].

Two subprograms are to be implemented to accomplish the set goals and tasks as part of the national program:

1. Enhance the effectiveness of federal property management and privatization;
2. Ensure the management of the state-owned tangible assets reserve.

The latter is more related to information constituting State secrets and classified inside information, thereby classifying the information substantiating financial resource volumes concerning the management of the stat-owned tangible assets reserve.

The national policy concerning the management of federal property, which was developed on the basis of this national program, is intended to accomplish the following objectives:

- ensure an unambiguous definition and formation of a complete composition of federal property required for federal government bodies and subordinate federal agencies to perform their public functions;
- create an efficient federal property management system to ensure, in accordance with the functions of federal government bodies, the development of tools to assess the demand and need for managing certain property units, as well as procedures for including and excluding them from the list of units subject to management;
- provide an effective assignment (disposal) procedure for marketable federal property for commercialization;
- create an efficient accounting and monitoring system for federal property within the unified federal property management system.

With regard to the content of the new national federal property management program, it proceeds, like almost all of the previous property-related government programs did, from the need to reduce as much as possible state participation in the economy.

However, unlike most of the previous documents, the program provides the following reasons for that. The state is overloaded with surplus assets; corruption; budget overrun, with budget funds being spent to maintain useless property units, rather than the time-worn thesis, which was delicately put aside, about ineffectiveness of the state as economic agent.

That being stated, two principal lines in the enhancement of federal property management were highlighted: asset assignment (disposal) management (improve the effectiveness of the state as seller of assets) and the management of property units retained in state ownership. A great advantage of the national program is that it provides for a stand-alone line of management of potential risks that may occur during the implementation of the national program, as well as upgrade to a new technological level in terms of accounting and monitoring.

Let us focus on the key indicators of the new national program, rather than get into details.

First of all, a target function will be assigned to every federal property unit, and disposal of assets will take place if such function is not determined.

It must be completed with regard to all FSUEs by 2018 at the latest (given the allocation of extra funds in 2015), with regard to state-owned business entities by 2018 at the latest, with

[1] In any case, the Concept of 1999 has not ceased to be in force to date.

regard to 15% of FSEs by 2018 (given the allocation of extra funds in the same year, but to the full extent), with regard to 30% of state-run enterprises by 2018 (given the allocation of extra funds in the same year, but 90%). Application of management goals to each of the aforementioned entities also provides for their recognition in the unified system of federal property accounting and management.

This is supported by quantitatively fixed plans on annual reduction in the number of state-owned JSCs and FSUEs, as well as the area occupied by state-run land plots (except for land plots withdrawn from economic turnover and of limited transferability) which are not involved in economic turnover, and other state-run property units (exclusive of property units to be transferred to the public purse as a result of privatization of FSUEs in the period between 2013 and 2018) to these indicators in 2012. The four indicators are going to be included into the Federal Statistical Efforts Plan.

The following must be accomplished by 2018. Unitary enterprises operating under full economic jurisdiction will cease to exist, the number of state-owned JSCs will be reduced by a decade (more than 10 times)[1], the number of state-run property units (save for land plots) will be reduced by 90%, the area of state-run land plots not involved in economic turnover will be reduced by 35% (subject to allocation of extra resources and financing of land marking and cadastral registration of land plots under the items of expenses provided for the maintenance of the Russian State Register).

Eighty percent of all federal property units (a share of registered property units in the total number of identified and subject to registration property units) must be registered beginning with 2014.

In addition, the following must be qualified as key indicator:

- by 2018, an increase in and stage-wise doubling of an interest in partially state-owned companies which are publicly traded in the Russian securities market (increase in the number of state controlled open joint stock companies listed in the Russian securities market);
- ensure competitiveness, investment potential, and publicity of partially state-owned companies by 2018 (ensure that the specified companies achieve key performance indicators comparable with the world benchmark companies);
- achieve budget performance indicators on revenues from the use and sale of federal property.

Beginning with 2013, at least four purchase and sale transactions with large investment-attractive property units are expected though public offering (of such property units envisaged for sale in the decisions of the President of Russia and/or the Government of the Russian Federation in the current year) (stock market transactions and strategic sales). Performance indicators are expected to be achieved through budget appropriations to pay for investment and financial advisors' services provided for pre sale preparation and sale of joint stock companies' share in 2013–2015, a total of Rb 5bn annually (in accordance with the Federal Law dated December 3, 2012, No. 216-FZ "On the Federal Budget for 2013 and for the Planning Period of 2014 and 2015")[2].

[1] However, judging by the estimates provided in the attachments to the program, such a scenario can be realized only through additional financing, otherwise the number of unitary enterprises and State-owned JSCs would reduce 57% and 52%, respectively, by 2018.

[2] The foregoing budgetary appropriations are assigned to the Ministry of Finance of Russia, and under the consideration protocol of the list of unagreed subject matters concerning allocation of maximum amounts of budget-

The planned amount of revenues from privatization for 2012–2016 totals about Rb 3 trillion and exceeds the revenues from privatization generated over the last 18 years.

From the organizational and technical point of view, enhancement of the effectiveness of state-owned property management means the following. (1) Ensure an IT-based end-to-end accounting and control of all management processes and procedures at any stage and level, including territorial agencies; (2) ensure information transparency of the work performed by the Federal Agency for State Property Management through public access to the data on registered federal property units based on their inventory as the basis for generating complete and reliable information on managed property units; (3) define and assign areas of responsibility to every employee of the Federal Agency for State Property Management; (4) establish a special internal audit unit within the Federal Agency for State Property Management to ensure the implementation of compliance controls of approved regulations, processes, and procedures.

A key indicator of the national program with the regard to the foregoing is full transition to electronic information flows by 2018: all public services must be provided electronically, while legally valid e-document flow between the Federal Agency for State Property Management and its territorial branches with government agencies must account for 99%. This will allow the required level of transparency and controllability of all processes.

Legal support to the program provides for the adoption of more than 25 legal acts within five years to come, including amendments to the federal laws on privatization of state municipal property, on state registration of the rights to real property and transactions therewith, on unitary enterprises. The Ministry of Economic Development and Trade plans to perform additional work on accounting and management of intangible assets in the Russian Agency for Patents and Trademarks.

Though the new conceptual document is quite ambitious, it has the following major issues which may be encountered during its implementation.

First, property units whose target functions are not determined will be automatically included into the privatization program after January 1, 2015. Therefore, federal executive bodies would to have to assign such functions for the assets they manage prior to the foregoing date.

On the one hand, this approach may encourage public authorities to retain as many property units as possible, and create an additional motivation for the management of subordinate enterprises and agencies to withdraw assets and gain private benefits from control in view of uncertainty about their positions.

However, public authorities may acquire a far more negative behavior, when the primacy of using the departmental approach in determining a target function of state-owned property would be based on a plane interest in exclusively socio-cultural and household-purpose units which are involved in servicing the management of specific public authorities and their personnel, rather than the interests of the state and national economy at large.

A big problem is to adequately determine a target function for each of the units in the state-owned property portfolio. The multipurpose nature of a series of state-owned assets must be taken into account.

---

ary appropriations for 2013 and the Planning Period for 2014 and 2015 on the Ministry of Economic Development and Trade of Russia (SPB 68) of August 16, 2012, the question of payment for the services of investment advisors will be considered by the Ministry of Finance of Russia according to the established procedure subject to a decision of the President of Russia or the Russia's Government.

On the other hand, the proposed approach may increase the volume of property units which may be potentially privatized in 2–3 years. Unavoidably, it raises the question of setting concrete dates and options of privatization, given the market conditions and demand for assets possessing a lot of specific features. Appearance of a great deal of extra property in the market would lower prices of assets for sale, being critical against the priority of budget approach towards privatization.

Extremely advisable is elaboration of potential effects of privatization based on its expedience, comparative economic and allocative efficiency of the public and private sectors, opportunity costs, potential risks and impact on the development of specific markets, industries, regions, and the national economy at large.

Second, though the new national program proclaims transformation of privatization for being used as a tool for fundraising to develop and upgrade state-owned enterprises and create new jobs, develop competition and markets by reducing state participation in the economy, involving property in economic turnover, it lacks any indicators for the achievement of these goals.

In the light of these facts, a lot of raised eyebrows is caused by mentioning in the assessment the planned effectiveness of the program as expected final results and socio-economic effects contribution to modernization of the Russian economy, creation of conditions for the mass emergence of new innovative companies in all economic sectors, structural diversification of the economy based on the innovative technological development. The same is the case for the quality of corporate governance.

Mentioning post-privatization monitoring and follow-up of the results of the development of property units which became private has no reference to any legal and organizational arrangements of such actions. In spite of all the negative aspects revealed during investment tenders in the course of privatization in the 1990s, no question has been risen of control enforcement and adequate sanctions against mala fide purchasers of state-owned assets. A federal special follow-up monitoring makes sense only to the extent that the state has adequate possibilities to influence new owners. So far, one can see lack of monitoring of the development even those enterprises and JSCs which were previously in the list of strategically important enterprises, i.e. there were officially recognized as important ones[1].

However, this aspect of privatization raises a more fundamental question about a degree of priority of the ownership right itself against other provisions, in particular when there is a lot of talking about the state putting a pressure on businesses, an ideal model of relationship between the state and the business comes down to timely tax payment and compliance of sanitary, environmental, and some other similar legal requirements by the latter.

Third, the provided therein rates of reduction in the number of state-owned JSCs and FSUEs are not substantiated whatsoever either from the perspective of final assessment of the number of such economic agents which would allow public functions to be performed and the state to play an adequate role in the economy, or form the point of view of engagement of any concrete mechanisms of state asset management (different types of unitary enterprises, an interest of any value in the charter capital of business entities (JSCs and LLCs), entitlement to a special right (golden share), forms of incorporation which are formally related to non-profit

[1] Left aside was the issue relating to the effect of the previous privatization on most of industries and production entities with an overwhelming share held by private owners, but being far behind other countries in terms of effectiveness or failed to recover from the effect of transformation-related recession (these are mostly secondary industry and research sector enterprises).

entities (public corporations and partially state-owned companies, stand-alone agencies and non-profit organizations)).

The focus on non-existence of unitary enterprises operating under full economic jurisdiction by 2018 (while ignoring this form of incorporation in general) would unavoidably result in retaining state-run enterprises whose obligations fall under subsidiary liability of the state. Neither is considered the aspect of comparative performance of transformation of unitary enterprises to other forms of incorporation in accordance with the selected type of legal entity (limited liability companies, stand-alone non-profit organizations, stand-alone agencies). A series of examples (e.g., Oboronservis JSCo) show that the OJSC status itself neither guarantees a better safety of property units, nor ensures in full government interests vs. a unitary enterprise.

Fourth, it is provided thereby to reduce to 30% a share of public sector employees in management and control bodies at partially state-owned JSCs beginning with 2014[1], as well as their concentration in audit committees being the weakest and mostly token corporate departments in the Russian practice. The participation of public sector employees has a very weak effect against the refusal to use directives as a control tool for the state as shareholder. However, it is the audit committees where specialists with specific knowledge and solid experience in auditing, accounting, etc. are in high demand.

Being regarded as an alternative, the institution of professional directors which are suggested to be engaged in management bodies of subsidiaries and affiliated entities of vertically integrated holdings and enterprises in the military defense sector (in addition to the existing practice) is not a plaster for all scores in performing corporate governance procedures.

Furthermore, reasoning from the formal primacy of financial considerations, a public sector employee representing the state interests is more independent, because he/she is not entitled to be paid directly by a company. In spite of all negative aspects relating to representation of state interests by public sector employees, it is quite clear what spectrum of sanctions they may be subject to (disciplinary penalties, deprivation of incentive payments to a basic salary, dismissal from work, disqualification with prohibition to certain occupations), whereas in case with independent directors there is an unavoidable question of adequacy of their reputational responsibility, and a possibility of making them subject to statutory provisions on asset and income disclosure on a mandatory basis.

Furthermore, according to deputy prime-minister Dvorkovich A., withdrawal of public sector employees – senior managers – from boards of directors would create a clean vacuum in the interaction between companies and government agencies, giving rise to the need to arrange an alternative mechanism to align positions, because on-going interaction, regular meetings, consultancies on elaboration of positions are vital for effective governance of partially state-owned companies.[2]

Fifth, according to the data provided by the Head of the Ministry of Economic Development and Trade, the current scale of state-owned assets at the federal level in much smaller than in 1999 by all categories of legal entities: more than 2,300 joint stock companies against about 3,900 (a reduction of 40%), about 1,800 state unitary enterprises against almost 13,800 (a reduction of 7.7 times), 20,200 agencies against 23,100 (a reduction of 12%), respectively. Thus, the trend towards quantitative reduction in volumes of state-owned property was devel-

[1] Except for those operating in the military industrial sector or relating to the national defense.
[2] Public officials withdrawal from state-own companies requires a new type of interaction, 07.02.2013, RIA-Novosti – Ekonomika.

oping anyway without taking a goal-oriented approach towards assets. However, a question of the quality and effect of privatization in the 2000s was left aside. However, no critical analysis of this subject matter is available in the new national program.

This is not to say that the volume of financial resources envisaged for the implementation of the national program looks very impressive: a total of Rb 33.4bn of federal budget funds for 2013–2018[1], while a total of Rb 19bn as additional financing is provided for by the national program if new additional opportunities emerge in the federal budget. The amounts of extra financing in 2013–2018 of liquidation (Rb 6bn) and maintenance (Rb 6.9bn)[2] of most hazardous state-run enterprises looks fairly small thereby contradicting one the basic concepts of the new national program, about the state encumbrance on surplus assets and substantial budget overruns.

The foregoing amount of budget allocations is comparable with the decade-old total federal budget revenues from privatization (sale) and the use of state-owned property (2000–2002) or in the crisis-hit 2009, let alone the government revenues in the previous year or the government expenditures on the implementation of prestige projects (APEC summit, Olympic Games in 2014, etc.).

6.2. Antimonopoly policy in Russia in 2011–2012: after the 'Big Four' case[3]

Both antimonopoly policy and competition protection have steadily been making the top-list of economic policies over the last five years, as is evident from a series of rounds of antimonopoly investigations against the largest oil companies; rapid growth in application of legal regulations against parties to agreements classified as collusion; emergence of billion-ruble penalties; widespread application of regulated sales practices for the largest companies as a condition for approving M&A deals and rectifying detected violations of the antimonopoly legislation.

Lively discussion of a report on competition made by the Federal Antimonopoly Service of the Russian Federation (the FAS Russia) in 2012 is an evidence of how important antimonopoly policy and competition protection are. The report was given much more attention than any of

[1] A total of Rb 103bn of financing till 2018was provided for by the draft national program which was published late in January 2013. However, this amount seems to be very moderate.
According to the Head of the Federal Agency for State Property Management, the difference can be explained by the availability of a second subprogram on public tangible reserve in the structure of the national program, whereas the amounts of expenditures presented at the Russia's Government meeting on February 7, 2013 are related exclusively to the activity of the Federal Agency for State Property Management.

[2] In addition, about Rb 0.9bn of the total additional financing may be allocated to complete the paperwork concerning technical inventory, registration of proprietary rights, and cadastral registration of land plots as part of the corporatization of unitary enterprises.

[3] In the fall of 2008, the FAS Russia instituted legal proceedings against the Big Four oil companies (Gazprom Neft, LUKOIL, Rosneft, TNK-BP), in which new legislative concepts (collective domination concept and high monopolistic price determination), and new turnover-based fines were introduced. Under the foregoing cases the FAS Russia imposed fines of Rb 5.4bn on the Big Four, and fines of Rb 20.7bn under other cases which were further initiated in 2009. Afterwards, the FAS Russia's rulings were disputed at different courts. However, the scales were weighted in favor of the FAS Russia by a ruling of the Supreme Arbitration Court on the TNK-BP case (in May 2010). A ruling to develop an amicable agreement (in September 2010) proved that the FAS Russia gained weight among government authorities, being able to employ the antimonopoly legislation tools to fulfill current tasks of the economic policy. See C. Avdasheva S., Kryuchkova P. For absence of evidence. Expert. February 14, 2011.

the previously issued documents; years-lasting heated discussions of the application of the law on government procurement; definitely landmark discussion and adoption of the law on trade.

In addition, a Commission for the Promotion of Competition and Small- and Medium-Sized Enterprises was established under the auspices of the Russia's Government, the Competition promotion Program (2009–2012) was given an intensive discussion, and the Competition Promotion Road Map and the Strategy for the Development of Antimonopoly Policy in Russia, whose development was initiated by the FAS Russia, were developed and adopted.

This review will focus on the events that took place over the last few years (above all, in the period between 2011 and 2012). This period was characterized by that a general scheme of counteracting monopoly practices (first of all, abuse of dominance) employed by the largest oil companies was defined. Furthermore, new material amendments were made to the antimonopoly legislation, and evidences for conclusions on the evolution of the Russian antitrust emerged.

6.2.1. General Characteristics of antimonopoly legislation application

Scope of enforcement rules

The court rulings on the Big Four cases triggered an increase in the number of antimonopoly law enforcements, as can be evidenced in the statistics on three articles of the Federal Law "On the Protection of Competition"[1] (*Table 8*). Total number of cases initiated against companies under three types of cases, namely abuse of dominance; competition restraining agreements and concerted actions; unfair competition almost doubled in the period between 2008 and 2011. Furthermore, a share of cases which ended up with court rulings on violation of the antimonopoly legislation increased too.

The number of cases initiated by the FAS Russia together with its territorial offices is bigger than that of cases initiated by any other government agency involved in the competition policy in other countries. In 2001[2], the FAS Russia's headcount totaled 3079 persons. To compare: the headcount of two US government agencies, Federal Trade Commission and Antitrust Division, Department of Justice, was 1744 persons. The headcount of the Australian competitive policy agency, which is well-known by wide terms of reference and high activity, totaled 915 persons. The European Committee for the Application of Antimonopoly Legislation comprised 749 employees.

Table 8

Number of initiated cases and court rulings on violation of antimonopoly legislation by article of the Federal Law "On the Protection of Competition", 2008–2011

	Number of initiated cases				Court rulings on violation			
	2008	**2009**	**2010**	**2011**	**2008**	**2009**	**2010**	**2011**
Abuse of dominance (Article 10)	1639	2411	2736	3199	862	1439	1539	2310
Agreements and concerted actions (Article 11)	359	488	607	482	183	293	376	315
Unfair competition (Article 14)	517	687	927	1065	303	476	754	828

Source: FAS Russia's data.

[1] The Federal Law dd. 26.07.2006, No. 135-FZ "On the Protection of Competition". A comprehensive analysis of the antimonopoly legislation enforcement practice also must reflect the application of other articles of the Federal Law "On the Protection of Competition", as well as antimonopoly regulations provided for by many other laws, including sectoral laws.

[2] Rating Enforcement 2012. Global Competition Review, 2012.

However, most impressive is the number of initiated and closed cases against abuse of dominance. In 2011, the FAS Russia initiated 3197 and completed 3199 investigations, whereas competitive policy agencies in other countries initiated a maximum of 106 such cases (Ireland). To compare, the European Committee initiated 54 such cases, the Australian competitive policy agency initiated 21 cases. Thus, every employee of the FAS Russia had more than one case under Article 10 of the Federal Law "On the Protection of Competition", being 15 times less than in the EC and 45 times (*not percents!*) less than in Australia.

Observation of the antimonopoly legislation became more important for Russian companies after the fixed fines were replaced with turnover-based fines in 2007. The Big Four cases showed, among other things, not only potential possibility, but also real capability to collect substantial fines and issue instructions to restrict substantially business decisions. To date, however, an average amount of fines imposed by the FAS Russia remains low. The amount of imposed fine was reduced from Rb 16.5m in 2009 to Rb 2.3m in 2010, and Rb 4.5m in 2011 as per ruling on violation under Articles 10 and 11 of the Federal Law "On the Protection of Competition". Virtually, it reflects rise and fall of (first, second, and third) 'waves' of oil cases. Amounts of fines are normally not so hard outside the Big Four. However, inflow of cases disputing antimonopoly authorities' decisions in arbitration courts has been increasing (*Table 9*). Looking at the ratio of FAS Russia's decisions on violation to claims against non-regulatory acts (i.e. rulings on specific cases), as well as decisions on imposition of administrative sanctions, one may infer that companies dispute an overwhelming number of antimonopoly authorities' decisions[1]. High level of competitiveness of arguments of parties to court cases is represented by the number of cases filed to courts of appeal and cassation. First instance arbitration courts have dismissed about two of five antimonopoly authorities' decisions over the laws few years (*Table 9*). Half of first instance arbitration court rulings refer to appeals; disputes on one in three decisions are admitted in court of cassation. Arbitration courts' rulings play an important role in the development of standards for the application of the Federal Law "On the Protection of Competition".

Table 9

Decisions on violations and claims against antimonopoly authorities' decisions, 2009–2011

	Decisions on violations of Articles 10 and 11		Claims against antimonopoly authorities' decisions in first instance arbitration courts of the Russian Federation			
	Amount of imposed fines, billions of rubles	Number of decisions	Claims against non-regulatory acts	Including satisfied claims	Claims against decisions on administrative sanctions	Including satisfied claims
2009	28.5	1731	2657	1057	1624	848
2010	4.6	1969	3770	1390	2185	1039
2011	11.7	2625	4334	1709	2511	1049

Source: FAS Russia and Supreme Arbitration Court of the Russian Federation.

The scale of application of regulations under other provisions of competition legislation is growing. Counteracting competition restraints imposed by government agencies (Article 15 of the Federal Law "On the Protection of Competition") remains the most important. In 2011,

[1] Obviously, direct comparison of the number of decisions on violation under the provisions relating to economic agents with the number of claims against antimonopoly authority's decision should be interpreted carefully. Not only decisions against companies are disputable; however, in our opinion, it is corporate claims that account for an overwhelming part of disputes considered in arbitration courts.

5,800 cases were initiated against government authorities against about 3,000 in 2008. A share of detected violations in these cases increased from 68 to 87%. The number of government procurement checks has steadily been increasing (*Fig. 1*).

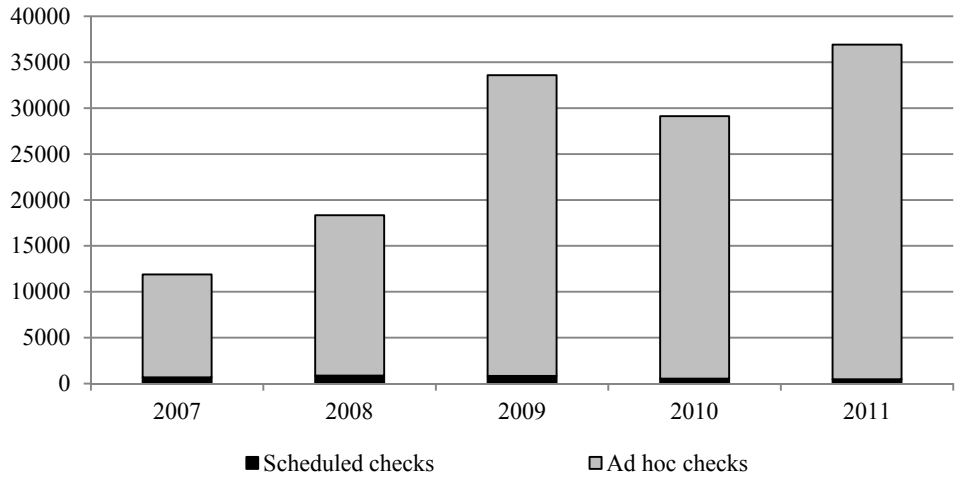


Fig. 1. Number of checks performed in the course of monitoring of compliance with the law on government procurement, 2007–2011

The number of cases on violations of the Federal Law "On the Framework of State Regulation of Trade in the Russian Federation" retail food store chains"[1] has been growing at the same rates as the number of cases on violations of antimonopoly legislation. About one fourth of all retail food store chains operating in the country underwent such checks in the year when the Law was adopted.

Developing antimonopoly prohibition standards in court rulings

Antimonopoly policy comprises, among other things, various antimonopoly authorities' decisions and court rulings which have as much effect on companies as legislative innovations. It is hard analyze, let alone generalize, such decisions and rulings. First, key decisions are sector-specific, e.g., exporters are less concerned than retail networks about outcomes of discrimination cases, whereas the latter pay less attention to issues relating to monopolistically high prices. Second, court rulings on the same subject matter may differ largely. They may support the position of antimonopoly authorities in some cases, whereas contradict it in others. Furthermore, even single-type cases may be subject to decisions relying on polar concepts. Following are a few examples.

Abuse of dominance: domestic market and exports. In 2011 thru 2012, a few important court rulings were issued on cases where large sellers-exporters were accused of abuse of dominance by setting monopolistically high prices in the domestic market or discriminating (by setting different prices in the domestic and external markets) domestic consumers. Basically, it began from charges against the 'four oil companies" collectively dominating in the market. The conclusion about monopolistic oil prices in the period between 2007 and 2008

[1] Radayev V. Who gained from trade law adoption. State and Municipal Governance Issues, 2012, No. 2, pp. 33-59

was based on the two arguments, namely wholesale prices grew at a faster rate (or fell at a slower rate) than manufacturers' costs (according to their book records); wholesale prices grew at a faster rate than global oil prices in the period of growth and fell at a slower rate in the period of decline.

Thus, the FAS Russia addressed the issue being faced in the market where large corporate exporters operate. Considering exports as priority and encountering a more intensive competition in export markets, companies often set lower prices for foreign buyers than for domestic ones. It is difficult to tell to what extent such price-related decisions can be treated as violation of the antimonopoly legislation. Recognition of such a combination of prices as discrimination (in the language of the Federal Law "On the Protection of Competition" – 'creation of unequal conditions') relies indirectly upon the buyer identity approach, which is wrong in general. Recognition of higher prices in the domestic market as monopolistically high prices, because they are higher than foreign markets' prices, is also a disputable conclusion, because markets can hardly be so comparable as to allow prices to be compared directly.

Arbitration courts' rulings on these issues may differ drastically. In October 2012, the Supreme Arbitration Court of the Russian Federation (SAC) dismissed by way of supervision a review of the case on a claim filed by Raspadsky Ugol LLC, which was closed in the preceding year. The Moscow Arbitration Court stated in the analytical part of the case that since different prices of soldering coal in Russia and abroad are governed by the specifics of such markets, they can't be regarded as a sign of discrimination. However, in the summer of 2012, under the claim of Novolipetsk Steel OJSC and VIZ-STEEL LLC the same court confirmed the validity of the FAS Russia's conclusion on that excess prices of transformer steel for domestic buyers vs. export prices is indicative of monopolistically high prices in the domestic market[1].

In the long run, the issue of legality of domestic prices exceeding prices of export contracts remains to be discussed. The antimonopoly authority believes that solution can be found by developing methodological recommendations on fair (or substantiated) prices directly linking the acceptable level of prices in the Russian market to prices in foreign markets. Without going into details about numerous methodological issues relating to the application of such approach, it should be noted that any form of price regulation including, but not limited to pegging domestic market prices to a benchmark is exposed to risks. In this case, one of such risks – weaker incentives for exporters to participate in competition of supply prices. If it is assumed, directly or indirectly, (e.g., like as part of an ordinance developed by the FAS Russia for URALCALI OJSC) that prices for Russia's buyers must be higher than the lowest export price, active price competition in exports would be less advantageous for the buyer. The stronger is this effect, the higher is a share of domestic supplies in exporter's output.

Concerted actions: parallel pricing and similar structure of agreements. In 2012, courts of different instances kept considering so called 'buckwheat cases'. Courts in Kazan and St. Petersburg dismissed (Tander, Perekryostok, Agrotorg, Pik in the case of the former; Perekryostok, Agrotorg, Dixi, Real, O'K in the case of the latter) the claims filed by retail food store chains to reverse decisions recognizing them as parties being involved in concerted actions of simultaneous rise of prices of buckwheat in the summer of 2010. Superior authorities dismissed the claims and upheld the foregoing decisions: the SAC rejected by way of supervision the St. Petersburg case, court of cassation remanded the Kazan case to the first instance court which upheld the decision on concerted actions as early as the beginning of

[1] However, in March 2013, the cassation authority remanded the Novolipetsk Steel and VIZ-STEEL case.

2013. These decisions proved low standards of evidences of tacit collusion[1]. One-way changes in prices are regarded as a sufficient evidence of committed violation. No question of the mechanism of maintaining relationship between sellers' decisions was brought up, thereby allowing both large and small sellers to be accused of applying the 'price umbrella' model. The foregoing decisions contradict the concept of the amendments and restatements made to the Federal Law "On the Protection of Competition" on December 2011, which tightened the standards of proof of concerted actions.

Nevertheless, not all of the charges of concerted actions against sellers were upheld in court. In the summer of 2012, the Kazan Arbitration Court dismissed FAS Russia's decision on violation of the antimonopoly legislation by retail household appliances and electronics chains Media Markt, Ashan, Eldorado, Beringov Proliv for having used a similar standard structure and terms and conditions for agreements with suppliers, thereby leading to retail price maintenance. At least two aspects of this court ruling are important for the development of standards for different cases: the court ruling provides the assessment of relationship and interaction of the policy pursued by the selected group of market participants and takes account of alternative explanations concerning the non-infringement data provided by the FAS Russia.

Discriminative terms and conditions in agreements concluded between retail chains and suppliers. In 2011–2012, court rulings concerning cases on discriminative terms and conditions in agreements concluded between suppliers and retail food store chains (pursuant to Article 13 of the Federal Law "On the Framework of State Regulation of Trade in the Russian Federation") were issued mostly in favor of retail chains. First instance arbitration courts dismissed several dozens of decisions made by territorial offices of the FAS Russia, which recognized different mark-ups, different payment dates, different bonus schemes for volumes in agreements with different suppliers as discriminative. However, different legal motives for the differences in contractual terms and conditions were provided[2]:

- different suppliers or their products are recognized as nonequivalent;
- a provision on the need to compare a set of contractual terms and conditions rather than specific components thereof (if one supplier offers a higher wholesale price vs. other supplier, 'net' prices may be found equal);
- assessment of potential effects of the nondiscrimination standard (competition depression – market participants would look for a supplier who accepts the same terms and conditions accepted by the others, rather than for the best supplier,).

Decisions on a series of discrimination cases were upheld in judicial instances, including the Supreme Arbitration Court of Russia who dismissed a standard case by way of supervision in the summer of 2012. However, discrimination cases relating to different terms and conditions in agreements with different counterparties keep being initiated not only against retail food store chains, but also suppliers. The most odious of such cases seems to be a case against Penza Diary Factory for the discrimination of Ashan and Perekryostok by offering them a resale discount which was less than that for regional retail food store chains.

[1] For details about the issue of tacit collusion and application of antimonopoly prohibition of tacit collusion see: Avdasheva S. Tacit collusion illegality in Russia's antimonopoly legislation: Can economists help develop legal rules? Voprosy ekonomiki 2011, No 5, p. 89–102.

[2] See for details: Avdasheva S., Novikov V. Fox and crane: Paradoxes of discrimination. Konkurentsiya i pravo, 2012, No. 1, pp. 22-27.

However, a discussion about the definition of discriminative terms and conditions in agreements and discrimination proof standards may take up a lot of time. Uncertainty in this issue creates more legal risks for companies who intend to develop 'sales practices' as rules for interaction with counterparties.

Combating negotiation leverage misuse: from retail chains to national car distributers. Cases which are intended to settle contractual practice in specific industries account for a substantial part in the activity of the FAS Russia. The Federal Antimonopoly Service of Russia keeps using recommendations firstly as a tool to combat negotiation leverage misuse. In the fall of 2012, recommendations for carmakers and national distributors were developed. FAS Russia's proposals whose observation is logically should be considered as the condition for a business practice to be recognized as legal, include setting standard terms of dealer agreements of at least five years with a view to ensuring return on dealer's investments, making it possible to open different types of dealer centers (including, but not limited to those who only seller or only provide maintenance service), refusing to set a minimum resale price.

Carmakers and national distributers were recommended to develop a document describing unified requirements to counterparties, and prevent discrimination in agreements with different types of dealers and maintenance centers. It is hard to assess subsequent developments in the industry. One only may acknowledge that the foregoing recommendations do create more constraints for carmakers' business. Whether these are going to be tight or not, also depends on how the foregoing nondiscrimination principle would be interpreted on a case by case basis.

6.2.2. "Third antimonopoly laws package"[1]: before and after

A package of amendments to the antimonopoly legislation was adopted late in 2011, which covered a wide spectrum of relations regulated by the Federal Law "On the Protection of Competition", as well as a series of other regulatory legal acts. Making no pretence to describe all of these amendments to the Russia's antimonopoly legislation, let us highlight a series of new aspects including a substantial restatement of the previously applicable regulations as follows:

- additional conditions under which a price can't be recognized as monopolistically high price;
- changes in the wording and a set of concerted action signs;
- criteria for identifying a group of persons and the monitoring concept;
- introduction of the 'cartel' term as a legal term, reduction of the list of cartel signs against the signs of competition restraining agreements;
- consecutive distinguishing between collusions and concerted actions (introduction of different law provisions, such as Articles 11 and 11.1, prohibiting agreements and concerted actions, respectively);
- acceptance of horizontal agreements on cooperation;
- introduction of an exception for agreements relating to the use of intellectual property;
- adjustment to regulation of vertical agreements;

[1] The adoption of the Federal Law dd. 06.12.2011, No. 401 "On the Amendments to the Federal Law "On the Protection of Competition" and Certain Legislative Acts of the Russian Federation and the Federal Law dd. 06.12.2011, No. 404-FZ "On the Amendments to the Administrative Offences Code of the Russian Federation" (the so-called 'third antimonopoly package') intended to enhance the antimonopoly regulation, became a significant event in 2011.

– trading requirements, quotation requests, and auctions;
– introduction of caution and warning institutions;
– further modernization of monitoring of economic concentration transactions.

Monopolistically high price

An attempt was made in the 'third antimonopoly package' to create a 'safe harbor' for market dominating entities, which may be accused of setting monopolistically high prices, through amendments to Article 6 of the Federal Law "On the Protection of Competition". The price at which an economic agent sells goods through over-the-counter trading must not exceed the price indicator. A option of such indicator is the stock trading price of certain goods. However, trading itself must meet certain conditions so that the stock trading price may be recognized as an acceptable indicator. It means not only requirements to participants' sales volumes and the number of trading participants, but also frequency and efficiency of distribution of volumes among trading sessions, minimum size lots, initial pricing specifics approved by antimonopoly authorities.

One of the reasons for the introduction of this regulation is that antimonopoly authorities had to rely on an single criterion – economically feasible costs and profit required for production – to qualify the actions of entities dominating in respective commodities market as abuse in the form of monopolistically high price. Furthermore, costs and profits were assessed on the basis of a book-keeping approach which prevailed over the economic approach, as the latter not only underestimates a total level of cost included into the price of goods, but also creates unequal conditions for entities who employ different models of business organization (first of all, with regard to a strategy of selection between creation and utilization of owned non-consumable assets or leasing such assets). The second sign of monopolistically high price – higher price in a respective market vs. the price in a comparable competitive market – was found to be rarely useful, because of excessively tight comparability criteria[1]. At best, this principle could be used for retrospective research of competition in the market.

There is a question: who may gain or lose from the introduction of this regulation. No changes to non-exchange commodity markets, with the exception of an outside possibility of attempts to create regulated market mechanisms, in spite of external constraints. Markets, whose commodities can be regarded as exchange commodities due their characteristics and applicable agreements, are very likely to experience more certainty, provided that a set of issues relating to well-defined algorithms of setting (1) frequency, (2) efficiency, (3) initial price, taking into account such aspect as temporal restrictions on making decisions, is defined. Solution of the foregoing issues suggests many criteria and designing of indicators which would allow for the assessment of compliance of exchange trading practice and participation of certain economic agents in such trading with certain threshold values. One may hypothesize that the efficient distribution of volumes would be assessed by a Gini coefficient substitute, whereas frequency of monitoring points should be determined first to assess frequency. Daily, weekly or monthly?

Indeed, an attempt to make post factum decisions increases considerably corruptogenic potential of market indicators, thereby raising manipulation risks. The application of this regula-

[1] See the following publication for details on the issues of market comparability: Shastitko A. E. 'Comparable markets' as a tool of antimonopoly policy. Voprosy ekonomiki, 2010, No. 5, pp. 96–109.

tion is likely to result in high administrative costs which is typical of sophisticated and transaction management specialized mechanisms[1].

The Order issued by the FAS Russia and the RF Ministry of Energy on January 31, 2013, No. 41/13/37 "On the Establishment of Minimum Value of Exchange-Traded Oil Products Produced and/or Sold by an Economic Agent Dominating in Respective Commodities Markets, and on the Approval of Requirements to Exchange Trading in Which Transactions are Made with Oil Products by Economic Agent Dominating in Respective Commodities Markets" answered in part to the raised questions, in particular the questions about initial price, approaches to the assessment of frequency (month). However, are these answers full and complete? If not, then what are the extents of regulator's discretion? …

Study of the new document entitles one to believe that administration of antimonopoly control in this type of exchange trading may be very surprising.

Concerted actions

Well-defined signs of concerted actions are described in the wording of Article 8 of the Federal Law "On the Protection of Competition" adopted in the 'third antimonopoly package'. Given the previous definitions, to recognize actions as concerted, it must be defined that:

(1) the result of such actions meets the interests of each of the economic agents in question;

(2) actions are foreknown by each of the economic agents involved in such actions due to a public statement about such actions made by one of the economic agents;

(3) actions of each of the economic agents have been caused by actions of the other economic agents involved in the concerted actions, and have not arisen from circumstances which have an equal effect on all economic agents in respective commodities market.

Most important are changes concerning the answer to the question about how participants of concerted actions foreknow actions of the others. It may be public statements. However, criteria to define what may or may not be regarded as public statement seem to be based on the experience gained through the application of this regulation. In other words, this is a subject of judicial discretion. Indeed, if a company promises through mass media that it is going to increase by 15% its prices in a month, it would be difficult to dispute an assumption that the promise is a public statement. What if a specialized agency for monitoring and forecasting certain commodities markets' conditions makes a forecast of prices which would be publicly available, even on a paid basis? If such forecasts would be available only for buyers, there is no guarantee that the forecasts will be completed unavailable to at least a single competitor? How antimonopoly risks can be distributed in this such case?

Changes in regulated tariffs; changes in prices of raw materials used for the production of goods; changes in prices of goods in global markets; substantial changes in demand for goods within at least a year or during the life of a particular commodities market, provided that it is less than a year, are listed among the objective factors that cause parallel behavior which, however, is not going to be recognized as concerted actions. However, no one would expect the above listed factors to have an *equal* effect on all economic agents in the particular commodities market. The question is which way these factors would influence.

However, an attempt to distinguish between 'natural' and 'conscious' parallelism in behavior is definitely a step forward towards reflection in legal regulations the most significant aspects of the model of tacit collusion as economic correlate in legal conception of concerted

[1] For more details on comparative analysis of transaction management mechanism see: Shastitko A. E. New institutional economic theory. M: Teis, 4TH Issue, 2010, pp. 491-515.

actions. Thus, public statements is the most serious issue relating to the application of this regulation. The efficiency of application of this regulation will depends on whether the issue of so-called 'strict liability' is resolved or not.

Group of persons and control

The new version of Article 11 of the Federal Law "On the Protection of Competition" answers the question about who is going to be the target for antimonopoly prohibitions and what categories of persons may be exempted from antimonopoly law enforcement when certain relationships develop between them. There is a principle under which group of persons (as opposed to affiliated or related persons in other branches of law) is regarded as a single economic agent in terms of being subject to the same prohibitions as economic agents are. In particular, abuse of dominance may be considered with regard to both a single economic agent and a group of persons in *ex ante* (e.g., as a result of the economic concentration deal approval) or *ad hoc* composition.

If, however, actions of a single economic agent are of no concern to antimonopoly authorities in terms of application of the prohibitions set forth in the law, this principle is not to be applied to a group of persons even if the group of persons is regarded as economic agent. In other words, it turns out that both concerted actions and collusions being subject to antimonopoly prohibitions may be detected within a group of persons.

The 'third antimonopoly package' contains not only a smaller number of signs of group of persons (merely 9 instead of 15), but also a framework which allows a group of persons to be identified generally and properly. Generally, a group of persons is identified on the basis of the signs set forth in Article 9, whereas, properly, it is identified on the basis of direct or indirect control (Clause 7 Article 11).

Two signs of control remained after a long-lasting discussion of this amendment:

- control over more than 50% of total voting shares comprising the charter (contributed) capital of a legal entity;
- legal entity's executive body functions performance.

If at least one of the foregoing signs is detected, then control relations may deem to have been detected. This concept is applied to limit the scope of antimonopoly control to agreements (Article 11), concerted actions (Article 11^1), and economic concentration deals (Article 32).

The third sign, whose 'traces' remained in the wordings of the articles dedicated to the procedure of antimonopoly control of economic concentration deals, refers to identification of conditions for business activity (e.g., Clause 9, Article 28). It was removed from the amendments to Article 11 at the final stage of discussion. It should be noted that unlike the first two signs, this sign broadens considerably the limits for discretionary decisions both in administrative cases and as part of legal proceedings. Theoretically, many situations may occur when this sign, not falling under many signs of group of persons, nevertheless could be considered in terms of the control concept, thereby having an adverse effect on legal certainty in applying the concepts of group of persons and control in daily practice of antimonopoly control.

The introduction of the control concept is an important step towards recognizing that there are differences between the firm as legal entity or a combination of legal entities and physical bodies, on the one hand, and the economic firm which is characterized basically by a very specific allocation of powers to make decisions on recourses, on the other hand. It still remains to be seen what are the effects of reforming the concept of group of persons in the Rus-

sian antimonopoly legislation. However, even today one may say that new issues keep arising as to how the foregoing changes may influence the application of, for example, sanctions for non-compliance with the requirements set forth in the antimonopoly legislation. For example, offences committed within a group of persons (Article 4.3 thereof) are listed among aggravating circumstances in the Administrative Offences Code of the Russian Federation. It means, however, that economic agents turn out to be less exposed to antimonopoly risks being outside than within a group of persons with control. In its turn, this aspect may have an adverse effect on the build-up of mechanisms of control themselves, especially taking into account that such qualifications may be applied in criminal proceedings too.

Cartel

An amendment was made at the final state of discussion of the 'third antimonopoly package', which shortly conveys the meaning of the amendments made to Article 11 of the Federal Law "On the Protection of Competition".

First, it was suggested to modify the Russian antimonopoly legislation towards more consistent differentiation and development of regulatory tools for horizontal and vertical agreements. In fact, it was legally stated *de jure* that *cartels are always horizontal agreements,* which has always been true for economists vs. other categories of specialists.

Second, it was recognized that not all horizontal agreements are so dangerous as to be prohibited as such, regardless of their effects. A new approach, according to the letter of the law, prohibits only those horizontal agreements which result or may result in (1) set and maintained prices (tariffs), discounts, surcharges (extra payments) and/or mark-ups; (2) increased, decreased or maintained bids; (3) that commodities market is divided by territory, sales or purchase volume of goods, assortment of goods for sale, or composition of sellers or buyers (customers); (4) reduced or discontinued production of goods; (5) refusal to enter into agreements with specific sellers or buyers (customers). In its turn, so-called exploitative practices were moved to categories of less serious offences.

Third, an attempt was made to distinguish more precisely between horizontal agreements and concerted actions. In particular, Article 11 is dedicated exclusively to agreements, whereas Article 11^1 especially to concerted actions, though elements of offence are similar in both cases.

Exemptions for intellectual property

The 'third antimonopoly package' provides for the introduction of an exemption for intellectual property with regard to regulations prohibiting competition restraining agreements (Part 9, Article 11 of the Federal Law "On the Protection of Competition"). This amendment complements a series of important exemptions provided for by the Federal Law "On the Protection of Competition" for stimulating innovations and protecting rightholders, and depend largely on intellectual property (Part 4, Article 10, Article 13 thereof).

This amendment became a most disputable one, because at different stages it was more than once either included into or removed from the draft law. The situation with this amendment reflects a very complicated issue in the antimonopoly legislation: interaction between antimonopoly policy tools and protection of intellectual property rights provided for by Part IV of the Civil Code of Russia (CCR) which was adopted in 2008.

The CCR provides for both the principle of contractual freedom (Article 421) and exemptions from this principle (Article 10) restricting the freedom to exercise civil rights: they are not allowed to be exercised to restrain competition. It is this aspect that provides no reasons to

believe that the CCR prevails over the Federal Law "On the Protection of Competition", thereby giving rise to make exemptions from exemptions, such as the use of intellectual property in economic turnover.

A series of unsettled issues were revealed during a discussion of antimonopoly legislation in terms of ensuring a balance with the intellectual property protection policy, which may be presented as negative reflection of the following key policymaking principles in this area.

First, the situation with creation, protection, and availability of access to intellectual property should be evaluated for Russia, which supposes evaluation of the mode of usage and creation of types of intellectual property (based on the list provided in Article 1225 of the CCR) in certain industries with a view to providing a full picture required for (a) evaluating the scope/structure of the issue, (b) concerned groups of interests, (c) identifying options of solution, (d) selecting the best of the identified options of solution, (e) designing an effective mechanism of monitoring of the performance of the selected option (feedback mechanism element).

Second, a typology of competition restraining issues in creating and using intellectual property as applicable to the Russian market-specific relationships and promotion of Russian companies in foreign markets, should be made. To this end, a generalized perception of the competition restraining issues relating to exercise of rights to intellectual property in USA and EC[1] can be used, where they consider such blocks of issues as cartelization through intellectual property, exclusive agreements, refusal to enter into an agreement or prevention from entering a market, as well as setting of secrotal standards.

Third, description of a specific situation or a set of situations (e.g., like in the case with layout designs of integrated circuits, marked reinforced concrete slab, access to digital content) constitutes sufficient grounds to infer existent/nonexistent problems and their possible content due to exemptions from antimonopoly prohibitions, rather than (1) the size of an issue, (2) sufficient explanation of the root of a problem, let alone (3) ways of modification and methods of application of antimonopoly prohibitions.

Fourth, the principle of non-expediency of increasing the number of prohibitions and making legal regulations more sophisticated should be adhered to, if any competition restraining issues can be solved through already existing regulations (e.g., as part of regulations which set acceptable limits for vertical agreements). An illustration of intellectual property is a tool such as compulsory licensing provided for by the CCR (Article 1239). To date, however, no evaluations have been made which are required to see if the regulation is being in demand or sufficient as a tool to counteract abuse of intellectual property rights.

Vertical agreements

The 'third antimonopoly package' also covered vertical agreements, probably a most confusing area in the antimonopoly legislation, which closely relates to the issue of relationships concerning intellectual property (with regard to means of personalization of manufacturers and their products, and other items of industrial property).

The first thing to begin with concerns regulation of vertical restraining contracts – a far narrower array than relationships between buyers and sellers, which more logically can be viewed as vertical agreements. Though under Clause 19, Article 4 of a new version of the

[1] An option of systematization of the issue is described in: Komakova A., Kudrin A. Antimonopoly policy's specific features in terms of intellectual property items in USA and EC. Competitive policy bulletin. Laboratory for competition-related issues and competition policy. 2012, October, Issue No.9.

Federal Law, vertical agreement is defined as agreement between economic agents, one of which buys and the other provides (sells) goods. It is the uncertain location of 'safe harbors' and excessively repressive legislation, because of inconsistently distinguished horizontal and vertical agreements, that put at risk a much bigger number of companies than it was expected based on the developments in the modern economic theory. And the risks were quite tangible[1].

A supplement, which constituted another step towards distinguishing between horizontal and vertical agreements, was issued as part of the explanations provided by the FAS Russia after the amendments to the Federal Law "On the Protection of Competition" was adopted. It is well known that uncertain situation is created when the manufacturer not only sells its goods to the distributor, but also acts as distributor: how the relationships between the distributor and the manufacturer are to be interpreted, Vertical? Horizontal? Vertical and horizontal? Each of these qualifications provides both opportunities and risks for parties to such agreements. Following is the proposed solution. If the distributor is not the manufacturer of goods which are sold in the same market, the relationships are regarded as vertical, regardless of that both the manufacturer and the distributor sell goods in the same market.

Warnings and cautions

Article 26^7 of the Federal Law "On the Protection of Competition" allows for providing the executive officer of an economic agent with a notice of caution on the inadmissibility of violation of the antimonopoly legislation. This regulation is intended to alleviate the issue of 'standards' in the antimonopoly legislation, which suggest the use of complex technologies to qualify actions as compliant or non-compliant with the rules in effect (including economic analysis tools). Caution is a method of restrain in addition to sanctions for violation of the antimonopoly legislation.

Unlike caution which relates to executive officer's public statements about future actions, warning provided for by Article 39^1 of the same law is issued to entities whose actions already bear signs of violations. A warning is issued before a case is opened against a violator, thereby avoiding administrative and legal costs incurred both by the antimonopoly authority and the entity.

The presented innovations are intended to alleviate the issues which are most dangerous for maintain effective (for counterparties too) cooperation between market participants. However, perspectives of application of warnings and cautions depend largely on how corruption risks, which application of this provisions is exposed to, can be avoided.

Widening the scope of regulated procurement

The Federal Law "On the Procurement of Goods, Works, Services by Certain Types of Legal Entities" adopted in July 2011, took effect in 2012. The law provides for regulation of procurement by companies which are directly or indirectly owned by the state, state and municipal unitary enterprises, stand-alone establishments, as well as companies being subject to tariff regulation. According to different estimates, a procurement of about Rb 7bn (Rb 10bn, according to more optimistic estimates) is subject to regulation.

The law is based on the endeavor to reduce costs and restrain corruption, thereby increasing the effectiveness of this group of companies. The key method is to improve procurement

[1] Dzagurova N. Vertical relationship regulation practice: vertical restraints in terms of coordination of concerted actions. Voprosy economiki. 2011, pp. 103-113.

transparency and ensure compliance of regulated procedures. It is provided for by the law that every regulated entity must develop its Procurement Procedure with description of procurement procedures and supplier selection criteria. It is the compliance with the Procedure that becomes the target of control and subject-matter of legal actions of suppliers excluded from a tender or wrongfully rejected.

Positive effects of the law can hardly be evaluated at the moment, as they are going to manifest themselves within a long period of time and be statistically imponderable during the first year, whereas the its drawbacks can become visible shortly since its introduction and foreshadow its assessment by companies and experts[1].

Indeed, total costs of the introduction of the law are heavy. Conservative estimation of extra costs incurred by all entities covered by regulation is Rb 225bn, thereby exceeding an optimistic estimation of money saved from tender procedures. Key sources of ineffectiveness are both lack of lower volumes of regulated procurement and application of the law to companies which either have in-house stimulus to reduce costs, which are not going to be enhanced by the application of the law, or lack of real possibilities for saving.

There can be no doubt that the law will have a substantial effect on the procurement of regulated entities. However, there is a risk that law enforcement may reproduce the well-known drawbacks of the enforcement of the previous law on government procurement No. 94-FZ, and more drastic consequences for business activity can't be ruled out. Practice shows that arbitrary content of the Procurement Procedure with a wide range of procurement was not upheld in court rulings. Moscow Arbitration Court's ruling can be considered as the test case for the time being, which stated that rules for such a procurement procedure as request for offers (which may allow for more freedom in decision-making than those regulated by the Federal Law No. 94-FZ), must be assessed according to Article 18.1 the Federal Law "On the Protection of Competition" ("The procedure for consideration by antimonopoly authorities of complaints about violation of tender procedure and procedure for the conclusion of contracts"). In other words, the Federal Law dd. 18.07.2011, No. 223-FZ "On the Purchase of Goods, Works, Services by Certain Types of Legal Entities" allows companies to develop and apply Procurement Provisions, including alternative procedures. In any case, however, legality of decisions will be assessed on the basis of very strict rules.

Widening the scope of instructions instead of prohibitions

Changes in the antimonopoly policy aimed at reducing the possibility or burden of wrongful accusations have become more relevant over the last few years. First of all, it is the business community that requests such changes in an effort to avoid antimonopoly proceedings and sanctions. Antimonopoly authorities respond to some extent to the request in an effort to increase its influence on pricing and contractual relations at the preliminary stage. Different forms are being used: recommendations on contractual relations in specific industries (both for manufacturers and national car distributors) and methodological recommendations on the application of legislation requirements (as in the case with the Federal Law "On Trade") are developed, terms and conditions of instructions issued to violators of the antimonopoly legislation become more specific and restrictive.

[1] Details on comparison of costs and expected gains from the introduction of the law can be found in the materials of a project of the Institute for Industrial and Market Studies under the Higher School of Economics National Research University (http://iims.hse.ru/news/64491423.html; http://www.forbes.ru/sobytiya-column/kompanii/220584-225-milliardov-na-veter-pochemu-neeffektiven-novyi-zakon-o-goszakupk; http://opec.ru/1448591.html)

Two tools should are worth emphasizing, namely fair (or reasonable) pricing standards and sales practices (or polices). Fair pricing issues get prominent coverage in the FAS Russia in sectoral expert committees. Requirements to the content of sales practices were included into the 'fourth antimonopoly draft package'.

Proposed fair pricing standards employ the method of calculation based on the principle of equal returns on sales in different markets. This method was borrowed from the concept of reorganization of oil and gas prices in Russia. The fair price model applies this principle to prices of imported goods too, in which case a fair price is a price which is not worse than foreign market price, given mechanical deductions plus transport costs and taxes (tariffs). In some options the fair price project goes even further by linking fair practices for closed markets directly with manufacturing costs.

The sales practices model is even more heterogeneous. Some sales practices were developed by antimonopoly authorities as a part of instructions aimed at remedying violations, whereas others were developed within the framework of global agreements between antimonopoly authorities and companies. And, finally, companies developed and keep developing sales practices on a self-imposed compulsory basis in an effort to substantiate specific features of their business model for an antimonopoly authority. Some of sales practices are focused on pricing principles. A bigger group of sales practices regulate procedures for the selection and conclusion of agreements with counterparties which may be distributors, suppliers or buyers. However, this group is heterogeneous: it is the selection criteria, procedures for the conclusion and performance of agreements with counterparties based on the principles of different contractual terms and conditions that may be focused. A rejected proposal on compulsory content requirements for sales practices suggested that all of the foregoing components should be included into the requirements.

Both tools meet at least mixed reaction of businesses, let alone experts. In the short-term perspective many companies and their managers are even satisfied with an opportunity to mitigate risks of antimonopoly cases. Observance of 'reasonable' prices rules out a monopolistically high price, while observance of the sales practice terms and conditions approved by the FAS Russia prevents entities from being accused of the creation of discriminative conditions. However, there are many arguments against intensive application of both fair price principles and sales practices. The simplest argument is that development of any rules costs money, even if such rules are intended to solve major issues. It is not only drafting a document by companies, regulating the pricing principle or contractual terms and conditions, though such documents require financing too. Furthermore, neither is free to adapt the entire corporate system of decision-making to developed rules. Developed procedures should be observed by all personnel, and the system of internal motivation and governance must be adjusted to new rules.

Much higher costs both for companies and the society may result from additional restrictions imposed on businesses by both types of rules. Our knowledge of the market, counterparties, trends in demand and behavior of competitors is always imperfect. Rules which seem to be a reasonable compromise between observance of the requirements of counteragents and antimonopoly authorities which protect them, one the one hand, and of companies, on the other hand, may turn out to be unreasonable and have nothing to do with compromise. Drastic movements in demand may turn a respective adjustment of wholesale prices into the most reasonable business solution, in which case terms and conditions may differ drastically in agreements with the same contract period but different contract dates. A potential counterparty may emerge, an agreement with whom is completely undesirable for business, simply

because a company never before dealt with such counterparty, rather than for reasons not specified in the sales practice. This is manifestation of a typical issue in decision-making assessment. Rules may be set *ex post,* whose observance would ensure the best result amidst existing constraints. However, it may become impossible *ex ante*, while respective attempts may cause substantial losses as any other limited possibilities.

Antimonopoly prohibitions and punishments are applied *ex post* to a practice which can hardly be judged in advance as to whether it might be recognized as law violation or not, and if 'yes', then what a degree of such violation might be. Legal uncertainty of this type is aggravated in Russia by intensive application of regulations aimed at preventing individual damage (which 'operate' but not restrain competition). A company against which a case on violation of the antimonopoly legislation is initiated, may regret it lacks sales practice. In this case, however, there is no certainty that development and observance of sales practice would neutralize the risk of antimonopoly prosecution. According to the experience gained by retail food store chains, the existence of formalized rules for the conclusion and performance of agreements encourages some counterparties to find reasons for accusing of non-observance of such rules. Non-observance of previously developed rules may result in unexpected shocks. However, non-observance of sales practice rules makes it much easier to prove suspected discrimination or monopolistically high price, because these rules are implicitly intended to prevent the foregoing.

There is another aspect of the issue which may manifest itself most intensively when regulated sales are applied in markets dominated collectively by more than one entity, in which case mitigation of risks of accusations of restraining competition through abuse of dominance is likely to increase competition restraining risks through agreements or concerted actions[1].

The trend for replacing antimonopoly law enforcement with regulation tools keeps gaining ground. Antimonopoly policy tends to become more a policy of instructions and regulations instead of policy of prohibitions.

Changes in the mode of application with regard to intellectual property is one of the extensively discussed amendments to the antimonopoly legislation – changes in the mode of application of the Federal Law "On the Protection of Competition" in so far as they relate to intellectual property. At present, the articles of law which regulate the application of prohibitions on competition restraining agreements and abuse of dominance, contain exemptions with regard to actions and agreements concerning the exercise of intellectual property rights and means of personalization. Such exemptions reflect an extremely important in economic policy compromise between protection of competition and promotion of innovations. Innovators must be given an opportunity and conditions to make profit generated from its developments, otherwise they would have no incentives to work for development projects. In the short-term perspective, viewing competition as a dynamic presses, no is no contradiction occurs between competition and protection of right to innovations, whereas in the short-term interval innovators' power is monopolistic and leads to losses on the consumer side. Given both short- and long-term gains, temporal monopoly is an optimal solution. Issuance of patents is based on this reasoning.

[1] It stands to reason that foreign practice prefers corporate antimonopoly compliance polices based on company-specific risk management to regulated corporate sales practices. For details on the ratio of regulated trade practice to antimonopoly compliance polices see Shastitko A. E. Corporate trade practice as antimonopoly compliance policy // Korporativny yourist. Prilozhenie. October 2012, pp. 46-49.

However, protection of developments as a technique to provide a profit inflow sufficient to stimulate development projects may employ all kinds of methods including those which are formally not related to the intellectual property protection methods provided for by the regulations set forth in Part 4 of the CCR. Setting a minimum resale price (e.g., for manufacturers of fully packaged IT-products), which may be suspicious in terms of the antimonopoly legislation regulations, plays an important role as one of such methods in some markets. An illustration is the case which was initiated by the FAS Russia Chelyabinsk Office in 2009 against Kaspersky Laboratory for the withdrawal of a dealer who set a lower than recommended price from the authorized partners. Since a fully packaged IT-product can be copied at zero cost, the lack of minimum price regulation would mean that price competition would prevent the manufacturer from generating profit, thereby providing no incentives for product development. This is why intellectual property was excluded from antimonopoly prohibitions.

However, like any other exemptions, they provide additional opportunities, such as for those who want to evade the law. An illustration is revocation of the FAS Russia's decision on a manufacturer of reinforced concrete slabs, because their production is licensed. Such examples also explain the reasoning for the revocation of exemptions for intellectual property, together with considerations about gains for end users (short-term as we know). At the moment, revocation of exemptions for intellectual property from respective articles of the Federal Law "On the Protection of Competition" and reduction in intellectual property protection are being discussed basically relying on such private arguments, without any integral estimation of gains and losses from amendments to the legislation.

* * *

The 'third antimonopoly package' differs from the previous changes in the antimonopoly legislation not only in the number of new changes, but also how the discussion was arranged.

In terms of intensity, public discussions of the amendments to this package can be compared with the 'first antimonopoly package' which caused significant changes in the Russian antitrust: when (in 2006) a new law was adopted instead of two laws, and a bit later (in 2007) turnover-based fines were introduced, thereby increasing enormously the amount of sanctions.

However, it is unstable publicity of the discussion itself that became the key feature of the discussion of the 'third antimonopoly package': although it is hard to document this feature, there are some signs which can prove that.

Within a period of more than year (beginning with February 2010) amendments were discussed not only by executive bodies (first of all, in the FAS Russia and the Ministry of Economic Development and Trade of Russia), but also by business associations (in particular, the Russian Union of Industrialists and Entrepreneurs (RSPP)), and expert institutions such as Competition Promotion Nonprofit Partnership, Corporate Lawyers Association.

Unfortunately, no statistics are available which could show how many amendments were analyzed, how many instructive comments and proposals were formulated by antimonopoly authority's partners and considered, and what is the percentage of substantiated (motivated and documented) consents or refusals to consider comments and proposals, let alone the quality of such argumentation. However, even application of the simplest option – participant

observation[1] – shows that information exchange increased. Does it mean transformation of quantity into quality?

Here come the doubts about no motivated and documented antimonopoly authority's refusals to take account of some or other proposals as part of the 'third antimonopoly package' discussion. Personal participation in the discussions of a new package of amendments was the only way to understand (not always though) the motives. A period between the first and second readings of the draft law in the State Duma in the fall of 2011 became most important. It turned out that a draft law was submitted to a second reading, which contained a great deal of conceptual amendments which, even though they were previously discussed, the discussion had nothing to do with their submission to the list of amendments to the antimonopoly legislation. Though the law which passed in second and third readings had minimum differences from the law which passed in a first reading, a question still remains: what made it possible to make a great deal of amendments after a 1.5-year period of public discussions.

The discussion of the 'third antimonopoly package' featured the following. No possibilities were offered to provide transparency, mitigation of risks of duplicate discussions ('going around in a circle'); amendments were adopted according to the letter of the law as per the form, whereas 'by ear' per se. In its turn, it is these specific features of the draft law discussion process that are most exposed to legislative error risks, generally and properly[2].

The foregoing possibilities can be offered by regulatory control assessment procedure[3], regardless of that other statutes and regulations underwent no such a procedure (no matter how imperfect it was). This is what makes the 'third antimonopoly package' akin to the first, the second packages, and the existing traditions of discussion of draft legal acts.

It begs the question of whether a fourth package is to be issued after the discussion and adoption of the 'third antimonopoly package'.

The question seems to be reasonable, not only because the FAS Russia made statements about future plans on amendments to the antimonopoly legislation, but also almost all of the amendments proposed for the second reading were rejected by the Russia's Government. Finally, with the first, second, and third packages being in place, what may bar a fourth one from being issued.

There is another good reason – 'correction of errors'. Indeed, a part of the amendments to the 'third antimonopoly package' is referred to correction of errors. It is not only Article 178 of the Criminal Code of Russia in so far as it relates to the exclusion of concerted actions, but also introduction of amendments to Article 6 on the detection criteria of monopolistically high price (stock exchange trading).

[1] The authors participated in many discussions of the 'third (and all the previous) antimonopoly package' from February 2010 to November 2011 in the FAS Russia, the Ministry of Economic Development and Trade, the Russia's Government, as well as Competition Promotion Nonprofit Partnership and RSPP.

[2] Properly, legislative effort means an error which results from imperfect legal drafting methodology, whereas generally, errors also include regulations which, in spite of more or less good quality of legal drafting methodology, may cause the so-called type I and II errors. For details see: Shastitko A. E. Type I and II errors in economic exchange with the participation of a third-party guarantor // Zhurnal novoi ekonomicheskoi assotsiatsii. 2011, No. 10, pp. 125-148.

[3] For details about regulatory control assessment see Kokorev R.A., Shastitko A. E. (edit.). Using regulatory control assessments to improve corporate legislation. Economic Analysis Bureau. M. Teis, 2006); Kruychkova P.V. (edit.) Principles and procedures for the assessment of state regulation measures expediency. M. Teis, 2005.

If one error leads to another one due to the amendment drafting and discussion process itself, then this process may become endless. Therefore, one may expect a fourth, fifth, sixth package to be issued.

Is it reasonable? Any amendment, even a well-intentioned one, to the legislation (maybe except for clearly visible drawbacks which can't be remedied by legal practice, as well as conflicts of laws) is exposed to risks and extra costs for businesses. The principal matter in question is adaptation costs. Since the key provisions of legislation are evaluative, they require a sophisticated application infrastructure both on the side of antimonopoly authority and companies. However, the more frequent and significant are changes, the bigger are adaptation costs.

A moratorium on amending provisions of the antimonopoly legislation after a long period of drafting, discussion, and adoption of amendments (2004 thru 2012) could have been a good sign for businesses, if it were not for two hitches.

First, it is obvious that such moratorium can't be endless. A period of moratorium should be set at least.

Second, until the practice of consideration of draft laws and their performance measurement on the basis of effective criteria becomes a routine, it is hard to assess conditions under which moratorium can be suspended in order to – again, in good faith – correct previously committed blunders.

6.2.3. Competition promotion initiatives: interception attempts

The period under review was characterized not only by on-going discussions and amendments to antimonopoly legislation as a tool of competition promotion. In addition, development trends were broadened, and interaction between them were getting more complex. In fact, the competition policy infrastructure was adjusted at least in form.

It also refers to the Competition Promotion Program in the Russian Federation, as well as at the level of constituent territories of the Russian Federation, and the FAS Russia's reports on competition. Furthermore, relationship between the Competition Promotion Road Map and the work load of the Government Commission for the Promotion of Competition and Small- and Medium-Sized Enterprises. Finally, it was FAS Russia's initiative to develop and implement Antimonopoly Policy Development Strategy in Russia. Activity in this field cannot help but relate to the existence and collision of different perceptions about development trends, including different interests. We will try to assess the situation in the context of such differences in general, without describing in detail groups of interests, their composition and motivation.

Competition Promotion Program implementation results, FAS Russia's report on competition

The Competition Promotion Program in the Russian Federation was adopted by the Russia's Government Order dd. 19.05.2009, No. 691. Though the program was developed and discussed as many other similar programs and strategies, it had a special feature which reflected specifics of the target issue: competition promotion neither can be regarded as an exclusively sectoral objective nor reduced to a narrow set of protection measures, especially in an emerging market country.

In general, comprehension of the specifics was reflected in the program: protection measures were specified, which first of all were intended to develop antimonopoly policy tools. Furthermore, the program provided for the application of active competition policy

tools too. Measures, which amounted to about 80 after amendments were made in 2010, were to be completed late in 2012. In addition, it should be noted that the program acquired a regional dimension, when the constituent territories of the Russian Federation and even municipalities began to develop similar programs after amendments were made to the list of measures.

However, as early as mid-2012, the program failure was announced in the course of discussion of competition issues and competition policy. Therefore, a few important questions arose from a practical point of view.

First, was any program progress monitoring in place at the federal and regional levels? If 'yes', what method was used, and what were its performance measurement results? If neither monitoring, nor performance measurement took place, then what information and performance measurement results were used for the development of next generation documents (in this case, the Competition Promotion Road Map)? Or the competition promotion program was 'reincarnated' into one of the first versions of the Road Map[1]?

Second, the Competition Promotion Program included items which could be assessed in terms of both short-term and final results. In this respect, let's make a list of questions which are closely related to learning lessons from the experience gained in the implementation of other programs.

(1) If the program items were fulfilled, but the program failed to fulfill its objectives, it means that the measures were irrelevant to the program's content? Or the program itself was irrelevant to the problem? Or this is simply the result of incorrect performance measurement as such?

(2) If some of the program items failed to be fulfilled, what items, and why? Are they insignificant? Unrealizable? Or they are realizable, but there was a lack of performance discipline?

Third, what are the details of performance results of those program items which were considered as fulfilled, and, consequently, what are the effects of their subsequent realization?

Another remarkable event took place in June 2012 – the situation around the FAS Russia's report on competition in the Russian Federation became hot. The antimonopoly authority makes such report on an annual basis and submits it to the Russia's Government for consideration. It was the sixth report. All of the previous reports didn't give rise to any serious discussions. At that time, however, both the sixth report and its principal developer FAS Russia became the focus of interest. The report was said to be of low quality, while the antimonopoly authority was said to work hard but lack effectiveness[2].

In its turn, it was stated in the report that the measures aimed at conducting structural economic reform with a view to promoting competition, which were proposed by the FAS Russia in 2009–2011 and reflected in the competition promotion program, failed to be realized, while the program itself ended in a fiasco according the head of the antimonopoly authority[3], thereby implying that the FAS Russia admits to unbalance in active and protection measures of the competition policy, but is unable to solve the issue of competition promotion within its terms of reference which cover mainly protection measures. This is the keynote of the answer to its opponents who hold the antimonopoly authority liable for the lack of results.

[1] It should be noted that the Road Map underwent a few changes 'beyond recognition' after six months of discussion.
[2] http://ria.ru/economy/20120613/672429743.html; http://v-novikov.livejournal.com/648429.html
[3] http://www.dp.ru/a/2012/06/14/Pravitelstvo_RF_obsudilo/

If the report changes its status of formalistic document into a real policy document, it gives rise to a few questions as follows.

(1) Who and how develop this report? The FAS Russia works hard on analyzing the situation with competition in Russia, but whether is possible conduct a comprehensive discussion of competition when there is no systemic alternative point of view? Who is going to point out restraining competition risks in the actions of the antimonopoly authority, including within the framework of the principal articles of the Federal Law "On the Protection of Competition"?

(2) What is the structure of the report, what is it comprised of, and what are the requirements to the algorithm of the issues described in the report? These questions are important for comparing assessments of the previous and subsequent reports, as well as more extensive discussion of problem issues in competition protection with the use of alternative results.

(3) Whether a government entity must develop a repot with an alternative point of view about the situation in competition protection? Or the alternative report must be developed by a non-government entity?

Since competition can be protected through two groups of tools which regulate protection and active competition policy[1], the report should have at least more well-defined objectives of the competition protection policy; which tools are used for this; how to solve this issue if the report is drafted by an agency responsible for, above all, protection measures.

As noted above, the FAS Russia as executive body is mostly focused on protection measures of the competition policy, and the content of its report would be biased toward protection measures. However, the issue of balance between protection and active measures of the competition policy is especially acute for emerging market economies like Russia than developed economies. The report reflects the issues relating to counteraction of excessive entry barriers. It is well-know, however, that economic theory provides no clear understanding of entry barriers as socially unacceptable and adverse. In its turn, the report contains no clear idea about which and how barriers are recognized as excessive, and other active competition policy methods which can fulfill competition policy targets in general.

Competition promotion road map

The development of a Competition Promotion Road Map, which was intended to replace the program, began against the discussion of the Competition Promotion Program performance results and the FAS Russia's report on competition. One may assume that the measures provided for by the Road Map were designed as alternative to actions of the Federal Antimonopoly Service.

Originally, the Road Map concept was to offer more effective competition promotion methods than the application of antimonopoly legislation. However, the Road Map eventually fell victim to the lack of both strong interest in competition promotion and understanding of problems relating competition promotion in specific sectors. The Road Map from the very beginning was and remained until its adoption a set of 'cubes' prepared at different level of insight into the subject. An overwhelming majority of reasonable, substantiated and efficient change proposals on regulation in the natural monopoly sectors were combined with inefficient and unreasonable proposals, namely a proposal to penalize the personnel of antimonopoly authorities for judicially overturned decisions. Had this proposal been implemented, it

[1] For details on active and protection methods of completion policy see: Avdasheva S.B., Shastitko A. E. Competition policy: composition, structure, system // Sovremennaya konkurentsiya, 2010, No. 1, pp. 5-20.

would have left no hopes for positive effects of the antimonopoly policy; a proposal to reduce a share of oil companies in regional markets; and, finally, a proposal to vertically divide Russian oil companies. Such proposals were rejected as a result of more than six months of extensive discussion of the Road Map. However, positive results of expert discussion exhausted their potential at that. Finally, proposals of the personnel of those executive bodies for whom the Road Map was regarded as alternative accounted for most part of the Road Map, namely the Federal Antimonopoly Service of Russia and the Federal Tariffs Service.

Government Committee for Competition Promotion

In the mid-2012, Government Commission for the Promotion of Competition and Small- and Medium-Sized Enterprises was established on the basis of a committee set up by the Russia's Government Order dd. 17.03.2008 No. 178[1]. It is not only the title that shows a shift of focus towards competition problems, because competition was a target, but also in defined terms of reference supplemented with functionality as the development of a system of competitive environment indicators and monitoring; analysis of practical application of the Russian legislation for the development and promotion of competition; development of proposals on amendments to the Russian legislation with a view to introducing best competition practices; consideration of reports on competition protection and promotion made by constituent territories of the Russian Federation and federal executive bodies.

The content of the Commission agenda is a potential indicator of not only prioritization, but also understanding of issues being faced in the field of competition protection and promotion in Russia.

6.2.4. Challenges in the development and application of competition legislation in Russia

After the termination of the Big Four cases, neither businesses, nor the Russia's Government, nor experts had any doubts that the antimonopoly policy have a serious effect on market development. This is an explanation for a greater attention and requirements to the FAS Russia facing serious issues in its work. In our opinion, the key strategic threat to the effectiveness of antimonopoly policy is the need for an extremely large-scale law enforcement with very limited (vs. the number of objectives) resources. This threat makes the FAS Russia search for decision-making cost reduction methods including, but not limited to broadening of powers and, to some extent, tailoring the regulatory framework to current needs. However, such a scale of law enforcement may result in errors in the FAS Russia's activity, thereby making business representatives to look for a method enabling them to change the legislation in order to cut the likelihood of antimonopoly prosecution. Mutual risk management in many cases leads to compromise changes in legislation and the Russian antimonopoly authority's activity, which in many cases ignore the key goal – prevent competition restraints. The struggle for FAS Russia powers forces competition promotion tasks to be put aside to some extent.

Among other factors which may have a potential effect on the application of antimonopoly legislation in Russia is a supranational authority within the framework of the Customs Union of the Ministry of Competition and Antimonopoly Regulation. The content of supranational

[1] The Commission was established according to the proposals made by Artemiev I.Y., the Head of the FAS Russia, in so far as they relate to acceleration of Government's work on competition, including the engagement of sectoral ministries which, according to the FAS Russia, not only do nothing to promote competition, but also restrain it.

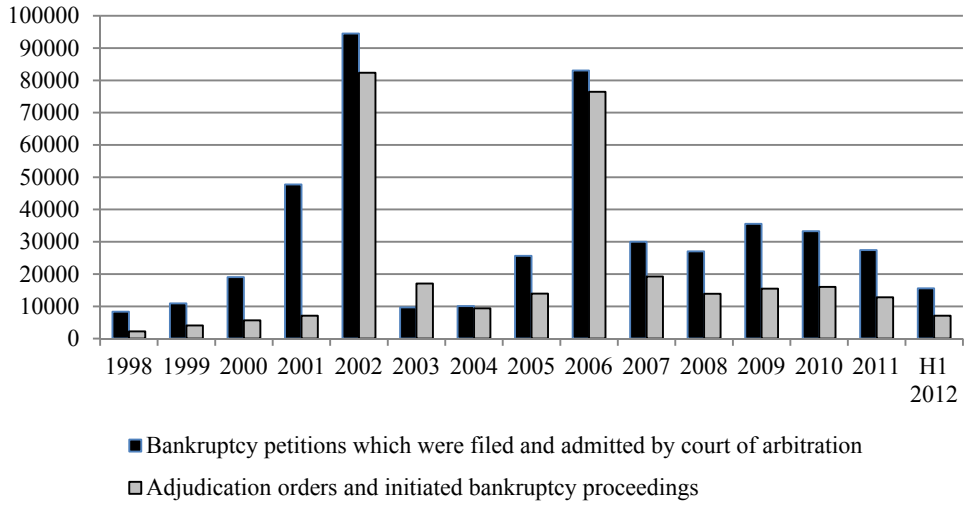
legislation still remains to be defined, but provisions thereof are not expected to correspond exactly with the rules provided for by the Russian antimonopoly law. The definition of illegal practice will be more different as a result of court rulings on disputed decisions made by the supranational antimonopoly policy authority. Delegation of powers among supranational and national authorities will be a question of principle. Finally, it should be noted that the discussion of a model competition law which is intended to harmonize the national antimonopoly legislation of the Customs Union countries. The question is whether this discussion is going to be a source of new errors or a good reason for correcting committed errors?

6.3. Bankruptcies in 2011–2012: less bankruptcies, new regulation, draft law on debt reorganization

6.3.1. Dynamics of bankruptcies (2011–2012)

The following key trends governed an overall picture of bankruptcies in the period under review (see *Fig. 2*).

First, it should be noted that the number of filed bankruptcy petitions reduced substantially in 2011, a growth by 17% against the previous year (33,385 petitions were filed in 2011; 40,243 – in 2010). In addition, the number of admitted bankruptcy petitions kept declining since 2010. For example, in 2010 – 2011 the decline was 22.8% (35,545 in 2009; 33,270 in 2010; 27,422 in 2011). However, in H1 2012 the number increased considerably by 13.7% year on year. Moreover, the number of adjudication orders and warrants in bankruptcy began to decline from 2009 (approx. by 1/5 against the previous year) (16,009 in 2010; 12,794 in 2011).



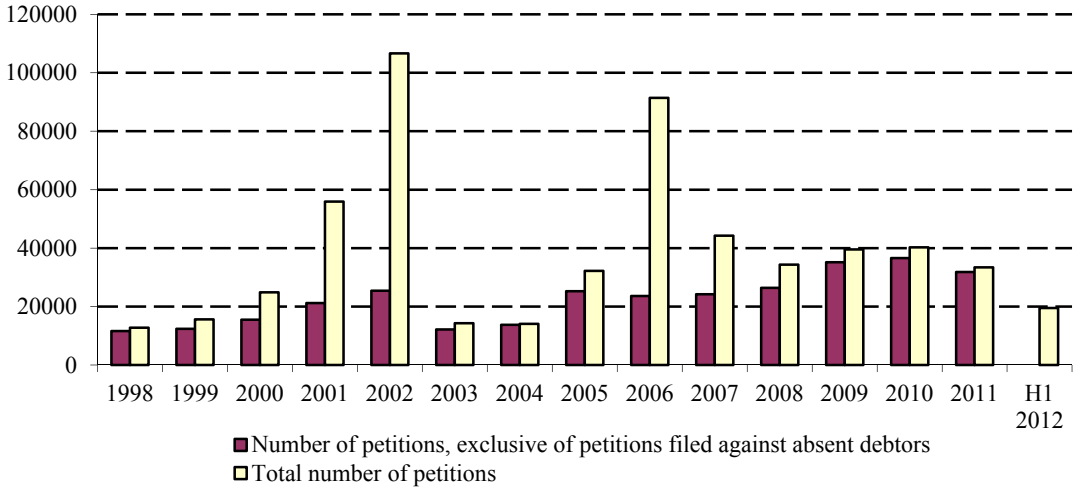
Source: arbitration courts' notices on hearing of insolvency (bankruptcy) cases at the constituent territories of the Russian Federation, the Supreme Arbitration Court of the Russian Federation, in the period between 1998 and 2012.

Fig. 2. Dynamics of adjudication orders in the period between 1998 and 2012

In 2011, the number of petitions filed against relatively 'appropriate' debtors[1] reduced, for the first time since 2008, by 13% against 2010 (26,400 in 2008; 35,200 in 2009; 36,600 in

[1] 'Appropriate' debtors are referred to as all debtors exclusive of absent debtors.

2010; 31,800 in 2011). In the period between 2009 and 2010 the number of appropriate debtor bankruptcy petitions increased by 38.6% against a total growth of approx. 17.1% in the number of petitions. 2009 saw the maximum growth. *Fig. 3* shows dynamics of bankruptcy (insolvency) petitions in the period between 1998 and 2012.



Source: arbitration courts' notices on hearing of insolvency (bankruptcy) cases at the constituent territories of the Russian Federation for the respective periods; analytical attachments to statistical reports on the performance of arbitrations courts of the Russian Federation over the respective periods, the Supreme Arbitration Court of the Russian Federation.

Fig. 3. Number of debtor bankruptcy (insolvency) petitions filed in 1998–2012

Second, it should be noted that state policy measures keep having a strong impact on the dynamics of bankruptcies. The foregoing together with regulation of tax authorities in terms of recognizing debtors as bankrupts, and measures aimed at supporting specific market entities.

For example, the number of bankruptcies grew in general together with a growth in the number of bankruptcy proceedings in other segments till 2010, whereas the dynamics of bankruptcies of agricultural manufacturers saw an opposite trend: the number of bankruptcies decreased by more than 5 times in the period between 2006 and 2010 (about 4,000 bankruptcies in 2006; 2,465 in 2007; 1,614 in 2008; 1,036 in 2009; 800 in 2010) and to 534 in 2011 in response to active government measures aimed at supporting the agricultural sector through increasing volumes of government loans, restructuring tax liabilities, subsidies on fuels and lubricants, etc.

In addition, the level of bankruptcies of financial and credit institutions reduced by 4 times in 2011 against 2010 (from 229 in 2010 to 58 in 2011) in response to both measures aimed at providing financial aid and improving market conditions, and a legal support provided in order to prevent bankruptcies in this category.

With regard to initiation of bankruptcy proceedings by tax authorities, it should be noted that such cases became less intensive. For example, more than 67% of bankruptcy petitions were filed in 2008 by authorized bodies, mostly tax authorities, whereas a share of indicators in this group reduced to 39.2 % in 2010 and to 31% in 2011.

Third, petitions, disputes, complaints and claims as part of the bankruptcy cases initiated in 2008 thru 2010 decreased by 12.1% after a substantial growth (from 111,521 in 2008 to

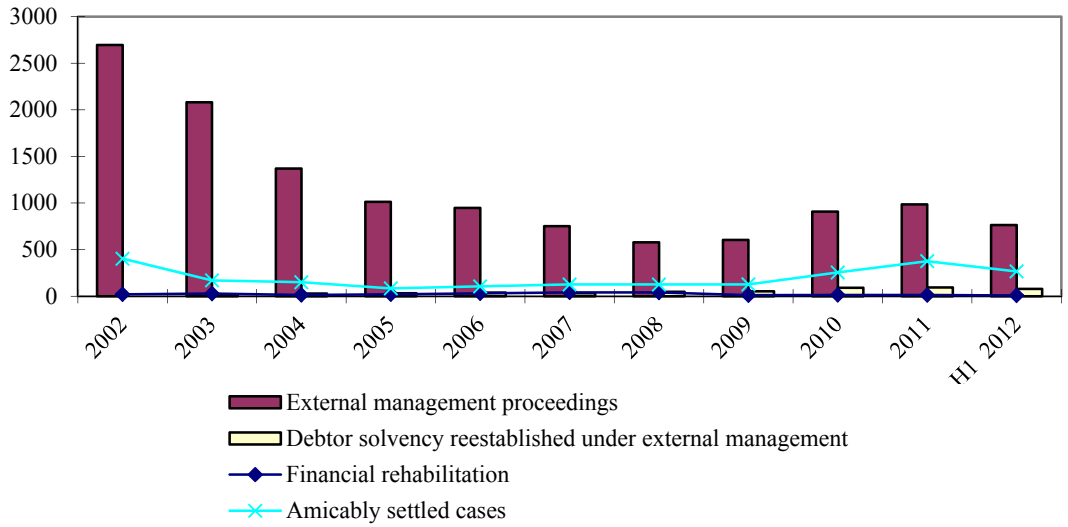
232,845 in 2010) в 2011 against 2010. The growth in the period between 2009 and 2010 was mainly caused by a considerable increase in the number of lawsuits relating to incompliance/breach of contractual obligations, economic situation, as well as amendments to the law on bankruptcy which granted new rights to bankruptcy proceeding parties (e.g., they were entitled to challenge debtor's transactions; debtor's supervisors could be held liable in terms of subsidiary liability; the right to submit a declaration of intention to satisfy claims on mandatory payments, etc.) The latter also had an effect on the statistics in 2012.

In H1 2012, the number of petitions, disputes, complaints, and claims resumed its growth, by 16.6% year on year (121,916 in H1 2012 against 104,543 in H1 2011).

For example, 3579 petitions on challenging debtor's transactions (a gain of 41.4% against H1 2011), 72095 petitions on setting the amount of claims of creditors, on excluding the claims from the register (a gain of 15.9%), 3.796 petitions on recovering bankruptcy case expenses (gain), 839 petitions on dismissing the arbitration manager (a gain of 9.1%) were considered in H1 2012.

Fourth, the number of amicable settlements, external management and financial rehabilitation proceedings kept growing. For example, in 2008–2011 the number of amicably settled cases almost tripled (from 126 to 376). In 2011, the number of amicably settled cases reached its maximum, beginning with 2003. The number of cases with external management proceedings increased by 1.7 times (from 579 in 2008 to 986 in 2011) in the period between 2008 and 2011. In H1 2012, the number of cases with external management began to decline, by 9.1%, whereas other indicators kept growing.

Fig. 4 presents the dynamics of external management proceedings, financial rehabilitation, amicably settled cases in the period between 2002 and 2012.



Source: an arbitration courts' notice on hearing of insolvency (bankruptcy) cases at the constituent territories of the Russian Federation in 2006 – 2010, 2008– 2011, 2009–2011, H1 2012

Fig. 4. Dynamics of external management proceedings, financial rehabilitation and amicably settled cases in 2002 thru H1 2012

The number of amicably settled cases, financial rehabilitation and external management procedures increased not least because of the novations that took place in the taxation system

in 2010, which expanded the range of application of deferred payment with regard to mandatory payments, and uncollectable accounts payable write-off, as well as novations aimed at preventing bankruptcy of financial (including insurance companies) institutions and regulating a special bankruptcy procedure for non-government pensions funds, securities market professional participants, managers of investment companies and unit funds. However, only a few individual cases, in which the debtor solvency was reestablished under external management and debt was recovered in response to financial rehabilitation, have been reported to date.

Fifth, the period between 2008 and 2011 saw a downward trend in the number of bankruptcies among state and municipal unitary enterprises. For example, the number of bankruptcies among state unitary enterprises reduced by 2.1 times in that period (from 176 in 2008 to 83 in 2011), the number of bankruptcies among municipal unitary enterprises reduced by 2.2 times (from 676 in 2008 to 302 in 2011). The trend began to change in H1 2012: the number of bankruptcies among state and municipal unitary enterprises increased 118.7% and 105.3% year on year, respectively.

6.3.2. Bankruptcy legislation in 2011–2012

Similar to 2010[1], the lawmaking process which is intended to settle bankruptcy proceedings for specific groups of persons, namely clearing organizations, real estate developers, credit cooperatives, kept developing in the period between 2011 and 2012.

In February 2011[2], the Federal Law "On Solvency (Bankruptcy)" was supplemented with the provisions which specify the characteristics of bankruptcy clearing organizations and are intended among other things to measure the size of financial obligations originating from financial agreements. Commitments under agreements concluded under the terms and conditions stipulated in the master agreement which is in line with provisional terms and conditions of the agreements provided for by Article 51.5 of the Federal Law "On the Securities Market", and/or exchange trading rules, and/or clearing rules, have ceased to be in force under the procedure specified in the master agreement, and/or regulated trading rules, and/or clearing rules. The foregoing termination of obligations gives rise to a financial obligation whose size is to be measured subject to the procedure provided for by the master agreement, and/or regulated trading rules, and/or clearing rules.

The external manager only may refuse to comply with all of the aforementioned financial agreements existing between the creditor and the debtor. Creditors are treated as third priority creditors with regard to net obligations.

Beginning with February 11, 2011, "stock exchange transactions which are closed under at least a single order being addressed to an unlimited number of trading participants, as well as actions aimed at discharging obligations and liabilities arising under such transactions, may not be disputed" as suspicious and invoking a fraudulent preference.

The following novations of that period are worth noting.

1. A *single* judge sitting was abolished: a ruling on the commencement of a supervision procedure; statements, motions, complaints in a bankruptcy case; disputes relating to the size of claims of creditors; claims of creditors with counterclaims; filing creditors' claims in

[1] For details please see: Apevalova E.A., Bankruptcies in 2010-2011: Post crisis dynamics, new trends and regulation//Russian economy in 2011. Trends and Outlooks. Is. 33 – M. IET 2012.

[2] The Federal Law dated 07.02.2011 No. 8-FZ "On the Amendments to Certain Legal Acts of the Russian Federation due to the Adoption of the Federal Law "On Clearing and Clearing Activities".

bankruptcy cases against financial institutions, as well as bankruptcy cases involving absent debtors.

2. More grounds were provided to hold a transaction invalid in case of a 'related agreement' is concluded, a related agreement is referred to as "an agreement entered into with the central counterparty on the basis of an offer, including a stock market bid whose terms and conditions were in line with the offer, including a stock market bid under which the invalid agreement with the central counterparty was concluded" (Clause 5, Article 61.6 of the Federal Law "On Insolvency (Bankruptcy)"). Related agreements which may be subject to recovery of losses may be concluded in performing suspicious transactions and debtor's transactions resulting in fraudulent preference.

In addition, in July 2011[1] a special regulation was introduced to govern bankruptcies of real estate developers[2]. Clause 6, Article 201.1 thereof includes an extend list of legal grounds under which a person may be recognized as the creditor of a real estate developer, which is reasonable due to multiple forms of legal relationship which are practically applicable in the construction sector.

Beginning with the commencement date of a supervision procedure against the real estate developer the debtor may enter into agreements under which living quarters may be assigned, and agreements on amendments to or termination of such agreements, as well as perform other transactions with immovable property, including land plots, exclusively with the written consent of the temporary manager.

The ruling on the commencement of a supervision procedure against the real estate developer is to be submitted by court of arbitration to the authorities in charge of state registration of title to immovable property and transactions therewith, at the area where the real estate developer's land plots are located.

The meeting of creditors' resolution on amicable settlement of the real estate developer bankruptcy case is to be taken by a majority of vote of creditors in insolvency proceedings and authorized bodies according to the creditor claims register and shall be deemed to have been approved if voted for by all creditors on the liabilities secured by the debtor's property, as well as voted for by at least one third of the construction participants.

Unlike in other categories of cases, the real estate developer bankruptcy case includes construction participants who claim to transfer the title to the living quarters, as well as authorized body of a constituent territory of the Russian Federation is charge of monitoring and supervision in the field of condominium construction and/or other immovable property on the territory of a particular construction site.

Based on the petition filed by an applicant or other participant of the real estate developer bankruptcy case, court of arbitration is entitled to take relevant measures (injunctive measures) with a view to supporting creditors' claims and debtor's interests by prohibiting the lessor to enter into a leasehold agreement on the land plot with any other person but the real

[1] The Federal Law dated 12.07.2011, No. 210-FZ "On the Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Articles 17 and 223 of the Arbitration Procedure Code of the Russian Federation bankruptcy of real estate developers borrowing from construction participants".

[2] Real estate developer is referred to as a legal entity irrespective of the form of business ownership, including housing cooperative, or self-employed entrepreneur, against whom living quarters assignment or payment claims have been filed. Special bankruptcy rules are applicable irrespective of whether the developer owns, leases or subleases the land plot, as well as irrespective of whether the developer enjoys the title or any other ownership right to the object of construction.

estate developer, and by imposing a ban on state registration of such a leasehold agreement, as well as prohibiting the lessor to otherwise dispose of the land plot.

Beginning with the date on which the court of arbitration issues a ruling on the commencement of a supervision procedure against the real estate developer, in the course of monitoring and all other subsequent proceedings applicable to the real estate developer bankruptcy case the living quarters assignment claims and/or payment claims raised by construction participants, save for current payment claims, may be raised against the real estate developer as part of the real estate developer bankruptcy case only, subject to the legally established procedure for claims against the real estate developer.

Beginning with the commencement date of a supervision procedure against the real estate developer, in the course of monitoring and other subsequent proceedings applicable a part of the real estate developer bankruptcy case, writs of execution shall be suspended for execution demanded by construction participants. The foregoing writs of execution shall cease to be executed from the date of initiation of bankruptcy proceedings.

From the date of their approval, the temporary manager, bankruptcy supervisor shall notify within 5 days all known to them construction participants of the commencement of a supervision procedure or initiation of bankruptcy proceedings and that the construction participants may file living quarters assignment and/or cash payment claims, as well as a construction participant may unilaterally refuse to execute the agreement which provides for the assignment of a living quarters.

Initiated bankruptcy proceeding against the real estate developer shall mean that a construction participant may unilaterally refuse to execute the agreement which provides for the assignment of a living quarters. Such a refusal may be announced as part of the real estate developer bankruptcy case, when the size of the construction participant's payment claims is determined.

When the size of the construction participant's payment claims is determined, the size of real losses caused by the real estate developer's non-compliance with the obligation to assign the living quarters, which are equal to the difference between the price of the living quarters (determined as of the date of termination of the agreement which provides for the assignment of the living quarters) which must be assigned to the construction participant and the amount cash paid prior to the termination of the agreement, and/or the price of the assigned real estate developer's property (as specified by the agreement which provides for the assignment of the living quarters).

In considering the relevance of the living quarters assignment claims, a court of arbitration must be provided with the evidence supporting that the construction participant has effected in full or in part the payment in fulfillment of his obligations to the real estate developer under the agreement which provides for the assignment of the living quarters.

The living quarters assignment claims which have been recognized as relevant by the court of arbitration, shall be included by the arbitration manager into the register of living quarters assignment claims.

The living quarters assignment claims, including the content of the information which shall be included into the foregoing register, and the procedure for the provision of information from the register of the living quarters assignment claims shall be approved by the federal standard.

Beginning with the date on which the court of arbitration issues a ruling on the commencement of a supervision procedure against the real estate developer, in the course of

monitoring and other subsequent proceedings applicable a part of the real estate developer bankruptcy case, the following claims of other persons against the real estate developer or the real estate developer's claims against other persons shall be subject to filing and consideration:

1) claims to recognize or not the title to, or any other right or any encumbrance on the real estate, including facilities under construction;

2) claims to reclaim the real estate, including facilities under construction, from unlawful possession by other persons;

3) claims to demolish the building(s) erected without proper legal authorization;

4) claims to hold the real estate transaction invalid or void, enforce the implications of the invalidated transaction to the real estate;

5) claims to transfer the title of, obtain operating control of, place under economic management, deliver possession of the real estate in order to discharge the obligation;

6) claims on state registration of the title to the real estate (Article 201.8. of the Federal Law "On Insolvency (Bankruptcy)").

Following is the priority order in which claims of creditors, save for current payment claims of creditors, shall be satisfied in the course of the bankruptcy proceedings as part of a real estate developer bankruptcy case:

1) first priority claims include settlements on the claims of individuals to whom the debtor has been held liable for causing harm to their life or health, by capitalizing respective payments due over time, paying a compensation for moral harm;

2) second priority claims includes settlements on severance payments and labor remuneration due to the persons who are or were employed under a labor contract, and remuneration payment due to owners of intellectual property;

3) third priority claims include settlements on individuals' payment claims – construction participants;

4) fourth priority claims include settlements with other creditors.

Where the real estate developer has a facility under construction in the course of financial rehabilitation, external management, bankruptcy proceedings, the arbitration manager no sooner than in a month and not later than in two months from the date of its approval shall be obliged to place before a construction participants' meeting the question of appealing to a court of arbitration for discharging the construction participants' claims by transferring to them the title to the real estate developer's title to the facility under construction and the land plot to the construction cooperative established by the construction participants or any other specialized consumer cooperative.

The title to the facility under construction may be transferred to the construction participants if all of the following terms and conditions are met.

1) provided that the value of the real estate developer's title to the facility under construction and the land plot accounts for not more than 5% of the total amount of the construction participants' claims included into the creditor claims register and the living quarters assignment claims register, or a resolution has been taken by three thirds of votes of the fourth-priority creditors, save for legal entities – construction participants, to agree to transfer the title to the facility under construction, or money has been credited to the court of arbitration's depository account.

2) provided that the property which the debtor retains after the assignment of the facility under construction is sufficient to effect current payments, discharge the first- and second pri-

ority creditors' claims or money has been credited to the court of arbitration's depository account;

3) provided that the creditor claims register contains no claims of creditors, who are not construction participants, under obligations secured by the real estate developer's title to the facility under construction and the land plot, or the foregoing creditors have agreed to assign the facility under construction, or money has been credited to the court of arbitration's depository account;

4) provided that upon the completion of the construction of a specific facility under construction, the living quarters of this facility are sufficient to satisfy all of the construction participants' claims against a particular construction facility included into the creditor claims register and the living quarters assignment claims register, given the terms and conditions of the agreements which provide for the living quarters assignment (also, there are no claims by some of the construction participants as to the assignment of the same living quarters in the block of flats, save for the cases provided for by Clause 7, Article 201.10.). Where a construction participant gives his consent, he may be entitled to a living quarters which differs in space, layout, location from the living quarters which meets the terms and conditions stipulated by the agreement which provides for the living quarters assignment;

5) the facility under construction is legally owned by the real estate developer;

6) the land plot on which the facility under construction is located is legally owned by real estate developer or under any other right of ownership;

7) construction participants have decided to establish a housing cooperative or any other specialized consumer cooperative which meets the requirements specified in Clause 8, Article 201.10 of the Federal Law "On Insolvency (Bankruptcy)".

In the event that the real estate developer has a block of flats whose construction is completed, the arbitration manager not sooner than one month and not later than two months from the date of its approval (if the construction is completed in the course of bankruptcy proceedings not later than two months from the date of its completion) shall be obliged to place before a construction participants' meeting the question of appealing to a court of arbitration for discharging the construction participants' claims by transferring to them the title to the living quarters in this block of flats.

The title to living quarters may be assigned to the construction participants if all of the following terms and conditions are met:

1) provided that a commissioning certificate has duly been issued for the block of flats whose construction has been completed;

2) provided that the real estate developer and the construction participants have failed to sign acceptance certificates or any other documents concerning the assignment of the living quarters;

3) provided that the value of the living quarters to be assigned is not more than 5% of the total amount of the construction participants' claims included into the creditor claims register and the living quarters assignment claims register, or a resolution has been taken by three thirds of votes of the fourth-priority creditors, save for legal entities – construction participants, to agree to transfer the title to the living quarters to the construction participants, or money has been credited to the court of arbitration's account in compliance with Clause 4, Article 201.10 of the Federal Law;

4) provided that the property which the debtor retains after the assignment of the title to the living quarters to the construction participants is sufficient to effect current payments, dis-

charge the first- and second priority creditors' claims or money has been credited to the court of arbitration's account in compliance with Clause 5 Article 201.10 of the Federal Law;

5) provided that the creditor claims register contains no claims of creditors, who are not construction participants, under obligations secured by the real estate developer's title to the block of flats whose construction has been completed, the land plot, the living quarters to be assigned, or the foregoing creditors have agreed to transfer the title to the living quarters to the construction participants, or money has been credited to the court of arbitration's account in compliance with Clause 6, Article 201.10 of the Federal Law;

6) all construction participants are entitled to the living quarters under the terms and conditions specified in the agreements which provide for the living quarters assignment, and the number of the living quarters to be assigned is sufficient to satisfy all of the construction participants' claims included into the creditor claims register and the living quarters assignment claims register (also, there are no claims by some of the construction participants as to the assignment of the same living quarters in the block of flats, save for the cases provided for by Clause 7, Article 201.10 of the Federal Law). Where a construction participant gives his consent, he may be entitled to a living quarters which differs in space, layout, location from the living quarters which meets the terms and conditions stipulated by the agreement which provides for the living quarters assignment.

From July 1, 2013 regulations are to take force to regulate the recovery of compensation in addition to compensation for the harm provided for by the Urban Planning Code of the Russian Federation, caused by decay of, damage to a capital construction facility, violation of the safety requirements during construction works, as well as the building safety operation requirements[1]. These are included into cash payment claims. In addition, the recovery of compensation in addition to the compensation for the harm shall not be discontinued after the introduction of financial rehabilitation, external management. Creditors' claims on compensation in addition to the compensation for the harm shall be satisfied on first priority basisy.

The information which is subject to disclosure under the Federal Law "On Insolvency (Bankruptcy)" shall be entered into the Unified Federal Register of Bankruptcy Information from April 1, 2011[2]. A law was adopted[3] in December 2011 which binds a regulator to approve before June 1, 2012 a procedure and criteria for the selection of an operator of the Unified Federal Register of Bankruptcy Information, select such operator before January 1, 2013 and put him in charge of forming and maintaining the register. Until then an entity assigned by the regulator is to perform such function.

In December 2011, a law (No. 390-FZ dated 03.12.11[4]) was adopted in support of credit cooperatives whose bankruptcy procedure shall be the same as for the bankruptcy of financial institutions, with certain specific features though.

[1] The Federal Law dated 28.11.11, No. 337-FZ "On the Amendments to the Urban Planning Code of the Russian Federation and Certain Legal Acts of the Russian Federation ".
[2] Clause 2, Article 4 of the Federal Law dated 28.12.2010, No. 429-FZ.
[3] The Federal Law dated 03.12.11, No. 390-FZ "On the Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Article 3 of the Federal Law "On the Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Invalidation of Clauses 18, 19, 21 and Article 4 of the Federal Law «On the Amendments to the Federal Law "On Insolvency (Bankruptcy)"".
[4] The Federal Law dated 03.12.11, No. 390-FZ "On the Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Article 3 of the Federal Law "On the Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Invalidation of Clauses 18, 19, 21 and Article 4 of the Federal Law "On the Amendments to the Federal Law "On Insolvency (Bankruptcy)"".

For example, two extra grounds for taking bankruptcy preventive measures towards credit cooperatives are in place:

1) repeated violation of the financial requirements, set forth by the law on credit cooperation, within 12 months from the date of first violation;

2) a supervising body has issued an ordinance prohibiting a credit cooperative to borrow money, accept new members, and issue loans.

When grounds arise to take bankruptcy preventive measures, a credit cooperative shall submit its solvency recovery plan to the supervising body[1] or a self-regulating entity in which it is a member.

The temporary administration of a credit cooperative include representatives of the self-regulating entity of credit cooperatives in which it is a member. A decision to introduce temporary administration shall be made by the supervising body, if it is in charge of direct supervision over the cooperative activities, on the basis of an audit conducted within a month to the date when the decision to introduce temporary administration is made. Such a decision also may be taken in the course of supervising body's audit, provided that grounds for mandatory introduction of temporary administration have been found. The self-regulating entity may apply for the introduction of temporary administration if the legal grounds have been found, namely

A) repeated refusals within a month to satisfy of creditors payment claims. Such a refusal is referred to as non-performance or inappropriate satisfaction of creditors payment claims within 10 working days from the date when the obligation to satisfy such claims arises, unless otherwise provided for by the Federal Law.

B) repeated violation of the financial requirements, set forth by the law on credit cooperation, within 12 months from the date of first violation.

In the event when executive bodies of a cooperative are restricted in power, they are entitled to make decisions to accept new members and borrow money from the members subject to the consent of its temporary administration.

With regard to specific features of satisfying creditors' claims against the credit cooperative, it should be noted that claims of credit cooperative members – physical bodies as creditors – are subject to satisfaction on a first priority basis, thereby protecting their rights to the maximum. However, there are constraining factors, namely the amount of such protection is limited to Rb 700,000, and it only can be provided subject to an agreement on personal savings transfer. In practice, however, different types of agreements are often concluded, thereby making it difficult to protect the rights of physical bodies as creditors. Unsatisfied claims of physical bodies as creditors are subject to satisfaction on a third priority basis. At lower priority are claims of legal entities as credit cooperative members which may be satisfied on the basis of credit agreements. Finally – non-member claims. There are more specific features which are provided for by Clause 4, Article 189.5 of the Federal Law "On Insolvency (Bankruptcy)".

Where a credit cooperative has no sufficient funds to repay the debt to its creditors, members of the cooperative as well as persons who not later than six months from the date of bankruptcy petition have ceased to be members of the credit cooperative shall be held subsidiary liable for the amount of additional contribution unpaid by each of the members of the cooperative. Members of the Board, auditing department or a single executive body are held

[1] If the supervising body is in charge of supervising the credit cooperative activities in compliance with Article 5 of the Federal Law dated 18.07.09, No. 190-FZ "On Credit Cooperation ".

jointly and subsidiary liable within the amount of units subject to repayment or repaid during termination of membership, provided that the cooperative's bankruptcy signs have resulted from faulty actions or culpable omissions by the specified persons. The foregoing persons may be found guilty if their decisions or actions having resulted in the bankruptcy signs, failed to meet the principles of good faith and prudence established by the civil legislation, the cooperative's charter, good business practices. Subsidiary liability of the self-regulating entity of credit cooperatives arises if no application to appoint a legally provided temporary administration has been submitted.

In general, in assessing the situation with bankruptcies in 2011–2012, we can say that the systemic innovations of 2009 triggered by external events such as crisis developments in the global and Russian economies, were replaced since 2010 with the protection of specific socially important groups of entities and (financial, insurance, construction, etc.) markets.

A series of key issues still remain outside the scope of national interests, namely:

1. Development of a system of regulations providing recovery of solvency and\or rehabilitation of enterprises manufacturing marketable export products.

2. A possibility to retain and recover solvency of companies which account for a big share in the total employment level. (Such level must be measured by the Government of Russia or at regions, depending on the situation with in the regional labor market).

6.3.3. Likely innovations in 2013: draft law on Russia's nationals' debt restructuring

Draft law No. 105976-6 "On the Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Certain Legal Acts of the Russian Federation in terms of Regulation of Rehabilitation Proceedings Applicable to Nationals in Debt" was passed in a first reading in November 2012.

According to different sources of information, at the date when the draft law was adopted the overdue debt owed by individuals under bank loans ranged between Rb 304bn to Rb 317bn[1], and according to the Federal Bailiff Service, already 44 million of Russia's nationals (i.e. one in three Russia's citizens) are in debt to banks. In addition. Given the debt owed to the housing and community amenities (ZHKKH), other organizations, including micro financing ones, total debt owed by individuals may amount to trillions of rubles[2].

The draft law proposed to *introduce a series of measures aimed at preventing bankruptcy of Russia's nationals through debt restructuring.* For example, in particular, it was proposed to introduce debt restructuring for a citizen if creditors' claims amount to at least Rb 50,000 and fail to be satisfied within 3 months. Moreover, no court ruling (including court of arbitration) is required to confirm the debt, which *makes it much easier and accelerates the initiation of bankruptcy proceedings by creditors in bankruptcy*, which doesn't rule out the use of bankruptcy as a tool to seize the physical body's property.

In addition, a Russia's national, including a self-employed entrepreneur, is obliged to file a bankruptcy petition to the court of arbitration if satisfying one or more creditors' claims makes it impossible for the national to discharge in full his mandatory payment obligations and/or cash commitments as well as other obligations. With regard to self-employed entrepreneurs, it makes it difficult or impossible for them to run their business.

[1] The State Duma will consider one of the most controversial draft laws on bankruptcy of physical bodies - www.newsru.com, 1.10.12; www.aktualno.ru, 15.11.12.
[2] Rossiyskaya Gazeta, No. 5936, 15.11.12.

The bankruptcy case against a Russia's national must be considered within four months from the date when a relevant bankruptcy petition is received (previously it must be done within seven months).

A debt restructuring plan may be approved in the course of a national's debt restructuring. The plan shall be submitted by the national in debt and must be approved by a meeting of creditors and a court of arbitration. The debt restructuring plan may be provided by a national who meets a series of the following requirements:

- regular income generation;
- the national has no unexpunged or outstanding conviction for intentional crimes in the economic sector, and no administrative sanctions for theft, intended destruction of or damage to property, intended or fraudulent bankruptcy;
- the national was not declared bankrupt during five years preceding the submission of a debt restructuring plan;
- no debt restructuring plan was approved for the national during eight preceding years.

The requirements to Russia's nationals in debt seem to be minimum, thus allowing debt restructuring proceedings to be employed on a larger scale. However, a question arises: Are these requirements sufficient to recover debts? Perhaps, the amount of annual income of such nationals must be less than a share of the overdue debt in percentage terms.

A restructuring plan must contain provisions on the procedure for and terms during which the claims of all creditors in bankruptcy and authorized bodies, which the national in debt knows at the moment of preparation of the restructuring plan, must be satisfied. The debt restructuring plan may not be implemented within a period longer than five years.

A court of arbitration may approve the debt restructuring plan only after the current payment claims have been satisfied and the debt to the first and second priority creditors included into the creditor claims register has been paid off.

The amount of claims of the creditor in bankruptcy, authorized body included into the debt restructuring plan approved by the court of arbitration is subject an interest rate accounting for ½ of the Bank of Russia refinancing rate, unless otherwise provided for by the law.

A series of transactions may be performed during the implantation of a restructuring plan subject to the preliminary consent of the financial manager, and, if the financial manager has not been appointed, the preliminary consent of a meeting of creditors. Such transactions include transactions relating to acquisition, seizure or possible seizure of the national's property to the amount of more than Rb 50,000, and transactions relating to borrowing and lending, issuing of sureties and guaranties, assignment of claims, debt transfer, as well as establishment of trust administration of the national's property.

The restructuring plan may be changed at the initiative of the national and meeting of creditors (if the national's property status has been improved). Such a decision may be made the same way the restructuring plan was approved.

Based on the results obtained during the implementation of the restructuring plan, debts and creditors' complaints, the court of arbitration shall issue a ruling either to terminate the proceedings on the bankruptcy case if the debt has been paid off and the creditors' complaints have been found out to be unreasonable, or cancel the debt restructuring plan and the adjudication order.

Proceedings on the bankruptcy case and debt restructuring may be recommenced based on a court of arbitration ruling if the national has been found out to have concealed his property or illegally transferred the property to third parties. Such a recommencement may be initiated

by the creditors in bankruptcy or authorized bodies whose claims failed to be satisfied in the course of debt restructuring.

The draft law provides for the *introduction in nationals' bankruptcy cases of the same proceedings which are applied to bankruptcy of enterprises*, namely convening of a creditors meeting in order to approve the debt restructuring plan and some other issues; approve a financial manager; publish the information on the bankruptcy from the Unified Federal Register.

In addition to the previously specified effects of the national's bankruptcy, the draft law reads that within five years from the date of his bankruptcy petition the national may not assume liabilities under credit agreements and(or) credit agreements without notifying of the bankruptcy.

In addition to the amendments to the Federal Law "On Insolvency (Bankruptcy)", the draft law suggests to *make amendments to the Administrative Offences Code of the Russian Federation and the Criminal Code of the Russian Federation with regard to regulation of nationals' liability in case of their bankruptcy*. In particular, the draft law suggests to impose administrative liability of Rb 4,000 to Rb 5,000 (Article 14.12 – 14.13 of the Administrative Offences Code of the Russian Federation) on Russia's nationals for fraudulent, intended bankruptcy and illegal actions during bankruptcy. Furthermore, from now on Russia's nationals also may be held criminally liable for actions performed as part of their bankruptcy proceedings (Article 195 – 197 of the Criminal Code of the Russian Federation). They may be held liable to a fine of Rb 100,000 to Rb 500,000 or an amount equal to their wages or other income for those to be imprisoned for a period between 1 and 3 years, and they may be subject to imprisonment for a period of up to 2 years, compulsory labor for up to 3 years, as well as imprisonment for a period of up to 3 years with a fine of up to Rb 200,000 or an amount equal to their wages or other income for those to be imprisoned for a period of up to 18 months or not. (Part 1, Article 195 of the Criminal Code of the Russian Federation).

In general, we may say that bankruptcy proceedings have become more complicated for nationals, and the rights of individuals in debt have become more protected not only by enabling them to gradually repay their debts within a long-term period, but also by imposing minimum requirements for the submission of a debt restructuring plan by such persons. In addition, the proposed (in the draft law) measures will have an effect on credit organizations by allowing them to write off accounts receivable and reduce debt recovery costs.

The following provisions of the law looks controversial:

- restructuring plan terms (which are too long, according to some experts);
- the amount of debt owed by a national which may trigger the initiation of bankruptcy proceedings (according to some representatives of the collector community, a debt of Rb 50000 which triggers debtor's bankruptcy is too small and might have an adverse effect on both financial performance of banks and put extra load on courts. Therefore, it must be increased to an amount being equal to at least Rb 300,000 – Rb 500,000)[1].
- individuals have to pay high expenses for restructuring in which a financial manager is involved, which may total more than the minimum amount of debt required for the initiation of bankruptcy proceedings.

The banking sector representatives express their concern that the adoption of the draft law may trigger more violations by persons not in good faith. They forecast events when persons

[1] Hereinafter "The Law on bankruptcy of physical bodies: protection for persons in debt, the issue for banks?"- www.finam.ru, 05.07.12.

after raising a certain amount of funds may intentionally file a bankruptcy petition after having disposed of their assets. Another issue that banks may face is debtors with fraudulently "other" accounts payable which would make debts even harder to recover as part of bankruptcy proceedings.

In addition, the discussion of the draft law resulted in some comments and suggestions regarding goods in common, the effect of debtor's death on a bankruptcy case, the possibility to postpone the introduction of criminal liability, definition of non-saleable property, the possibility to prohibit nationals in debt to leave Russia, etc.[1], as well as protect the debtor from a creditor seeking to deliberately drive the debtor to bankruptcy in order to take possession of the debtor's property.

It is the foregoing provisions that may be modified / amended during the preparation of draft law for consideration in the second reading scheduled in April 2013. The discussion of the draft law on nationals' debt restructuring gives rise to a discussion of the need to adopt a law on collector activities which would allow the nationals' interests to be protected in recovering overdue debts.

6.4. Russia's Innovation Promotion Policies: Their Evolution, Achievements, Problems and Lessons

6.4.1. Introduction: A General Framework for Elaborating and Estimating an Innovation Policy

Innovations, science and technology, and innovation policies represent the limited range of fields where, as believed by a majority of eminent contemporary economists and analysts, it can be possible and even reasonable for the government to interfere. The only arguable aspects are, in the main, the scale, forms and limits of government interference and the experts also discuss and explore the world's best practices and the principles underlying each specific policy[2]. The necessity of government interference in order to promote innovations is proclaimed (explicitly or implicitly) by two basic concepts of economic development – the neoclassical and evolution theories.

The neoclassical economic theory[3] explains the need for public funding to be allocated to research and development by the phenomenon of market failures, when public benefits from investing in science and technologies turn out to be greater than the rate of return received from similar investment by private investors[4]. It is a well-known fact that the companies experiencing financial difficulties are forced to reject some potentially profitable innovation projects because of the existence of information asymmetry and the risk that the cost of credit

[1] The State Duma plans to consider the draft law on bankruptcy in the second reading in April to come - biztass.ru, 15.01.13.

[2] See, for example, Goldberg, I., Gobbard, G., Racin, J. Igniting innovation: rethinking the role of government in emerging Europe and Central Asia. World Bank, Washington DC.

[3] Nelson, R. (1959). The Simple Economics of Basic Scientific Research. Journal of Political Economy, 67 (3), 297-306; Arrow, K. (1962). Economic Welfare and the Allocation of Resources for Invention. In R. Nelson (Ed), The Rate and Direction of Inventive Activity (pp. 164-181). Princeton University Press.

[4] It is noteworthy that Arrow (see the previous note), when speaking of the necessity for the government to implement certain measures to compensate for market failures, also points out the following two fundamental issues: (1) how to guarantee that the investment is cost-effective, and (2) how to identify such market failures?

may increase[1]. Along with these problems, some constraints are also associated with the attraction of venture capital in order to bridge the financial gap typical of R&D[2,3].

In the early 1990s, some proponents of the neoclassical growth theory, while studying endogenous technological changes[4], demonstrated that the government's subsidizing of R&D activities urges companies to spend more on this particular field of research, thus creating a positive effect in terms of economic growth. Later on, a number of theoretical models were created[5], which assessed the effects of subsidies allocated to R&D and their influence on long-term economic development.

Evolutionary economics[6] regards innovations as a complex phenomenon fraught with high risks and requiring a broader access to knowledge, while the most important definitive feature of the innovation processes becomes the interaction between their participants. So, one of the most important factors that sustain the performance of an innovation system is the support provided by the State to the development of interactions, connections, and networks. It can be recalled that the success achieved in introducing and implementing R&D on a broad scale in the newly industrialized countries was based on intensive multi-disciplinary personnel training, in large groups, and the positive effects of this educational activity tend to accumulate with time[7]. It is the neutral and mass-scale support of R&D activities in the early phase of their development that later on makes it possible to identify genuine market failures whenever they occur, with due regard for their sectoral specificity, and thus to elaborate a more selective policy for promoting innovations.

Within the framework of the evolutional approach, failures are usually perceived to occur in the field of education – 'learning failures'[8], which can be interpreted as constraints imposed on the learning potential and its use - both at the level of each individual agent and at the level of group agents. In this connection, there arise such issues as lack of proper coordination be-

[1] Hall, B. H.(2002). The Financing of Research and Development. Oxford Review of Economic Policy, 18 (1), 35-51.

[2] Hall, B. H., Lerner, J. The Financing of R&D and Innovation. In Hall, B. H. and N. Rosenberg (Eds) Handbook of the Economics of Innovation, Elsevier-North Holland.

[3] It is noted that more than half of the money allocated to R&D is spent on the remuneration of researchers, whose work generates intangible knowledge (that, more often than not, cannot be codified). As a result, the principal gains for the companies are associated with the development of their human resources, but the investors are faced with an increased risk of losses if the personnel involved leave (or change) their place of employment.

[4] See, for example, Romer, P. (1990). Endogenous Technological Change. Journal of Political Economy, 98, S71-S102; Segerstrom, P., Anant, T., Dinopoulos, E. (1990). A Schumpeterian Model of the Product Life Cycle. American Economic Review, 80, 1077-1092; Grossman, G., Helpman, E. (1991). Quality Ladders in the Theory of Growth. Review of Economic Studies, 58, 43-61; Aghion, P., Howitt, P. (1992). A Model of Growth Through Creative Destruction. Econometrica, 60, 323-351.

[5] See, for example, Howitt, P. (1999). Steady Endogenous Growth with Population and R&D Inputs Growing. Journal of Political Economy, 107, 715-730; Segerstrom, P. (2000). The Long-Run Growth Effects of R&D Subsidies. Journal of Economic Growth, 5, 277-305.

[6] Metcalfe, J. S. (1994). Evolutionary economics and public policy. Economic Journal, 104 (425), 931-944; Edquist, C. (1997). System of innovation approaches - their emergence and characteristics. In Edquist (ed), System of Innovation. Technologies, institutions and organizations, London.

[7] Teubal, M. (1996). R&D and technology policy in NICs as learning processes. World Development, 24 (3), 449-460; Teubal, M. (2002). What is the systems perspective to Innovation and Technology Policy (ITP) and how can we apply it to developing and newly industrialized economies? Journal of Evolutionary Economics, 12 (1), 233-257.

[8] Bach, L., Mats, M. (2005). From economic foundations to S&T policy tools: a comparative analysis of the dominant paradigms. In M. Matt & P. Llerena (eds), Innovation Policy in a Knowledge-Based Economy: Theory and Practice. Springer Verlag.

tween agents, underdeveloped institutions for coordinated knowledge generation and distribution, their inadequate adjustment to and lack of timing with the ongoing technological changes, the difficulties of codification (lack of standards and platforms), barriers in knowledge perception, etc.

As both these approaches have been strongly influencing the process of elaborating economic policies in many countries, at present there exists a sort of a *framework consensus with regard to the innovation promotion mechanisms: they are viewed, on the one hand, as devices that help to lower the risks and to spread more evenly the innovation costs; and on the other – as stimuli for developing interaction networks, training methodologies and the generation of new collective knowledge.* Both these approaches to elaborating an innovation policy (see *Table 10*) are mutually supportive, with an increasing trend towards focusing on the evolutionary model of economic growth.

Table 10

A Tentative Framework for Innovation Policy

Innovation policy's specific features	Neoclassical growth model	Evolutionary growth model
1. Key problems	Market failures – problems with redistribution of resources	Learning failures – problems involved in knowledge generation and distribution
2. Main object	Science, technologies, innovations (STI)	Skills, use, interaction (DUI)
3. Policy character	Mission-oriented policy – orientation strictly to final results, to direct influence; assessments of needs and replenishment of lacking resources	Diffusion-oriented policy) – orientation to spreading changes, practical examples; learning as part of policy implementation
4. Estimation of results	Numerical effects, direct effects, changes in resource management	Qualitative effects, behavioral effects, learning effect

Hypothetically, an innovation policy can be mission-oriented or diffusion-oriented; the former is more compatible with the neoclassical model, and the later fits the evolutionary approach[1]. However, when taken in practical terms, a policy is usually based on a compromise between the two models, with a certain degree of balance achieved in both dimensions – (1) horizontal or vertical; (2) mission-oriented or diffusion-oriented.

Over recent decades, the conditions for implementing innovations have changed dramatically – both in the developed countries and in the transition economies. Among the alterations that occurred in the sphere of *innovations on a global scale in the past few decades, the following ones can be pointed out*:

(1) global competition results in a shorter product life cycle and imposes tough constraints on the timelines for new product development;

(2) the global nature of the innovation activity and the inevitable specialization and international partnership make it impossible to keep all added value in one given country;

(3) the increasing complexity of new production technologies makes it difficult, even for biggest companies, to maintain their leadership on world markets - thus giving rise to new motives for specialization;

(4) interdisciplinary studies are becoming an important factor of a successful implementation of innovations, while the rising costs of research and development and the need for different specialization results in an increasing cooperation on all levels – corporate, inter-country, and in the emergence of technological alliances;

[1] Bach, L., Mats, M. (2005). From economic foundations to S&T policy tools: a comparative analysis of the dominant paradigms. In M. Matt & P. Llerena (eds), Innovation Policy in a Knowledge-Based Economy: Theory and Practice. Springer Verlag.

(5) the channels for transmitting new knowledge and technologies are broadening, thus creating opportunities for accelerating the process of spreading technologies across economies by means of better regulation;

(6) the transmission and perception (or acquisition) of knowledge on an individual level becomes a very relevant component in the process of spreading innovations, and so the requirements to human resources are significantly upgraded;

(7) the role of innovations in dealing with contemporary social challenges is also becoming increasingly prominent, and the innovation fields like ecology, health, nutrition are viewed as priorities for sustainable social development.

Against the backdrop of all these fundamental shift, inevitably, *the attitudes of many national governments to the task of supporting innovations have undergone a certain transformation* – in view of the increasing globalization and international competition the formerly neutral approach gave way to a more active direct involvement of government agencies in promoting the innovation processes, with a more accurate 'tuning' of the relevant instrument to the specificities of each sector, market, or technological shifts. In the innovation policies of different countries, the following common directions of the ongoing transformation can be identified:

(1) a generally enhancing role of the government in promoting and supporting innovations; a switchover to an integration policy in the fields of science, technology, education and innovation; an increasing focus on the development of necessary networks and the promotion of interaction between the different participants in the innovation processes;
(2) a shift from the model based on supporting the supply of innovations towards the one based on promoting a demand for innovations; an increasing number of governments applying a broad range of mechanisms for innovation promotion; a departure from the principle of neutrality in elaborating an innovation policy, and a diffusion of boundaries between the innovation and industrial policies;
(3) an increasing inter-country distribution of best practices of innovation support, an increasing scale of inter-country transfers of the 'sets of instruments' for promoting innovations, with an emphasis on learning and deriving lessons from experimenting in the framework of an innovation policy;
(4) the imposition of tougher budget constraints and, consequently, an increasing role of regular evaluation of the performance of various instruments innovation-promoting instruments.

A predominant trend in the current approaches to the task of stimulating innovations is to view them as a fundamental factor of sustainable economic development; in this connection, the *focus of the ongoing discussion has shifted onto the issue of how to select the most effective and appropriate instruments to be applied in government innovation policies.*

In principle, there exist a broad variety of instruments for the support of innovations that have already been tested in many different countries. These are tax exemptions, targeted loans, government subsidies, and a multitude of other things. Nevertheless, both the new industrial countries (for example, in Latin America) and those with developed market economies (such as EU members) *are still continuing an active quest for and discussion of new instruments for promoting innovations*[1] - the instruments that could yield most effective results with only minimum distortions in the existing market environment.

[1] DEMAND. (2002). STI Report: tax incentives for research and development – trends and issues. Paris: DEMAND; DEMAND. (2006). Government R&D Funding and Company Behavior. Measuring Behavioral Ad-

On the basis of an analysis of the practices of implementing different innovation promotion mechanisms, the following specific features can be pointed out[1]:

- the advantages of *tax instruments* in promoting innovations is that they may be applied to a broad range of economic agents (without any special constraints), their neutrality, and no need for any special procedures of expert's estimation;
- the attractiveness of *financial instruments* applied in the support of innovations (credits, subsidies, grants) consists in their ability to concentrate the available resources within the framework of the most promising projects, the projects of the highest significance from the point of view of benefits to society; besides, they allow better opportunities for measuring the projects' cost-effectiveness and for exercising proper control over the expenditures allocated to innovations.

On the basis of available data for the EU countries it was demonstrated that, by comparison with tax exemptions, government co-financing of companies' expenditures on R&D produced a more long-term effect[2]. The advantages of subsidies towards R&D activities are also associated with their potential to 'compensate', for companies, the market uncertainties that they are faced with in their business activity[3]. Thus, while tax exemptions are better from the point of view of expanding the ongoing innovation projects, subsidies conduce to the launch of new, more long-term projects. Besides, the companies - recipients of grants more often act as innovators on an international level and are more successful in commercializing their products than the companies that are encouraged only by means of tax exemptions[4].

On the whole, *tax exemptions and subsidies, in terms of their effectiveness in prompting innovations, each have their own specific advantages and drawbacks.* It is not by chance that the group of independent experts participating in the preparation of the European Commission's Report[5] recommended that different 'instrument packages' should be applied in promoting the innovation activity.

The cost-effectiveness and feasibility of different instruments for innovation support represent one of the key issues underlying the government innovation policies in many countries, especially under the conditions of toughening budget constraints. It is noteworthy that one of the directions in which the countries reacted to the changed conditions for the implementation of innovations in the post-crisis period has been a shift in the principles applied in the estimations of an innovation policy's results.

A policy implemented in the field of science and technologies usually aims at achieving certain goals set on a rational basis within a certain framework. From this it follows that, on the one hand, some of the ongoing changes may depart from the policy's established goals, while on the other, such 'unexpected' changes may either be compatible or incompatible with

ditionality. Paris: DEMAND; DEMAND. (2012). DEMAND Science, Technology and Industry Outlook 2012. DEMAND Publishing.

[1] DEMAND. (2002). STI Report: tax incentives for research and development – trends and issues. Paris: DEMAND.

[2] Guellec, D., y Van Pottlesberghe, B. (2003). The impact of public R&D expenditure on business R&D. Economics of Innovation and New Technologies, 12 (3), 225-244.

[3] Czarnitzki, D., Toole, A. A. (2007). Business R&D and the interplay of R&D subsidies and product market uncertainty. Review of Industrial Organization 31(3), 169–181.

[4] Berube, C., Mohnen, M. (2007). Are Firms That Received R&D Subsidies More Innovative? CIRANO Working Paper 2007s-13, CIRANO.

[5] ECR. (2003). Raising EU R&D Intensity – Improving the Effectiveness of the Mix of Public Support Mechanisms for Private Sector Research and Development. Report to the European Commission by an Independent Expert Group.

the model framework applied in determining those goals[1]. Therefore, there emerges *the task of a regular identification and estimation of the 'incompatible' changes and the continual re-definition of the model framework itself.*

An increasing attention has been focused on estimating an innovation policy as a learning instrument, and on finding the best ways for its implementation. In fact, something that has been good for one country may become counter-productive in terms of innovations on another, and so the identification of problem areas must go hand-in-hand with certain experimenting aimed at providing solutions to the existing problems, as well as with an expansion of learning processes[2].

By now, the world has already accumulated vast experience in estimating the effects of different innovation-promoting instruments on the performance of companies. Some progress has been observed in the development of general methodologies of estimating the effects of policies implemented in the field of science, technologies and innovations[3]. However, such issues as the time shifts of the effects of various applied mechanisms, the composition of the potential externalia, the heterogeneity of influence, and the multiple character of influences still retain their importance.

A basic factor in the estimation of innovation policies has become the concept of additionality, which implies identification and analysis of those effects that would have been non-existence in absence of the instruments of government support. A practice has already been developed[4] for making such an estimation on the basis of four types of effects existing at a company's level: (1) changes in resources, (2) direct results of innovations, (3) changes in a company's competitive capacity, (4) behavioral changes.

In the framework of the first group of effects, among other things, the changes in the volume of corporate expenditures allocated to R&D are considered. The second group of effects includes the increment in the number of patents taken by companies, the output of new products and the resulting growth in sales. The third group incorporates indicator like productivity growth, the scale of business activity and market share.

The effects belonging to the fourth group (the so-called behavioral additionality[5]) stand somewhat apart from the others. These effects are much closely linked to the intrinsic factors

[1] Bach, L., Mats, M. (2005). From economic foundations to S&T policy tools: a comparative analysis of the dominant paradigms. In M. Matt & P. Llerena (eds), Innovation Policy in a Knowledge-Based Economy: Theory and Practice. Springer Verlag.

[2] Rodrik, D. (2008). The New Development Economics: We Shall Experiment, but How Shall We Learn? Working Paper Series rwp08-055, Harvard University, John F. Kennedy School of Government; Chaminade, C., Lundvall, B., Vang, J., Joseph, K. (2009). Designing innovation policies for development: towards a systemic experimentation-based approach. In Lundvall, B. et al. (eds.) Handbook of Innovation Systems and Developing Countries. pp. 360-379.

[3] See, for example, Crespi, G., Maffioli A., Mohnen, P., Vazquez, G. (2011). Evaluating the Impact of Science, Technology and Innovation Programs: a Methodological Toolkit. SPD Working Papers 1104, Inter-American Development Bank, Office of Strategic Planning and Development Effectiveness.

[4] See, for example, Hall, B. H., Maffiolly A. (2008). Evaluating the Impact of Technology Development Funds in Emerging Economies: Evidence from Latin America. NBER Working Paper 13835, National Bureau of Economic Research, Inc.

[5] The concept of behavioral additionality was first formulated in 1995. It was then noted that the additionality concept is an important instrument capably of boosting up the results of government support in the sphere of research and development, but that it must be geared not only to direct effects, but also to the behavioral ones. Thus, in particular, when applied to big companies, behavioral additionality may be linked to changes in the principles of composing the portfolios of research projects and corporate technological strategies. Behavioral

that have to do with the specificity of a company's organizational structure, the interests and motivations of different related parties, the individual standpoints of a company's owners, a company's potential for acquiring new knowledge and learning new technologies, etc. - that is, something that cannot be easily formalized. In the framework of the fourth group of effects, the changes in the attitudes of a company's owners to innovations, the transformation of companies' innovation strategies, the re-estimations of the importance of external interactions and partnerships with other organizations in the course of implementing innovations are usually analyzed.

It is due to the existence of the behavioral factors that the links between the first and second groups of effects are non-linear and versatile. The importance of the estimation of behavioral changes is also associated with the fact that the logic behind the government's interference in the form of an organized innovation policy implies a necessity to compensate not only for market and systemic failures (the market ones – support of research; the systemic ones – support of cooperation and networks), but also for failures in companies' receptability[1] - that is, support of changes in their behavior.

The estimation of behavioral additionality is increasingly becoming a typical component of the overall estimation of the performance of different instruments applied in promoting innovations. So, the following characteristic factures of the practice of estimating the innovation instruments can be noted:

(1) regularity of estimations, inter-country comparison of the results is a well-developed practice in the EU countries; the practice of estimating the influence of new innovation promotion mechanisms in Latin American countries, in the new industrial countries;

(2) long periods of observation (more than 10 years), availability and maintenance of detailed official statistics in the relevant fields, openness of the official assessment procedures applied in the records of new effects;

(3) complexity and heterogeneity of the estimations (for example, the replacement effect), the existence of considerable time lags in the emergence of final effects (4 – 6 years), marked heterogeneity of the influences of different promotion mechanisms; the existence of significant econometric problems; preparation and presentation of methodological recommendations concerning the principles of estimation and the associated problems;

(4) openness, public access to the results of estimations; practical use of the results of estimations in the decision-making at the government level – distribution of best practices, learning the lessons; decision-making with regard to discontinuation, adjustment, or expansion of various programs and mechanisms applied in the promotion of innovations.

6.4.2. The Main Instruments and Development Phases of the Government Innovation Promotion Policy in the 2000s

The government policy aimed at promoting innovations that was implemented in Russia in the 2000s was by no means uniform. It involved many different instruments and measures, abounded in various initiatives that often appeared to be poorly substantiated and sometimes even downright eccentric. At the same time, it must be admitted that, over that period, the innovation policy became significantly better elaborated - even if its progress was by no means

changes determine the external (from the point of view of a given company) positive effects based on the distribution of best practices among other companies.

[1] Gok, A., Edler J. (2011). The Use of Behavioral Additionality in Innovation Policy-Making. MBS/MIoIR Working Paper 627, The University of Manchester.

always smooth and based on the choice of best decisions and practices. In our opinion, with some reservations, we may distinguish five main phases in the development of that policy, which were largely determined by the availability of government resources, as well as by the varying views of the ruling elites as to the most important goals of economic development during different periods and the necessity of innovations for providing adequate economic solutions:

2000 – 2002: the phase of 'small deeds' against the backdrop of limited resources;

2003 – 2005: the phase of activization and diversification against the backdrop of stable economic growth;

2006 – second half of 2008: the phase of big decisions and initiatives;

late 2008 – 2009: the phase when the anti-crisis agenda was predominant;

from 2010 onwards: the phase of a quest for 'new quality'.

2000 – 2002

Approximately until 2003, *in conditions of relatively tough budget constraints, the issues relating to innovations remained 'in the periphery' of the government's policy. Due to the low innovation activity of businesses, the demand for any relevant government measures was insignificant.* The government policy instruments that emerged during that period were, as a rule, relatively inexpensive, and their effectiveness was low. A typical example is the creation of the Venture Innovation Fund[1] – the government's 'fund of funds' designed to promote the development of a system of venture financing in Russia. The amount of government contribution in the fund's capital was limited to Rb 100m (of which, according to available data, only Rb 50m was actually transferred), while its investment activity began only a few years later. Besides, over the period under consideration, a new basic law was enacted in the field of standardization, certification and technical regulation[2]. However, the process of elaborating, on its basis, the necessary technical regulations began much later – the first relevant document was issued in late 2005[3], and that activity became more or less regular only in 2008.

However, alongside the aforesaid steps undertaken by the government (not very successful – at least initially), we cannot overlook another development – namely, that in 2002 the Russian Bank for Development (*RosBR*)[4] (which had previously been specializing mainly on issuing loans to industrial companies in accordance with the priorities set by the RF Government) began to implement the и program of financial support to small and medium – sized and enterprises (SME). It was organized as a two-tier structure: first, the bank issued the money to its regional partners, which then issued loans to SME – to cover, among other things, the cost of renewal of their fixed assets. Soon – and it is still true today – the implementation of that program became not only the bank's core activity, but also the main instrument of rendering government financial support to SME.

It must also be noted that, over the period under consideration (which, however, is also true of the previous and later years), one important instrument for channeling government financing allocated to applied R&D projects were federal target programs, among which there were some specialized programs in the field of science and technologies: the Federal Research and

[1] The RF Government's Regulation of 10 March 2000, No. 362-r.
[2] Federal Law of 27 December 2002, No. 184-FZ 'On Technical Regulation'.
[3] The RF Government's Decree of 12 October 2005, No. 609 'On Approving the Technical Regulation "On The Requirements As to the Emission of Pollutants by the Motor Vehicles Put in Operation in the Territory of the Russian Federation" '.
[4] At present the Russian Bank for Small and Medium Enterprises Support (SME Bank).

Technology Target Program for the years 1996–2000 'Research and Development in the Priority Directions of Development of Science and Technologies for Civil Purposes'[1], the Federal Research and Technology Target Program 'Research and Development in the Priority Directions of Development of Science and Technologies' for 2002–2006 [2], the Federal Target Programs 'National Technological Base' for 1997–2000[3] and 2002–2006[4]), and also some sectoral programs. However, these programs did not envisage any financing to be allocated to the implementation in industry of the results of completed R&D projects.

2002–2005

Stable economic growth, followed by softening of budget constraints, created the necessary preconditions for further development of the government policy, which now could address those directions and sphere that previously were de facto considered to be of secondary importance. In combination with the government's increasing attention to the 'quality' of growth, this was transformed in *a strong impetus to innovation activities and an expansion of the available set of relevant instruments*.

The first real sign of the government's changed attitude to innovations was the launch, in 2003, of a number of government-level innovation projects, or *mega-projects*, which was at that time a step forward in the field of innovations that was unprecedented over the entire period of Russia's post-Soviet history. The key features of the mega-projects, which set them apart from all the other instruments previously applied in government innovation policy, were as follows:

- very impressive costs – up to several billions of rubles, of which government funding covered approximately half, on a non-refundable basis;
- long periods established for implementing the projects – 3–5 years, and so the framework of one project could encompass all the different phases of the innovation cycle – from the development of new products and technologies to putting them in operation;
- the mandatory requirement that the product's sale should be launched within the project's framework, and the sale volume was to be fivefold the amount of the aggregate budget financing allocated to the project.

Because of these specificities, the implementation of the mega-projects took place on a 'singular' basis – over the decade whilst that instrument was being applied, only about 30 projects were launched, half of which covered the period of 2003–2005.

In 2004, a number of significant alterations were made to the already mentioned Federal Research and Technology Target Program 'Research and Development in the Priority Directions of Development of Science and Technologies'[5], which envisaged, among other things, support of the activity aimed at 'commercializing' the results of completed R&D. The new version of the programs mapped some measures designed to ensure the funding of the mega-

[1] Approved by the RF Government's Decree of 23 November 1996, No. 1414.
[2] Approved by the RF Government's Decree of 21 August 2001, No. 605.
[3] Approved by the RF Government's Decree of 13 August 1996, No. 986.
[4] Approved by the RF Government's Decree of 8 November 2001, No. 779.
[5] The RF Government's Decree of 12 October 2004, No. 540 'On Introducing Alterations in the Federal Research and Technology Target Program 'Research and Development in the Priority Directions of Development of Science and Technologies' for 2002–2006, and Recognizing as Null and Void Some Acts of the Government of the Russian Federation'.

projects implemented 'under the auspices' of the RF Ministry of Education and Science[1], as well as some large-scale venture projects.

In 2004, the Foundation for Assistance to Small Innovative Enterprises in Science and Technology began to implement the program 'Start', which envisaged the allocation of grants in order to finance R&D carried out in the framework of innovation projects implemented by newly created small enterprises over a period from 1 to 3 years. As it happened in the case of the Russian Bank for Development's support of SME, this program soon became the Foundation's core activity - and at the same time the main instrument for allocating government financial support to small innovation companies.

In 2005, the legal foundation for the creation and operation in Russia of special economic zones was adopted[2], one of their types being that of a technology implementation zone, and a number of rather significant tax exemptions for their residents, including the free customs zone regime, the guarantees that the current tax regime was not to be worsened, the possibility to apply a reduced rate of profit tax, a preferential procedure for writing off the expenditures on R&D, the possibility for accelerated depreciation of fixed assets, temporary exemption from property and land taxes, etc. In late 2005, the RF Government formalized its decisions concerning the creation of four technology implementation zones: in Tomsk, St. Petersburg, Moscow (at Zelenograd), and Moscow Oblast (at Dubna).

The year 2005 saw the onset of the process of creating regional venture funds as part of measures designed to support small-scale entrepreneurship, to be implemented by RF subjects and co-financed from the federal budget[3]. At present there exist 23 funds in 21 RF subjects.

And finally, in 2005 the legal foundation was laid for the mechanism of subsidizing, by Russian exporters, of part of the interest paid on the loans attracted in order to develop exports of highly processed products[4].

2006 – second half of 2008

The period of 2006–2008 was marked by *high government activity in the field of innovation support, and – as a result – regular implementation of new measures and instruments, which often required substantial resources (including in the form of lost budget revenue).* In this connection, two directions of that government policy are especially noteworthy: the launch of a number of tax instruments for innovation promotion, as well as the creation and capitalization of some big financial development institutions:

– in 2006, the Open-ended Joint-stock Russian Venture Company (RVC)[5] was established with the purpose of promoting the creation, in Russia, of a national venture investment industry modeled after a 'fund of funds. RVC's capital was fully formed by the government and amounted to Rb 30bn. It should be noted that this particular development institution

[1] Initially, the mega-projects were supervised by the RF Ministry of Industry and Science; after its abolition in 2004, this direction of government support was taken over by the RF Ministry of Education and Science and the RF Ministry of Industry and Energy.

[2] Federal Law of 22 July 2005, No. 116-FZ 'On Special Economic Zones in the Russian Federation' and No. 117-FZ 'On the Introduction of Alterations to Some Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law 'On Special Economic Zones in the Russian Federation'

[3] The relevant rules were established by the RF Government's Decree of 22 April 2005, No. 249 'On the Conditions and Procedure for the Allocation of Federal Budget Funding Earmarked for the Government Support of Small Entrepreneurship, Including Peasant (or Farmer) Economies'.

[4] The RF Government's 6 June 2005, No. 357 'On the Approval of the Rules for Compensation from the Federal Budget to Russian Exporters of Industrial Products of Part of their Expenditures on the Payment of Interest on Credits Received in 2005 from Russian Credit Institutions'.

[5] The RF Government's Regulation of 7 June 2006, No. 838-r.

was evidently created with due regard for the experience gained during the previous attempt at launching a government 'fund of funds' – the Venture Innovation Fund. In 2007 and 2008, with the participation of the RVC, 7 venture funds were created;

- from 2006, a depreciation premium was introduced, whereby enterprises were granted the right, when calculating the amount of tax on profit, to write off up to 10% of their capital investment in new fixed assets and the technological upgrading and modernization of fixed assets[1];
- the period for writing off the expenditures on R&D whose results are applied in production processes was shortened first from 3 years to 2 years (from 2006) [2], and then to 1 year (from 2007)[3];
- from 2006, it was envisaged that the expenditures on R&D that had yielded no positive result could be written off in full[4] (previously – 70%); from 2007, the period for writing off such expenditures was shortened to 1 years[5] (previously – 3 years);
- in 2007, the USSR Bank for Foreign Trade was reorganized into the State Corporation 'Bank for Development and Foreign Economic Affairs'"[6]; simultaneously, the capital of the newly created entity was augmented by an additional contribution of Rb 180bn, as well as shares issued by two specialized banks – *RosBR* [Russian Bank for Development] and *Eximbank Russia*. It was established that one of the main directions of the State Corporation's investment activity was to be the implementation of innovation-oriented investment projects[7]. It should be noted that the reorganization resulted in some significant changes in *Vneshekonombank*'s activity, and first of all in terms of quality of the development institutions. Thus, over the period of 2007 - 2008, the volume of investment credits increased more than 4-fold;
- in 2007, the Russian nanotechnologies corporation (State Corporation *Rusnanotech*) was established with the purpose of developing the innovation infrastructure and implementing promising projects in the fields of nanotechnologies and nanoindustry[8]. The government's contribution to the corporation's capital was money in the amount of Rb 160bn. The financing of projects by the newly created state corporation was started in 2008;
- from 2008 onwards, the enterprises were granted the right of accelerated depreciation (with a coefficient of up to 3) of their fixed assets used strictly for their activity in the field of science and technology[9];
- from 2008 onwards, the following types of activity were made exempt from VAT: the performance, by organizations, of research and development involving the creation of improvement of products or technologies, if this activity results in the development of an en-

[1] Federal Law of 6 June 2005, No. 58-FZ 'On the Introduction of Alterations to Part Two of the Tax Code of the Russian Federation and to Some Other Acts of the Russian Federation's Legislation on Taxes and Levies'.
[2] Federal Law of 6 June 2005, No. 58-FZ.
[3] Federal Law of 27 July 2006, No. 137-FZ 'On the Introduction of Alterations to Part One and Part Two of the Tax Code of the Russian Federation and to Some Legislative Acts of the Russian Federation in Connection with the Implementation of Measures Designed to Improve Tax Administration'.
[4] Federal Law of 6 June 2005, No. 58-FZ.
[5] Federal Law of 27 July 2006, No. 137-FZ.
[6] Federal Law of 17 May 2007, No. 82-FZ 'On the Bank for Development'.
[7] the RF Government's Regulation of 27 July 2007, No. 1007-p.
[8] Federal Law of 19 July 2007, No. 139-FZ 'On the Russian Nanotechnologies Corporation'.
[9] Federal Law of 19 July 2007, No 195-FZ 'On the Introduction of Alterations to Some Legislative Acts of the Russian Federation in the Part of Creating Favorable Tax Conditions for the Financing of Innovation Activity'.

gineering structure or technical system, new technologies, sample models of machines, equipment, or materials;
- the transfer of exclusive rights to inventions, useful models, industrial samples, software, databases, integral microcircuit topologies and know-how, as well as the rights to the practical application of the aforesaid results of intellectual activity on the basis of a licensing agreement[1];
- from 2008, the costs taken into account under the simplified system of taxation were to include:
- the cost of acquisition of exclusive rights to the aforesaid results of intellectual activity, as well as the rights to their practical application on the basis of a licensing agreement;
- the cost of patenting and/or the price of the legal services associated with legal protection of the results of intellectual activity;
- the cost of R&D[2].

In addition to all these directions of innovation policies, a number of other measures, in some or other way associated with innovation promotion, were introduced during the period under consideration:
- within the framework of the priority national project 'Education', over the period of 2006–2008, innovation-oriented higher educational establishments received support as part of special innovative educational programs that envisaged fundamental and applied studies and students' participation in the implementation of real projects in various sectors of the national economy. The recipients of that support were 57 higher educational establishments across Russia;
- The Federal Target Program for the Development of Education in 2006–2010 envisaged, in particular, the financing of measures designed to create networks of innovation-oriented higher educational establishments, as well as to form a segment of the national innovation system on the basis of higher educational establishments[3];
- in 2006, it was decided to establish the Open-ended Joint-stock Company 'Russian Investment Fund for Information and Communications Technologies' (*Rosinfokominvest*)[4] for the purpose of making investment in promising innovation projects carried out by companies specializing in information and communications technologies (ICT); in 2007, the fund's creation was effectively completed. It differed from the other government financial development institutions created over the period under consideration (RVC, *Vneshekonombank* in the form of a state corporation, *Rusnanotech*) in that its capital was relatively small – Rb 1.45bn. Its another distinctive feature was that, by early 2012, it had not yet began to work towards its main goal - investing in companies[5];

[1] Federal Law of 19 July 2007, No. 195-FZ.
[2] Federal Law of 19 July 2007, No. 195-FZ.
[3] Approved by the RF Government's Decree of 23 December 2005, No. 803.
[4] Decree of the Government of the Russian Federation of 9 August 2006, No. 476 'On the Establishment of the Open-ended Joint-stock Company "Russian Investment Fund for Information and Communications Technologies'.
[5] It should be noted that in the aforesaid Decree of the RF Government it is envisaged that the fund's charter must contain a provision whereby the fund has no right to allocate financing to projects until the moment when the Russian Federation's stake in its capital is decreased to 51% (at present, 100% of the fund's stock is in federal ownership), but in the current wording of the fund's charter (approved by Order of the RF Ministry of Communications and Mass Media of 4 May 2010, No. 69) there is no such provision.

- in 2006, the Program 'Creation in the Russian Federation of Technoparks in the Hi-tech Sphere' was adopted[1] in accordance with which, from 2007 onwards, a number of RF subjects began to receive annual subsidies earmarked for the implementation of that specific goal[2]. Initially, that program was geared for a five-year period – from 2006 through 2010, and envisaged the foundation of technoparks in Moscow Oblast, Novosibirsk Oblast, Nizhnii-Novgorod Oblast, Kaluga Oblast, Tyumen Oblast, the Republic of Tatarstan, and St. Petersburg; at present, the period of its implementation is prolonged until 2014, and the list of regions where technoparks are to be created has been extended - it now includes the Republic of Mordovia[3], as well as Kemerovo Oblast[4], Penza Oblast, Samara Oblast and Tambov Oblast[5];
- an undertaking of fundamental importance was the launch, in 2007, of the presidential initiative 'Strategy of the Development of Nanoindustry', personally initiated by the RF President. It should be acknowledged that initially the Strategy attracted rather little attention[6]. In fact, the document adopted in this connection, in addition to outlining the main principles of the government policy in that sphere (which in itself was significant), also determined all the key activities of the RF Government related to the development of nanoindustry: the establishment of the Russian Corporation of Nanotechnologies, the implementation of the Federal Target Program 'Development of the Nanoindustry Infrastructure in the Russian Federation in 2008–2010'[7], and the organization of a national research center in that field (to be discussed in more detailed later in the text);
- in 2007, the implementation of the Federal Target Program 'Research and Development in the Priority Directions of Developing Russia's Scientific-technological Complex in 2007–2012'[8], was started, to replace the completed Federal Research and Technology Target Program 'Research and Development in the Priority Directions of Developing Science and Technologies', which had been implemented in 2002–2006. The new program continued the support of mega-projects via the RF Ministry of Education and Science. Besides, in its framework, a fundamentally new (for Russia) innovation policy instrument was applied in the co-financing of the innovation projects implemented in the interests of the business community. The key feature of that instrument that distinguished it from all the previously applied ones was that the themes of the R&D projects to be financed by the government were determined directly by the related businesses on the basis of their own interests and needs, while the government confined its role to determining, on the basis of contests, the entities to be changed with the task of the performing the relevant work (with due regard for the opinion of the beneficiary company, which participated in the expert estimation of the submitted applications). However, in spite of the strong interest demonstrated by the business community, that instrument was applied on a limited scale and for

[1] The RF Government's Regulation of 10 March 2006, No. 328-r.
[2] The RF Government's Decree of 20 December 2007, No. 904 'On the Procedure for Allocating Funding from the Federal Budget Earmarked for the Creation of Hi-tech Technoparks'.
[3] The RF Government's Regulation of 12 September 2008, No. 1326-r
[4] The RF Government's Regulation of 25 December 2007, No. 1912-r
[5] The RF Government's Regulation of 27 December 2010, No. 2393-r
[6] The RF President's Assignment of 24 April 2007, No. Pr-668.
[7] Approved by the RF Government's Decree of 2 August 2007, No. 498.
[8] Approved by the RF Government's Decree of 17 October 2006, No. 613; at present, the period of the program's implementation is extended to 2013 (by the RF Government's Decree of 6 April 2011, No. 253).

a rather short period of time: in 2007–2010, the government granted support to only about ten project of this type, and since 2011 they have been allocated no financing whatsoever[1];
- in 2008, a pilot project was launched whose aim was the organization, on the basis of the Russian Research Center 'The Kurchatov Institute', of a fundamentally new entity (at least, its idea was new for Russia) – the national research center (NRC) 'The Kurchatov Institute'. The NRC's task is to ensure speedy implementation of newly developed scientific innovations, carry out complete R&D cycles, including the creation of industrial samples, in two priority directions of research in the field of science, technologies and technical equipment in the Russian Federation: the industry of nanosystems and nanomaterials, on the one hand, and power engineering and energy saving, on the other; besides, the NRC is delegated the functions of a coordinator of research within the framework of the presidential initiative 'Strategy of the Development of Nanoindustry';
- and finally, in 2008 (5 years after the adoption of the Law 'On Technical Regulation'), the process of elaborating technical regulations was launched on a broader scale – over that year, a total of 6 documents were adopted[2].

Late 2008 – 2009

In the second half of 2008, when the onset of the *financial crisis urged the RF Government to launch a large-scale anti-crisis program, the innovation policy – as could well be expected – became a secondary priority, and so a considerable portion of the resources previously earmarked for these purposes was spent elsewhere.* At the same time, however, it would be incorrect to state that during that period the government was totally disregarding the innovation promotion instruments; on the contrary, in some of their aspects these instruments became even more strongly the focus of attention, and not only from the point of view of the ratio between the volume of investment and the results achieved, but also in terms of their orientation to true innovation.

Here are a few rather typical examples of the acts and measures undertaken in late 2008 and 2009:
- large-scale cuts in the amount of budget expenditures earmarked for the fields of science, technologies and innovation within the framework of several federal target programs (in particular, the Federal Target Program 'Research and Development ...');
- temporary withdrawal, from the State Corporation *Rusnanotekh*, of a considerable portion of previously allocated resources (Rb 66.4bn);
- the introduction of several new mechanisms for subsidizing, for the Russian enterprises operating in different sectors, in particular the motor-car manufacturing and transport engineering, the cost of interest on loans granted to them for their technological upgrading[3];

[1] Decree the RF Government's of 6 April 2011, No. 253.

[2] Technical Regulation 'On the Requirements to Motor and Aircraft Petrol, Diesel and Vessel Fuel, Fuel for Jet Engines, and Fuel Oil' (approved by the RF Government's Decree of 27 February 2008, No. 118); Federal Law of 12 June 2008, N.o 88-FZ 'Technical Regulation on Milk and Dairy Products'; 'Technical Regulation on Oil and Fat Products', of 24 June 2008, No. 90-FZ; 'Technical Regulation on Fire Safety Requirements' of 22 July 2008, No. 123-FZ; 'Technical Regulation on Fruit and Vegetable Juice Products' of 27 October 2008, No. 178-FZ; 'Technical Regulation on Tobacco Products' of 22 December 2008, No. 268-FZ.

[3] The RF Government's Decree of 30 March 2009, No. 262 'On Approving the Rules for Allocating Subsidies from the Federal Budget to Russian Automobile and Transport Engineering Organizations to Compensate for Part of the Interest Paid on the Loans received in 2008–2009 from Russian Credit Institutions, as Well as from the International Financial Institutions Created Under the International Treaties Signed by the Russian Federation and Aimed at Technological Upgrading'.

for the military-industrial complex - the cost of implementation of hi-tech innovation and investment projects[1] , etc.;

- the launch of the Program 'Anti-crisis' by the Fund for the Support of Small-sized Entrepreneurship in Science and Technology;
- large-scale involvement of *Vneshekonombank* in implementing anti-crisis measures simultaneously in several directions: refinancing of foreign loans taken by Russian borrowers – companies and banks, and secured by strategic assets; the issuance of unsecured long-term subordinated loans to Russian credit institutions[2]; the functions of the RF Government's agent in dealing with the issues related to the granting of government guarantees to the strategic enterprises operating in the framework of the military-industrial complex and the companies included in the special list[3]; and acquisition of problem-ridden financial and credit institutions for the purpose of their recovery.

It should be noted that *Vneshekonombank* was performing its crediting and financial functions within the framework of anti-crisis measures almost exclusively at the expense of the additionally allocated government resources. For that reason, over the period under consideration, the scale of its 'core' activity as a state corporation acting in the capacity of a bank for development, instead of showing any signs of decline, increased even further – thus, over the course of the year 2009, the volume of investment loans was increased from Rb 130bn to Rb 230bn. Besides, in 2009, *Vneshekonombank* made an additional contribution to its affiliation Russian Bank for Development's charter capital in the amount of Rb 10bn, and also issued to the Russian Bank for Development loans in the amount of Rb 30bn earmarked for the implementation of a program for the support of small and medium-sized and enterprises (SME), and so in 2009 the RBD's credit portfolio increased threefold.

Against the backdrop of the active implementation of the RF Government's anti-crisis program and the resulting redistribution of budget expenditure, the government innovation policy's emphasis shifted towards those measures and instrument that required no additional budget expenditures. In this context, we can mention the following ones:

- the adoption of a number of new technical regulations;
- the drawing-up of the list of main directions for the fundamental and applied studies to be carried out by the NRC 'The Kurchatov Institute'[4] , and the involvement of three other research institutes in the creation of the NRC[5];

[1] The RF Government's Decree of 30 March 2009, No. 265 'On Approving the Rules for Allocating Subsidies, in 2009–2011, from the Federal Budget to the Organizations of the Military-industrial Complex to Compensate for Part of the Interest Paid on the Loans received from Russian Credit Institutions for the Implementation of Innovation and Investment Hi-tech Production Projects'.

[2] Federal Law of 13 October 2008, No. 173-FZ 'On Additional Measures Designed to Support the Financial System of the Russian Federation'.

[3] The RF Government's Decrees of 14 February 2009, No. 103 'On Granting, in 2009, of the Government Guarantees of the Russian Federation against the Loans Taken by the Organizations Selected in the Procedure Established by the Government of the Russian Federation for Carrying Out their Core Production Activity and Capital Investment', and No. 104 'On Granting, in 2009–2010, of the Government Guarantees of the Russian Federation against the Loans Attracted by the Strategic Organizations of the Military-industrial Complex'.

[4] The RF Government's Regulation of 27 October 2008, No. 1561-r.

[5] The RF President's Edict of 30 September 2009, No. 1084 'On the Additional Measures Designed to Implement the Pilot Project of Creating the National Research Center 'The Kurchatov Institute'.

- legislative formalization of the procedure for transferring the government's rights to uniform civil, military, special or dual technologies, with the purpose of their practical application[1];
- softening, in principle, of the legislative norms designed to regulate the creation, by budget-funded research institutions and educational establishment, of economic societies (or implementation companies), the transfer to them of the results of intellectual activity for subsequent practical application [2].

This does not mean, however, that the government over that period was avoiding any new spending obligations with regard to innovations. Thus, in late 2008, it launched a pilot project aimed at creating two national research universities (NRU): the National Research Nuclear University (MEPhi) on the basis of the Moscow Engineering Physics Institute (State University), and the National University of Science and Technology MISiS on the basis of the State Technological University *Moscow Steel Institute*[3]. In 2009, the programs for the development of these two NRUs were approved[4], whereby it was envisaged, among other things, that the university should be allocated additional budget resources (Rb 200m each in 2009).

Almost simultaneously with this pilot project, the procedures for elaborating the 'general' legal norms designed to regulate the national research universities were initiated. In early 2009, some alterations were introduced in legislation on education whereby the specific category of a 'national research university' (NRU) was defined[5]. In mid-year, the procedure for a contest-based selection of the development programs submitted by the universities applying for the NRU category was defined, as well as the procedure and terms for the financing of the relevant programs [6]. In 2009, by the results of a contest (i.e., outside of the framework of the pilot project), 12 universities were placed in the NRU category, and for each of them a corresponding development program was approved. In this connection, it must be specifically emphasized that, within the framework of that direction of the government policy, some of the experience accumulated previously in the course of implementing the support measures intended for the innovation programs approved for higher educational establishments was used.

Strange as it may seem, the 'economical' approach practiced by the government with regard to both the already assumed and the potential new obligations to allocate budget expenditures to the support of innovations had very little effect on the scale of applying the mechanisms like tax incentives designed to decrease the size of budget revenue. Since early 2009, the government introduced three rather significant (as demonstrated by the subsequent practice) tax exemptions:

[1] Federal Law of 25 December 2008, No. 284-FZ 'On The Transfer of Rights to Uniform Technologies'.
[2] Federal Law of 2 August 2009, No. 217-FZ 'On Introducing Alterations in Some Legislative Acts of the Russian Federation with Regard to Issues Relating to the Creation, by Budget-funded Research Institutions and Educational Establishments of Economic Societies for the Purpose of Practical Application (or Implementation) of the Results of Intellectual Activity'.
[3] The RF President's Edict of 7 October 2008, No. 1448 'On Implementing the Pilot Project of Creating National Research Universities'.
[4] The RF Government's Regulations of 13 July 2009, No. 915-r, and 30 July 2009, No. 1073-r.
[5] Federal Law of 10 February 2009, No. 18-FZ 'On Introducing Alterations in Some Legislative Acts of the Russian Federation Issues Relating to the Activity of Federal Universities'.
[6] The RF Government's Decree of 13 July 2009, No. 550.

- for the R&D projects (including those that yielded no positive results) included in the special list approved by the RF Government[1], a special procedure for writing off some of the costs incurred during the period of their actual implementation was introduced, with an upward coefficient of 1.5[2];
- the exports into the territory of the Russian Federation of technological equipment that had no domestically manufactured analogues (again in accordance with the special list approved by the RF Government[3] were made exempt from VAT[4];
- for capital investment in fixed assets with a useful life of more than 3 years, but no more than 20 years, a depreciation premium of 30%[5] was introduced (in addition to the previously existing 10% premium applicable to all fixed assets).

It is noteworthy that only the first of these tax exemptions had been formalized as a legislative norm before the crisis progressed into its acute phase. The other two exemptions were introduced in the context of the anti-crisis policy.

And finally, another important point is that, over the period under consideration, the creation of financial development institutions and funds was managed at the level of the relevant institutions, without any direct participation on the part of the government:

- the Russian venture company, with the minority participation of the Fund for the Support of Small-sized Entrepreneurship in Science and Technology, established the RVC *Seed-Fund*[6], with the purpose of supporting innovation projects in the early phases of their implementation;
- the management of the State Corporation *Rusnanotekh* decided that it must take part in the creation of a number of specialized venture funds:
- the Skolkovo-Nanotech Fund supervised by the Skolkovo Moscow School of Management, for investing in small-scale venture projects launched in the field of nanotechnologies[7];
- the nanotechnologies and innovations fund, with the participation of *VTB Group* (as a co-investor) and *Draper Fisher Jurvetson* (as a managing partner) for investing in promising

[1] The RF Government's Decree of 24 December 2008, No. 988 'On Approving the List of Scientific Research and R&D Projects, the Taxpayer Expenditures on Which, in Accordance with Item 2 of Article 262 of Part Two of the Tax Code of the Russian Federation Are to Be Recorded as Part of Other Expenditures, in the Amount of Actually Incurred Costs, with a Coefficient of 1.5'.

[2] Federal Law of 22 July 2008, No. 158-FZ 'On Introducing Alterations in Chapters 21, 23, 24, 25 and 26 of Part Two of the Tax Code of the Russian Federation, and Some Other Acts of the Russian Federation's Legislation on Taxes and Levies'.

[3] The RF Government's Decree of 30 April 2009, No. 372 'On Approving the List of Technological Equipment (Including the Wear and Spare Parts Thereto), the Analogues of Which Are Not Manufactured in the Russian Federation, the Exports of Which into the Territory of the Russian Federation Is not to Be levied by Value Added Tax'.

[4] Federal Law of 26 November 2008, No. 224-FZ 'On Introducing Alterations in Part One and Part Two of the Tax Code of the Russian Federation and Some Legislative Acts of the Russian Federation'. In fact, this norm came into force only from Q3 2009, because the government decree necessary for its enforcement (see previous note) was adopted only in Q2.

[5] Federal Law of 26 November 2008, No. 224-FZ.

[6] The stakes held by the RVC and the Fund for the Support of Small-sized Entrepreneurship in Science and Technology in the capital of the newly created entity are 99% and 1% respectively.

[7] To avoid misunderstanding, it should be noted that the participant in that project (in the capacity of a managing partner) is not the innovation center 'Skolkovo', but Moscow School of Management with the same name (Skolkovo).

nanotechnological projects in Russia and abroad and for attracting international and Russian investors;
- the Russia-Kazakhstan nanotechnologies venture fund for promoting the development of nanotechnologies in the national economies of both countries;
- a sectoral fund for implementing nanotechnologies in metallurgy (*NanoMet*);
- a fund for low-budget projects in the field of nanotechnologies;
- an international fund (in a foreign jurisdiction) for attracting big international institutional investors into the Russian nanoindustry, as well as gaining access to state-of-the-art foreign nanotechnologies.

From 2010 onwards

As the signs of post-crisis growth were becoming more visible, the issues of sustainable development and modernization of the national economy began to play an increasingly prominent role on the government level (in response to the evidently negative impact of the world financial crisis on the Russian economy due to its low degree of diversification and the low competitive capacity of the processing industries). In late 2009 – early 2010, this phenomenon manifested itself in the active revival of government innovation policy - this time with an emphasis on the need to expand the range of active participants in the innovation process, including through the involvement in it of higher educational establishments, as well as the development of cooperation and network interaction in the innovation sphere. In this connection, one cannot overlook the consecutive character of many of the implemented measures and the directions along which innovations were being promoted.

In the context of the current phase of government anti-crisis policy, we must first of all mention the set of measures designed to promote the research and innovation activity of Russian higher educational establishments:
- in 2010, the mechanism of support for joint projects involving the creation of new industrial entities between Russian companies and higher educational establishments was launched and began to function effectively[1]. It became the first domestic counterpart of *matching grants* - the instrument that has already become widespread in the developed and new industrial countries, and gained a good reputation. This mechanism had certain similarities with the one that had first been applied three years earlier within the framework of the Federal Target Program 'Research and Development …', whose aim it was to render support to R&D projects launched in the interests of businesses (which was quite logical because the new mechanism incorporated some of the experiences and features of the old one). However, the mechanism for supporting joint projects had some individual specificities, which largely determined its 'new quality': first, in contrast to the instrument of 'business projects', which implied the selection of project participants by the government (although with due regard for the opinions of the beneficiary companies), the higher educational establishments to be nominated for the participation in the joint project were from the very start selected by the initiator company; secondly, the government financing for R&D was not channeled directly to the higher educational establishments, but indirectly - through the company. So far, this mechanism has been applied in rendering support to approximately a hundred projects. It should also be noted that, in late 2012 and early 2013, two new contests for the selection of joint projects were announced. This time, the

[1] The RF Government's Decree of 9 April 2010, No. 218 'On the Measures of Government Support of the Development of Cooperation between Russian Higher Educational Establishments and the Organizations Implementing Comprehensive Projects Aimed at Creating Hi-tech Industries'.

R&D may be carried out not only by higher educational establishments, but also by state research institutions;

- in 2010–2012, the government was rendering support to programs that envisaged the development of innovation infrastructure at higher educational establishments[1]. These envisaged, in particular, the creation of a broad range of infrastructure objects (business incubators, technoparks, technopark zones, innovation technology centers, engineering centers, certification centers, technology transfer centers, collective use centers, scientific and technical information centers, innovation consulting centers, etc.), and their provision with state-of-the-art equipment and software; the evaluation and legal protection of the results of intellectual activity, the exclusive rights to which were held by higher educational establishments; consulting services of foreign and Russian experts in the sphere of transfer of technologies, creation and development of small-sized innovation companies, including the involvement of their faculty in elaborating the norms, methodologies and practice necessary for the creation of such companies. Within the framework of this direction of activity, support was provided to approximately 80 programs;
- the process of selecting and rendering support to national research universities across Russia was continued: in 2010, this category incorporated another 15 higher educational establishments; by late 2011, their development programs had been approved.

A significant impetus was given to the process of creating a legislative environment for the establishment of technology implementation companies by research institutions and higher educational establishments:

- from 2011, the property regulation opportunities for budget-funded institutions were expanded, including the right to transfer their property to their newly or previously established companies: now, budget-funded institutions were allowed to independently dispose of all their property, with the exception of immovable property and especially valuable movables, as well as large-scale deals or deals with related interest[2];
- in 2011, a procedure was established for budget-funded institutions to lease out their property to the technology implementation companies created by them without a tender, on condition that the latter should be forbidden to sublease that property, or in any other way transfer their rights to that property to third parties[3];
- from 2011, the technology implementation companies established by budget-funded institutions were granted the right to apply the simplified system of taxation, in spite of the presence in their capital of stakes held by other organizations in amounts in excess of 25% (of course, on condition that the technology implementation companies conform to all the other criteria established by the law – in terms of the amount of their proceeds, number of personnel, etc.)[4];

[1] The RF Government's Decree of 9 April 2010, No. 219 'On Government Suppport of the Development of the Innovation Infrastructure at Federal Establishments for Higher Professional Education'.
[2] Federal Law of 8 May 2010, No. 83-FZ 'On Introducing Alterations in Some Legislative Acts of the Russian Federation In Connection with Improving the Legal Status of State (or Municipal) Institutions'.
[3] Federal Law of 1 March 2011, No. 22-FZ 'On Introducing Alterations in Article 5 Federal Law 'On Science and Government Science-and-Technology Policy' and in Article 17.1 of the Federal Law 'On the Protection of Competition'.
[4] Federal Law of от 27 November 2010 г. No. 310-FZ 'On Introducing Alterations in Article 346.12 of Part Two of the Tax Code of the Russian Federation'.

– for the period from 2011 through 2019, reduced rates of the insurance contributions to government off-budget funds were introduced for the technology implementation companies established by budget-funded institutions[1].

Over the period under consideration, some significant developments and changes occurred in the system of government financial institutions and funds. In particular, the process of creating 'second-tier' institutions was continued on a noticeable scale. Thus, in 2011, *Vneshekonombank* founded four new affiliations, and at least in two of these cases the initiative to create these affiliations came from the government:

– on the RF President's initiative, the Russian Direct Investment Fund (RDIF) was established, whose goal it was to attract, on the basis of co-financing, foreign investors for the participation in projects aimed at developing and modernizing the existing ones and at creating new production capacities in the key industries of Russia's national economy;
– by decision of the RF Government[2], after introducing necessary alterations in the legislation on *Vneshekonombank* and some other acts[3], the Russian Agency for Export Credit and Investment Insurance (EXIAR) was founded in order to provide insurance support to exports of Russian goods and services, Russian investment abroad, as well as to support exports-oriented small and medium-sized businesses (SME);
– the specialized Fund for the Development of the Far East and Baikal Regions was established, whose goal it was to participate in the elaboration and implementation of regional and urban development projects, and to increase the investment attractiveness of the Far East and the Trans- Baikal region;
– the VEB-Innovations Fund was created for issuing loans and making investments in the hi-tech projects launched by the Skolkovo Fund (for more details on the latter, see below).

The Russian Venture Company established 4 new funds in the period under consideration period:

– The RVC Biopharmaceutical Investment Fund (RVC *Biofund*), oriented to investment in biopharmaceutical innovation companies, as well as the companies rendering laboratory, information-analytical and consulting services to companies operating in the biotechnological, pharmaceutical and medical industries;
– The RVC Infrastructure Investment Fund (RVC *Infrafund*), for making investment in the infrastructure companies rendering consulting, expert, analytical and services to innovation companies;
– two funds in foreign jurisdiction for cooperation with international venture investors.

The State Corporation *Rusnanotekh* (from 2011 – Open-ended Joint-stock Company RUSNANO) continued the process of organizing and co-financing venture funds; it was decided to establish the following funds:

[1] Federal Law of 16 October 2010, No. 272-FZ 'On Introducing Alterations in the Federal Law 'On Insurance Contributions to the Pension Fund of the Russian Federation, the Social Insurance Fund of the Russian Federation, the Federal Fund of Compulsory Medical Insurance of the Russian Federation and Territorial Funds of Compulsory Medical Insurance' and in Article 33 of the Federal Law 'On Compulsory Pension Insurance in the Russian Federation'.

[2] See, for example, 'The Main Directions of the Anti-Crisis Acts of the Government of the Russian Federation for 2010 (approved at the RF Government's meeting as of 30 December 2009, Protocol No. 42).

[3] Federal Law of 18 July 2011, No. 236-FZ 'On the Introduction of Alterations to Some Legislative Acts of the Russian Federation for the Purpose of Improving the Mechanism of Insurance of Exports Credits and Investment Against Entrepreneurial and Political Risks'.

- Kama Fund One – a regional fund for the development of innovation projects in Perm Krai;
- a pre-IPO fund for investing in rapidly growing innovation companies planning to launch IPOs or attract strategic investors;
- four funds with foreign participation and/or in foreign jurisdiction, to ensure the transfer of new technologies into Russia.

By early 2010, five venture funds created with the participation of the State Corporation Rusnanotekh / Open-ended Joint-stock Company RUSNANO had begun their investment activity.

Besides, it is important to note the following changes in the operation of that development institution:

- the creation of a number of specialized affiliated companies, including affiliations in foreign jurisdictions (the Metrological Center RUSNANO; RUSNANO-Inform; the *Rusnanotekh* Forum Fund; RUSNANO Capital AG; RUSNANO USA, Inc.; RUSNANO Israel Ltd.);
- the launch of projects aimed at creating nanotechnological centers, as well as the project envisaging the establishment of a Technologies Transfer Center jointly with the Russian Academy of Sciences;
- the transformation of the state corporation into a joint-stock company, the separation of its activities aimed at supporting educational projects and projects in the sphere of infrastructure into a separate juridical person – the Fund for Infrastructure and Educational Programs[1];
- the allocation of additional government financing, as well as commercial credits - but with active government participation: in 2010–2011, the State Corporation *Rusnanotekh*/ Open-ended Joint-stock Company RUSNANO received from the government more than Rb 50bn, in the form of property contribution, as payment to cover an additional issue of shares, as well as subsidies; another sum of approximately Rb 67bn was attracted in the form of bond loans and loans issued against government guarantees.

In 2010, the Russian Bank for Development began the implementation of a new program oriented to the support of innovation and modernization projects launched by small and medium-sized businesses. The distinctive features of that program, in addition to its declared orientation towards innovations, were, firstly, somewhat higher ceilings for the amount of support, and secondly, the possibility to apply, alongside the mechanisms of loans against projects, also the mechanism of investment in the capital of small and medium-sized and enterprises (the latter being implemented by the Bank's affiliated asset manager 'Modernization Innovation Development', created in 2010).

In 2010, a number of development institutions – *Vneshekonombank*, *Rusnanotekh*, the Russian Venture Company, the Russian Bank for Development and the Fund for the Promotion of the Development of Small Forms of Enterprises in the Scientific and Technical Sphere – signed an agreement on cooperation[2] whereby they intended to organize a efficient exchange of information on the projects in progress in order to 'transfer' prospective projects between institutions.

[1] Federal Law of 27 July 2010, No. 211-FZ 'On the Reorganization of the Russian Nanotechnologies Corporation'.

[2] The other parties to that agreement were OPORA RUSSIA, the Russian Venture Capital Association, the Moscow Interbank Currency Exchange, and the Federal Agency for Youth Affairs.

The year 2011 saw a 'revival' of the Russian Foundation for Technological Development[1] as an effectively operating innovation policy instrument: the Foundation announced that it was going to compile a portfolio of R&D projects for providing them with financial support (in the form of targeted loans). In this connection, priority was granted to applied research and development carried out within the framework of technological platforms (see later in our overview), or carried out as part of the modernization projects being implemented by industrial enterprises, the construction of new enterprises or the manufacture of new products by the already existing enterprises.

In the sphere of tax incentives for the innovation activity, in addition to a number of 'narrow specialization' measures (which include the already described instruments of tax support applied to the technology implementation companies established by budget-funded institutions, as well as the tax exemptions granted to residents of the Innovation Center *Skolkovo*, which will be discussed later on), the following alterations are noteworthy:

- from 2010, the possibility of accelerated depreciation (with a coefficient up to 2) is envisaged with regard to fixed assets belonging to a high energy efficiency class, or those included in the list of high energy efficient objects approved by the RF Government[2];
- from 2012, in the form of a law, the list of expenditures on R&D to be taken into account for the purpose of taxation is established, with the possibility of writing them off in a one-time procedure. Besides, organizations are granted the right to make reserves against their future expenditures on R&D, and a ceiling is established for this type of deductions[3];
- from 2012, the new equipment being put in operation, if it belongs to a high energy efficiency class or included in the aforesaid special list of high energy efficiency objects, is made exempt from tax on property for a period of three years since its registration[4].

By way of summing up the discussion of the 'traditional' directions and measures of government policy, it should be noted that, over the period under consideration period, the pilot project aimed at creating the NRC 'The Kurchatov Institute' was in progress, new technical regulations and standards were introduced, and so on.

In addition to all these developments, in recent years, a number of new instruments and areas of development have been introduced in Russia's innovation policy.

Firstly, in 2010, on the RF President's initiative, a very ambitious project (at least ambitious in its idea) was launched, aimed at creating in Russia a fundamentally new and unique piece of innovation infrastructure – the Innovation Center *Skolkovo*[5]. In its initial phase, it was officially declared to be Rissia’s analogue of the Silicone Valley. To illustrate the scale of this project, it is sufficient to mention the unprecedented tax exemptions granted to the partici-

[1] The off-budget fund created in 1992 for the support of applied R&D (the RF President's Edict of 27 April 1992, No. 426 'On the Urgent Measures Designed to Safeguard the Scientific and Technical Potential of the Russian Federation'). By 2008, the Fund became effectively dysfunctional due to the inadequacy of the norms determining its status.

[2] Federal Law of 23 November 2009, No. 261-FZ 'On Energy Saving and Energy Efficiency Upgrading, and on the Introduction of Alterations to Some Legislative Acts of the Russian Federation'; the RF Government's Decree of 16 April 2012, No. 308 'On the Approval of the List of Objects with High Energy Efficiency, for Which no Energy Efficiency Classes Are Envisaged'.

[3] Federal Law of 7 June 2011, No. 132-FZ 'On the Introduction of Alterations to Article 95 of Part One, to Part Two of the Tax Code of the Russian Federation in the Part of Creating Favorable Tax Conditions for Innovation Activity, and to Article 5 of the Federal Law 'On the Introduction of Alterations to Part Two of the Tax Code of the Russian Federation and to Some Legislative Acts of the Russian Federation'.

[4] Federal Law of 7 June 2011, No. 132-FZ.

[5] Federal Law of 28 September 2010, No. 244-FZ 'On the Innovation Center Skolkovo.

pants in the Innovation Center, which were very significant and versatile in their nature - in fact, much higher than the exemptions established for the residents of special economic zones. Thus, for the period of ten years since the date whereon a company acquires the status of a participant of the Innovation Center, or until its annual a proceeds exceed the threshold of Rb 1bn, and the subsequently accumulated profit exceeds the threshold of Rb 300m, the company is to be exempt from the payment of VAT, tax on profit, tax on property, and the insurance contributions the RF Social Insurance Fund and the RF Compulsory Medical Insurance Fund; to the rate of its contributions to the RF Pension Fund, a downward coefficient is to be applied[1]. It should also be noted that the Innovation Center's asset manager was to allocate financing to innovation projects in the form of grants.

Secondly, in 2010, Russian's innovation policy was augmented by a new instrument that, for a long time, has already been successfully applied in the EU, – technological platforms. In this connection, on the basis of foreign best practices, the technological platforms for Russia are defined as a communications instrument designed to intensify the efforts aimed at the creation of promising commercial technologies, new products (or services), at the attraction of additional resources for funding research and development with the participation of all related parties (businesses, scientists, government agencies, civil society), and the improvement of the normative legal base in the field of science, technology and innovations[2].

Technological platforms are expected to provide solutions to a broad range of problems:

- to boost the influence of the business community and society's demand for innovative technologies on the choice of directions for scientific and technological development and the speed of their progress/';
- to identify new opportunities for scientific and technological modernization of the existing sectors and the creation of new sectors in Russia's national economy;
- to determine the basic directions for improving sectoral regulation, for more rapid distribution of promising technologies;
- to promote innovations, support research in the field of science and technologies and boost the processes of companies' modernization, with due regard for the specificities and individual variants of development in different industries and sectors of the national economy;
- to expand scientific and industrial cooperation, and to establish new partnerships in the innovation field;
- to improve normative legal regulation in the sphere of scientific research, innovation and technological development.

Each technological platform must have its own coordinator – an organization responsible for the organizational and informational backing of the interaction between the platform's participants.

The sphere of activity of the technological platforms should include:

- the development of a strategic research program that will set medium- and long-term priorities for research and development and build the mechanism of cooperation in the fields of science and industry;

[1] Federal Law of 28 September 2010, No. 243-FZ 'On Introducing Alterations in Some Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law 'On the Innovation Center Skolkovo.

[2] The Procedure for Drawing-up the List of Technological Platforms (approved by decision of the Government Commission on High Technology and Innovations as of 3 August 2010, Protocol No. 4).

- the elaboration of learning programs, the directions and principles for developing standards and certification systems, and the implementation of measures designed to set up an innovation infrastructure;
- the development of a program for practical implementation and distribution of advanced technologies in the relevant sectors of the Russian economy, which will determine different mechanisms and sources of financings, as well as the responsibilities of different participants in a technological platform;
- the creation of an organizational structure necessary for smooth interaction between enterprises, research institutions and educational establishments.

In order to ensure efficient communication between technological platforms and the government, the latter must elaborate a list of technological platforms. The federal bodies of executive authority must provide the technological platforms included in that list with adequate institutional, organizational and consultative support.

Within the framework of technological platforms, proposals must be prepared for improving the regulation procedures in the sphere of science, technologies and innovations. The results achieved by a technological platform must be taken into account when planning and implementing the measures of government support designed to promote socio-economic development and activities related to science, technologies and innovations.

Towards the end of 2012, the list approved by the government consisted of 30 technological platforms.

Thirdly, in 2010, 47 biggest companies operating in the public sector were assigned the task of elaborating and approving programs for innovation-oriented development in the medium-term period (5–7 years). The recommendations for the elaboration of such programs[1], among other things, contained the following requirements:

- the programs were to envisage a set of measures designed to boost the development and implementation of new technologies, innovation products and services at the world state-of-the-art level;
- the programs were to be integrated in companies' business development strategies, be conducive to their modernization and technological progress on the basis of a significant improvement of the main productivity parameters, including a significant (more than 10%) reduction in the level of production costs without any deterioration of the product's useful or ecological properties; significant economy of energy resources involved in the production process – no less than 5% per annum, until the average level was achieved typical of foreign companies operating in the same industry; a significant improvement of the consumer characteristics of the products; a significant boost in the level of labor productivity – no less than 5% per annum, again until the average level was achieved typical of foreign companies operating in the same industry; and an improvement in the production, waste recycling and waste disposal processes from the point of view of environment protection;
- the programs were to envisage some measures designed to ensure an efficient interaction between the relevant companies and leading higher educational establishments, namely: the choice of 'core' higher educational establishments and the specific areas (in science of technologies) and scope of joint research (or development, or implementation); the elabo-

[1] Recommendations for the elaboration of innovation-oriented development programs for joint-stock companies with state stakes, state corporations and federal state unitary enterprises (approved by decision of the RF Government's Commission on High Technology and Innovations as of 3 August 2010, Protocol No. 4).

ration, in cooperation with higher educational establishments, of research programs envisaging, among other things, the mechanisms for exchanging scientific, technical and marketing information, joint research in the field of scientific and technological forecasts, the creation of a system for research (or development, or implementation) management at a relevant higher educational establishment with due regard for the forecasted needs of companies or entire industries; the implementation of programs, in coordination with higher educational establishments, for improving the quality of professional education and personnel training in hi-tech industries, with the participation of companies in the process of upgrading curricula and plans, the participation of their staff in training programs, the development of a system of on-site and field practice for graduate and postgraduate students and faculty members of higher educational establishments, as well as continual training systems for the staff of commercial companies; and the creation of organizational mechanisms for interaction with higher educational establishments;

- the programs were to set priority directions for the cooperation of companies with research institutions, elaboration of joint plans of studies in the field of science and technology, and scientific research aimed at creating priority technologies and products that would be competitive on the world market, as well as measures designed to ensure fruitful interaction with innovation-oriented small and medium-sized and enterprises;
- participation of companies in the creation and operation of technological platforms was to be ensured.

By late 2011, the process of elaborating the programs for innovation-oriented development of biggest state companies was in the main completed.

Fourthly, in 2012, on the RF President's initiative[1], the government innovation policy was extended to yet another target for support – regional innovation clusters. In some of their features (an association of different participant, primarily research institutions, educational establishments and industrial enterprises; functioning under a coordinator organization; elaboration of strategic development programs), clusters are similar to technological platforms; they differ, in the main, in their focus on developing territories, and not technological fields.

In mid-2012, on the basis of a contest, the list of 25 territorial innovation clusters was approved[2]. In this connection, the distinctive feature of this direction of government policy - by comparison with the majority of previously initiated measures - was that no specific form of support had been determined prior to the selection of clusters to be supported; only some proposals had been put forth, but their scale was impressive:

- to support the implementation of measures envisaged under the cluster development programs within the framework of federal target programs and government programs of the Russian Federation;
- to involve government development institutions in the implementation of the cluster development programs;
- to encourage big companies with state stakes to participate in rendering support to the clusters implementing innovation-oriented development programs;
- to introduce in the territories where clusters are based the same tax exemptions as established by legislation for the Skolkovo project.

[1] Assignment issued by RF President on the basis of the results of the State Council of the Russian Federation's Presidium's meeting held on 11 November 2011 (Protocol No. Pr-3484GS of 22 November 2011)
[2] Assignment issued by the Chairman of RF Government as of 28 August 2012, No. DM-П8-5060.

Table 11

Main Phases in the Development of Government Innovation Policy in the 2000s

Period	External conditions	Key instruments and measures	Policies' specificities
1	2	3	4
2000 – 2002	Hard budget constraints, the task of innovation promotion is in the periphery of government policy	• Creation of the Venture Innovation Fund • Adoption of the Law 'On Technical Regulation' • The Russian Bank for Development launched its programs of supporting SMEs via its regional partners	Emphasis on relatively low-cost and/or self-financing institutions
2003 – 2005	Softening budget constraints, stable economic growth, increased attention to its 'quality'	• Launch of key innovation projects of nationwide importance • The Fund for the Promotion of the Development of Small Forms of Enterprises in the Scientific and Technical Sphere launched its *Start* program • Initiation of the process of creating regional venture funds • Adoption of the Law 'On Special Economic Zones in the Russian Federation'; adoption of the decisions on creating 4 technology implementation SEZ • Creation of a mechanism for compensating Russian exporters for the interest paid on the loans attracted for exports development	Intensification of the government's activity, application of different instruments, including those requiring significant expenditures
2006 – 2008	High budget revenue, innovation promotion – among the main directions of government policy, an attempt to 'peg' relevant resources to each key direction of development	• a 10% depreciation premium is introduced with regard to new fixed assets put in operation and the technological upgrading and modernization of fixed assets • Shortened the period for writing off the expenditures on R&D • The possibility of accelerated depreciation of the equipment applied in scientific and technological research • The R&D aimed at creation and improvement of new products and technologies and the transfer of rights to the results of intellectual activity are made exempt from VAT • The price of acquisition and practical application rights to the results of intellectual activity, the cost of patenting and the legal services associated with legal protection of the results of intellectual activity are to be included in costs under the simplified system of taxation • The Russian Venture Company is created • *Vneshekonombank* is transformed into a state corporation, with additional capitalization • The State Corporation *Rusnanotekh* is created • The Russian Investment Fund for Information and Communication Technologies (*RIFICT*) is created • As part of the National Project 'Education', support is provided to innovation educational programs launched by higher educational establishments • Onset of support of R&D in the interests of businesses • Launch of the program for the support of hi-tech technoparks • The presidential initiative 'Strategy of the Development of Nanoindustry'; the launch of the pilot project for organizing the NRC 'The Kurchatov Institute' • Onset of active elaboration of technical regulations	Focus on long-term development, creation and capitalization of big government financial development institutions, tax incentives, onset of active support of research and innovation activity conducted by higher educational establishments
late 2008 – 2009	Economic crisis, shrinkage of the resources allocated to innovation promotion, increasing attention to the results of implemented measures	• Budget expenditure cuts in the field of science, technologies and innovation in the framework of a number of FTPs • Part of resources is temporarily withdrawn from the State Corporation *Rusnanotekh* • *Vneshekonombank* is involved in implementing the set of anti-crisis measures • *RosBR* receives additional resources for its support of small and medium-sized businesses • Alterations are introduced in legislation, whereby the establishment of technology implementation companies by research institutions and educational establishments and the transfer to them the results of intellectual activity are made easier • Start of the process of selection and support of national research universities • A preferential procedure for writing off expenditures on R&D in accordance with the list approved by the RF Government is introduced (with a coefficient of 1.5) • Exemption from VAT of imports, into the territory of Russia, of	Applying innovation policy instruments/ resources as part of anti-crisis measures; focus on the use of instruments requiring no additional budget expenditures; flow' of the process of creating new development institutions and funds onto the level of these functioning institutions

cont'd

1	2	3	4
		technological equipment that has no Russian analogues, in accordance with a special list approved by the RF Government • a 30% depreciation premium is introduced for capital investment in fixed assets with useful life of more than 3 years, but no more than 20 years • The RVC *SeedFund* is established by the RVC Decisions on the participation of the State Corporation *Rusnanotekh* in the foundation of a number of venture funds	
2010 – 2012	Improving situation in the economy, attempts to draw lessons from the crisis, innovation is one of the government's declared priorities	• Onset of support of joint projects launched by companies and higher educational establishments and aimed at creating new production sites ('matching grants') • Onset of support of the innovation infrastructure development programs launched by higher educational establishments • *Vneshekonombank*, on the RF Government's initiative established the Russian Direct Investment Fund and the Russian Export Credit and Investment Insurance Agency • The Russian Venture Company established several specialized funds • The State Corporation *Rusnanotekh* is transformed into the Open-ended Joint-stock Company *RUSNANO*; the Fund of Infrastructural and Educational Programs is created • The Russian Bank for Development (*RosBR*) began to implement the program of support of modernization and innovation • Resumption of the activity of the Russian Foundation for Technological Development (RFTD) • The technology implementation companies created by budget-funded institutions are allowed to apply the simplified system of taxation, • The opportunities for institutions to allot property are expanded • The possibility of accelerated depreciation of energy-efficient equipment is determined, a three-year period of exemption from tax on property is granted to it • Introduction of one-time procedure for writing off expenditures on R&D • Onset of the creation of the Innovation Center *Skolkovo*, unprecedented tax exemptions are introduced for its participants • Technological platforms are created • Big state-owned companies elaborated and approved heir innovation development programs	Emphasis on expanding the range of active participants in the innovation processes, promotion of the innovation-oriented research activity of higher educational establishments, development of cooperation and interaction networks in the innovation sphere; increasing attention to the improvement of the investment climate

By way of summing up our 'progressive' overview of the government innovation policy of the 2000s, we should like to make the following statements:

– on the whole, over the period under consideration the government was practicing a proactive approach to shaping up and implementing its innovation policy, which consisted in continual initiation of new measures and instruments, while the pattern of problems and misbalances that were to be removed by means of those measures remained practically unchanged from year to year. At the same time, many of these instruments rather distinctly reflected the interests of different government and business entities, the 'centers of influence' for which these instruments were means to expand the range of resources and powers available to them, increase their importance, and so on, while the 'innovation agenda' per se was becoming only a secondary priority;
– in the course of mapping and implementing the measures that shaped the government innovation policy, little consideration was given to the achievements and general experience (including negative experience) accumulated whilst implementing the already existing innovation promotion mechanisms; the few examples of the practical use of such experience described above (the RVC, national research universities, joint projects launched by higher educational establishments and commercial companies) were singular events, rare and

far between. As a consequence, within the innovation policy's framework, there occurred little distribution of best practices - instead, previous mistakes were reproduced with impressive regularity. And the innovation policy's consecutive character in recent years that we have noted is by no means an indicator of the government's altered approach to its elaboration. Rather, is the evidence of the fact that the government has run out of any new ideas, and in unable to suggest anything that is not based on its previous experiences;

- the improvement and 'fine tuning' of the already operating innovation promotion instruments was outside of the area of the government's immediate focus, and so any activity there was carried on, as a rule, as a 'last priority' - that is, irregularly and with considerable delays;
- over the period under consideration, the government adopted a number of programs and conceptual documents that either directly addressed the innovation development issue, or were aimed at developing some related fields. Among the most significant and fundamentally elaborated documents of that type, we should point out the Strategy for the Development of Science and Innovation in the Russian Federation in the Period Until 2015[1], the Concept of Long-term Socio-economic Development of the Russian Federation in the Period Until 2020,[2] and the Strategy for the Innovation Development of the Russian Federation in the Period Until 2020[3]. Each of these documents determined some basic goals, directions and phases of innovation development in the framework of the specified timelines, and the two Strategies mapped some specific planned acts and measures. However, in spite of the indisputable importance of each document, their well-substantiated content and official status, none of them could enrich the government innovation policy with any new properties - first of all, in terms of a comprehensive and consecutive approach to its implementation. Perhaps the only exception was the presidential initiative 'Strategy of the Development of Nanoindustry', because the provisions stipulated therein - when set against the general background - were implemented on a relatively full scale and a comprehensive basis. However, its specificity was that, firstly, addressed only one sphere of technological development - however broad, and secondly, the bulk of the measures envisaged by that strategy and implemented in the main later on, had been planned prior to its adoption;
- in spite of the comprehensive nature of the government innovation policy and its detailed elaboration in the 2000s, it still lacks one feature of key importance that could ensure its success: a mechanism for estimating, on a regular basis, the results achieved in the course of its implementation, from the point of view not only of its direct, but also indirect effects. It is currently being estimated and assessed only from the point of view of the instruments involved. Moreover, each instrument is viewed separately and, as a rule, in terms of the direct results of its implementation.

[1] Approved by the Interdepartmental Commission on Scientific and Innovation Policy as of 15 February 2006, Protocol No. 1.
[2] Approved by the RF Government's Regulation of 17 November 2008, No. 1662-g.
[3] Approved by the RF Government's Regulation of 8 December 2011, No. 2227-r.

6.4.3. Specific Features of the Instruments Applied in the RF Government's Innovation Promotion Policies, and Their Influence on the Enterprises Operating in the Real Sector

The distinctive features of the innovation policy currently implemented in Russia are the huge number (in fact, many dozens) and the wide range of the applied measures, which include almost the entire variety of instruments available to the government – from 'simple' co-financing of projects to the organization of interaction platforms for all the parties involved in the process. As it would be evidently unrealistic to attempt a detailed examination of every individual measure of government innovation policy, for our empirical analysis[1] we have selected a sample of approximately twenty 'typical examples' reflecting all the major directions of government support for innovations (tax incentives, co-financing of projects, development institutions, etc.). In this connection, the important factors that determined the selection of government measures for our sample were, firstly, the degree of attention that they attract at the government level (the fact of their being regularly mentioned in official documents, public speeches and comments of high-rank officials) and among the expert community, and secondly, their relatively recent introduction in the current practices.

Most often, enterprises take advantage of the tax instruments applied in promoting innovations, among which, in its turn, the most popular instrument is the depreciation premium (*Fig. 5*). Among non-tax measures, the most widespread are the subsidies covering part of the interest to be paid on the loans attracted in order to ensure the technological upgrading of production processes or the development of exports, budget funding allocated to innovation projects within the framework of FTPs or other government programs, and the funding allocated via government financial development institutions. If we look at the cost-effectiveness of these measures – the ratio of companies positively influenced by some or other instrument to the total number of its 'users', the leaders will be the joint projects launched by companies and higher educational establishments in accordance with Decree No 218, the possibility to write off, with an upward 1.5 coefficient, the expenditures on R&D entered in the government's list; and the exemption from VAT of the exports into Russia's territory of technological equipment that has no domestically manufactured analogues. On the other 'pole', among the least effective instruments, there will be the exemption from tax on profit established for the monies transferred by organizations to the funds for the support of science, technological research and innovation activity; the acquisition of rights to civil, special or dual-purpose technologies; technological platforms; and the financing of innovation projects via venture funds created with the government's support.

More often than others, the following companies are allocated government support: those in a good financial situation; those with a sufficiently high level of technologies; and relatively new companies. The companies that are usually overlooked by the government innovation policy are as follows: 'technological outsiders'; financially troubled enterprises; companies that do not export their products; and companies with state stakes.

The usage of government innovation promotion instruments generally does not depend on companies' sectoral distribution, or on their size. At the same time, a positive effect of government policy measures on innovation activity is more typically displayed by big companies.

[1] The analysis is based on data provided by two surveys of the directors of more than 60 Russian industrial enterprises conducted in 2011 and 2012, by order of the Interdepartmental Analytical Center, by the Center for Market Research of the HSE Institute for Statistical Studies and Economics of Knowledge (ISSEK).

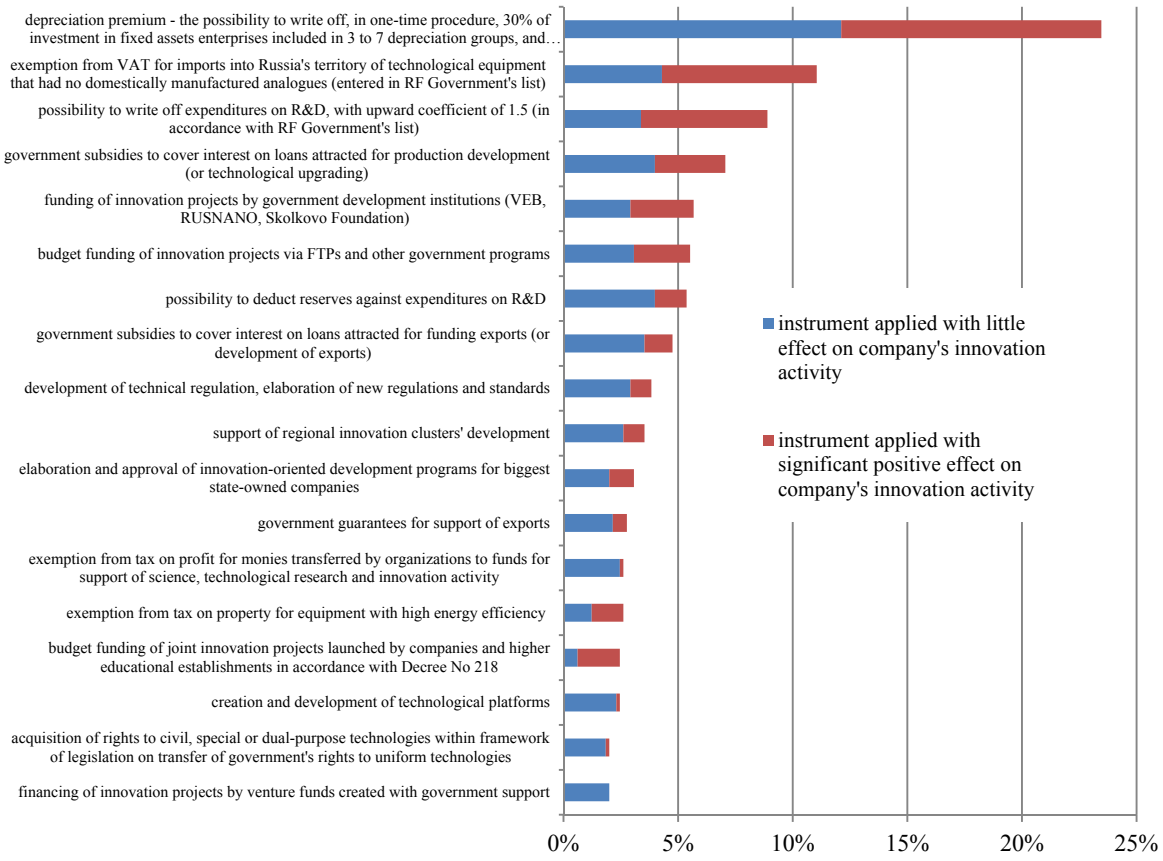


Fig. 5. Application, by Companies, of Different Innovation Promotion Instruments, and Their Influence on the Innovation Activity; as % of the Sample's Total

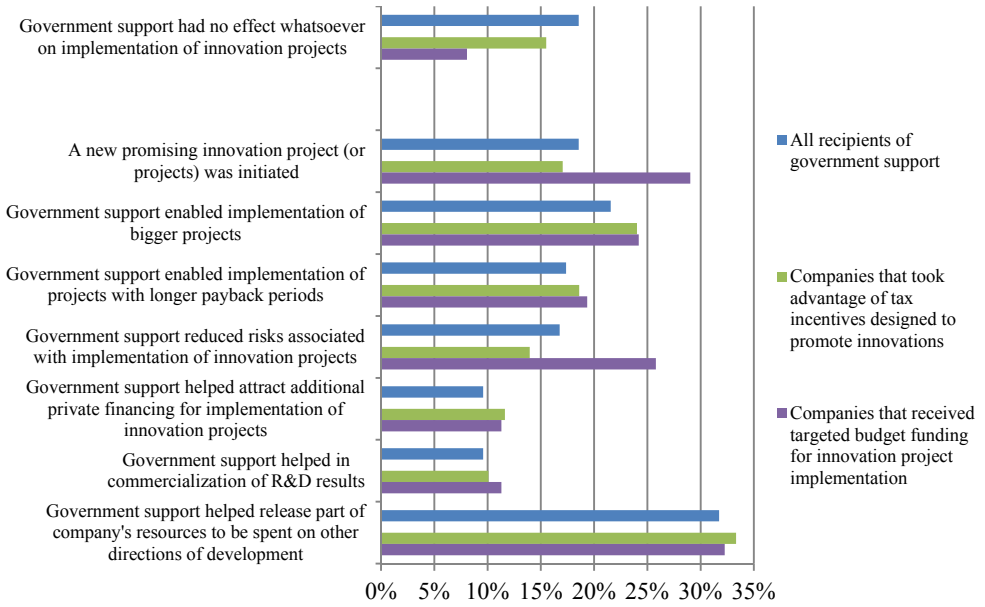


Fig. 6. Effect of Government Instruments for Promoting Companies' Innovation Activity

As for the effect of government innovation promotion measures on companies' innovation activity (*Fig. 6*), it should be noted that, most often, the fact of allocation of government sup-

port releases part of companies' resources, which may then be spent on other directions of development. Among the effects of government support, the least frequent are the attraction of additional private financing and the commercialization of the results of R&D. In the situation when budget funding is allocated to enterprises, this results in private resources (including an enterprise's equity) being ousted by government resources (the 'crowding out' phenomenon).

Direct budget funding - more often that tax incentives - results in the initiation of new projects, as well as lowers the risks associated with the innovation activity.

As far as the effects of government innovation policy at the level of individual companies are concerned (*Fig. 7*), it can be concluded that government support most often results in increased investment in new equipment, and most seldom - in the development of cooperation between the fields of research and production. In this connection it is important to note, with regard to specific support instruments, that the strengthening and further development of that type of cooperation was boosted, first of all, by the 1.5 upward coefficient established for writing off the expenditures on R&D in accordance with the RF Government's list, while no such effect was noted when the 'routine' cooperation promotion mechanism was applied, namely the support of joint projects launched by commercial companies and higher educational establishments. Another noteworthy fact is that the overall level of companies' competitive capacity is significantly boosted by only one of the instruments under consideration – budget funding allocated to innovation projects within the framework of FTPs and other programs.

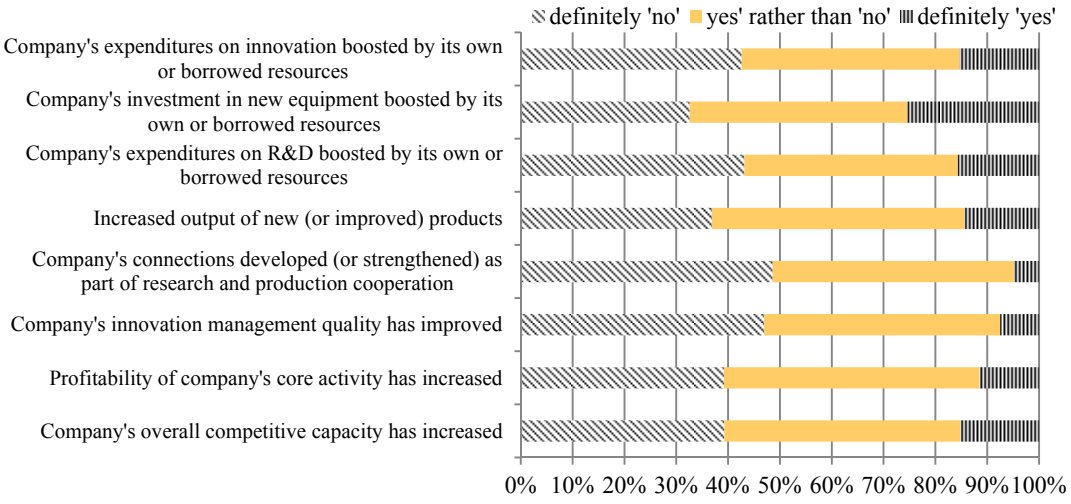


Fig. 7. Major Effects of Government Support at the Level of Companies

On the whole, the effect of the government policy instruments discussed here is much more frequently associated with a positive dynamics of the upfront features of business activity – the output volume, exports, and rising rate of return - rather than with improving labor productivity and increasing the share of innovation products in the total output volume.

The main drawback of the government innovation policy, according to heads of enterprises, is that the latter continue to bear all the risks associated with the implementation of innovation projects - even when provided with government support. In this connection, however, it is important to note that the scale of this problem is, in fact, grossly overestimated by those who in recent years have not had the experience of using government support.

The most serious problems associated with the application of innovation promotion tax mechanisms are the vagueness of the existing regulations and the inadequate parameters of the existing tax exemptions (their size etc.); those associated with the instruments based on budget funding allocated to innovation projects consist in the complexity of procedures of applying for support, including the necessity to prepare voluminous documentation and the excessively tough requirements for the recipients of government support, the composition of their expenditures, and so on; and those associated with the financial support allocated via development institutions include both of the drawbacks of budget allocations coupled with an insufficiently fair procedure of selecting the recipients of support.

By way of summing up the material discussed in this subsection, we should like to enumerate briefly the main features of the most frequently applied instruments of government innovation policy, dividing them (with a certain degree of arbitrariness) into positive and negative ones:

innovation promotion instruments based on tax incentives:

on the plus side:

- ensure the broadest possible involvement of innovation companies;
- offer a totally objective approach to selecting the recipients of support;
- constitute no significant barriers, easily accessible;
- imply a reasonable level of administrative costs;
- generally neutral.

on the minus side:

- difficulties in application, due to vagueness of the existing regulations;
- due to the formal criteria and base for application (which is inevitable), these measures may be applied to companies that in reality have nothing to do with innovation activity;
- risks of disputes with tax agencies, additional audits;
- more oriented to the expansion of the projects already under way than to the initiation of new projects;
- have little relation to the end results of innovation implementation;
- difficult to estimate the final effect of the application of these instruments.

targeted budget funding allocated to innovation projects:

on the plus side:

- conduces to the launch of new innovation projects, reduces the risks involved;
- makes possible the support of projects that are less profitable in terms of commerce, but more promising from the point of view of long-term development or social importance;
- makes possible the execution of control over the ways of spending the allocated support;
- oriented to the end results of innovation implementation;
- ensures a broad spectrum of positive effects for the recipients of support, including their increasing competitive capacity;

on the minus side:

- is fraught with high costs of the selection of recipients of support;
- does not rule out a subjective approach to selecting the recipients of support, gives rise to corruption risks;
- is associated with high entry barriers, excessive requirements to the recipients of support;
- excessive bureaucracy;

the activity of government development institutions:

on the plus side:

- distinctly project-oriented;
- most effective from the point of view of the external co-financing of projects;
- allows support of more important and promising, although less commercially profitable projects;

on the minus side:

- the highest degree of subjective attitude to the selection of recipients of support;
- is associated with high entry barriers - both in terms of complexity of the procedures involved and the excessive requirements to the recipients of support м;
- in actual practice, there is a tendency to allocate support to more commercially attractive projects, to the detriment of their other prospects.

6.4.4. General Assessment of Russia's Innovation Policy

Over the last five years, evident progress has been achieved in the development of Russia's innovation policy. Its signs have been visible in several areas.

Firstly, some significant positive changes in the general understanding of the idea of innovation policy and its comprehensive character occurred at the government level. During the post-crisis phase, new strategic documents[1] were adopted with regard to innovation development, which rather adequately reflected the whole scope of changes to be introduced, as well as their complexity and in-depth nature.

Secondly, the range of available innovation policy instruments had been radically expanded, some new instruments for boosting demand for innovations have emerged, while at the same time, over recent years, the quality of the procedures of practical application of some of the innovation promotion mechanisms - in particular tax mechanisms - has dramatically improved. The system of government development institutions has been demonstrating a dynamic evolution. Thus, Russia's innovation policy today incorporates dozens of different mechanisms - nearly the entire arsenal of instruments known from the experience of other countries.

Thirdly, the openness of government agencies to the ideas of improving the innovation policy, has become much greater, while the period of 'digesting' new ideas prior to their implementation in actual practice has considerably shortened – to between six months and a year. A number of initiatives have been launched in order to create networks for identifying and supporting new partnerships, which can result in consolidating new interest groups.

Fourthly, the access for different interest groups to the process of shaping and estimating innovation policies has been made easier, and it has acquired certain features of institutionalization in the form of relevant commissions and task forces. The government is expanding its interaction with medium-sized businesses and new sectoral associations, and is making active attempts to improve the quality of regulation, and involve the business community in that process.

In spite of the significant achievements in the general development of Russia's innovation policy, and especially its instruments, so far there have occurred no more or less visible and sustainable positive shifts in the innovation sphere at the macrolevel (Table 12). The share of

[1] See, in particular: *Strategy for the Innovation Development of the Russian Federation in the Period Until 2020* (approved by Regulation of the RF Government as of 8 December 2011, No. 2227-r).

organizations implementing technological innovations is still low, and the fluctuation of that indicator over the period of 2006–2011 remained within the range of 9.3 to 9.6%; the role of non-governmental sector in financing research is very limited - moreover, between 2007 and 2010 the share of the entrepreneurial sector in domestic expenditures on research and development declined from 29.4% to 25.5%, and only in 2011 it somewhat increased - to 27.7%; and finally, the share of innovation products in total output demonstrated bi-directional movement (in different years) in the range of 5.5 to 6.1%.

Table 12

Some Innovation Activity Indicators in Russia at the Macrolevel

Indicators	2006	2007	2008	2009	2010	2011
Domestic expenditures on research and development, % of GDP	1.07	1.12	1.04	1.25	1.16	1.12
Federal budget allocations to civil science, % of GDP	0.36	0.40	0.39	0.56	0.53	0.58
Share of government funding in domestic expenditures on research and development, %	61.1	62.6	64.7	66.5	70.3	67.1
Share of the entrepreneurial sector in domestic expenditures on research and development, %	28.8	29.4	28.7	26.6	25.5	27.7
Share of organizations implementing technological innovations, % of total number of organizations*	9.4	9.4	9.6	9.4	9.3	9.6
Share of innovation goods, work, or services, % of total volume of goods, work, and services delivered *	5.5	5.5	5.1	4.6	4.9	6.1
Share of expenditures on technological innovations, % of total volume of goods, work, and services delivered *	1.4	1.2	1.4	1.9	1.5	1.5

*) The extracting and processing industries, the production and distribution of electric energy, gas and water.
Sources: SU-HSE (2012). Nauka. Innovatsii. Informatsionnoe obshchestvo: 2012. Kratkii statisticheskii sbornik. [Science. Innovations. Information Society: 2012. Brief Statistics Collection], Moscow; SU-HSE. (2012). Indikatory nauki: 2012. Statisticheskii sbornik. [Science Indicators: 2012. Statistics Collection] Moscow; SU-HSE. (2012). Indikatory innovatsionnoi aktivnosti: 2012. Statisticheskii sbornik. [Innovation Activity Indicators: 2012. Statistics Collection]. Moscow.

To a certain extent, this can be explained by the inadequacy of the set of indices applied in official innovation statistics, the inertia of those statistics, and the inevitable limitations in the reflection of ongoing qualitative changes. However, microeconomic research so far has not revealed any stable upward trend in the level of innovation activity across the national economy, if a comparison is to be drawn between the period before the crisis, immediate pre-crisis and post-crisis periods. In principle, it can be noted that the share of companies investing in new equipment has evidently increased, but at the same time no significant positive changes were observed in companies' demand for the results of research and development projects (see *Table 13*).

The share of companies acting as strategic innovators demonstrated little changes over the past 7 years, while the 'depth' of companies' innovation activity (estimated by the level of expenditures on technological innovations and research and development projects) remains very low.

Of course, there did occur some positive changes and qualitative shifts, their presence can be gleaned from data yielded by formalized questionnaires and in-depth interviews conducted at the level of individual companies, market segments and sub-industries.

Table 13

Some Innovation Activity Indicators in Russia at the Microlevel[1]

Some parameters of enterprises' innovation activity (based on microeconomic studies) *	2005	2007	2011
Share of enterprises continually involved in innovation activity, as part of their strategy aimed at boosting their competitive capacity, % of sample	35	39	38
Share of enterprises investing in new equipment, % of sample	63	74	78
Level of investment in new equipment, % of proceeds (median value for the group of enterprises within the sample investing in new equipment)	*5*	*4*	*3*
Share of enterprises allocating financing to R&D, % of sample	45	39	42
Share of enterprises allocating financing to R&D at a level above 5% of proceeds, % of sample	10	7	1.5
Share of enterprises whose output contains new, upgraded products, % of sample	.	60	53
Share of new, upgraded products, % of proceeds (median value for the of group of enterprises within the sample issuing such products)	.	*10*	*3*

*) The table is based on the analysis prepared by the Interdepartmental Analytical Center on the basis of results of surveys of the directors of medium-sized and big enterprises operating in processing industries, conducted in 2005, 2008, 2011 (more than 500 respondents in each survey).

Among the most important changes in the innovation behavior of Russian companies that occurred over the post-crisis period, the following ones can be pointed out:

- the increasing 'polarization' of companies in terms of their innovation activity and level of technologies, *emergence of noticeable groups of companies competitive on a global scale* (high heterogeneity of companies - including those operating inside one industry); considerable divergence of companies by the level of their innovation activity, increasing heterogeneity of economic forms in a number of sectors;
- *the presence, in some sectors (in particular, machine-building) of rather numerous groups of companies equipped with state-of-the-art technologies; most frequently,* these compa-

[1] Hereinafter, when references are made at microeconomic stidues, these are understood as the resuls of research projects carried out by the Interdepartmental Analytical Center with the purpose of studying the specific features of the innovation behavior of Russian companies. The information base for these studies were the data yielded by the questionnaires answered by approximately 500 directors of enterprises operating in the processing industries, in the course of surveys that took place in 2005, 2008, 2009, 2011 and 2012. The results of these projects are reported in several publications, in particular in Kuznetsov, B., Kuzyk, M, Simachev, Yu., Tsukhlo, S., Chulok, A. (2006). Osobennosti sprosa na tekhnologicheskie innovatsii i otsenka potentsial'noi reaktsii rossiiskikh promyshlennykh predpriiatii na vozmozhnye mekhanizmy stimulirovaniia innovatsionnoi aktivnosti. [Specific Features of Demand for Technological Innovations, and Estimation of the Potential Reaction of Russian Industrial Enterprises to Possible Mechanisms Designed to Foster Innovation Activity]. Modernizatsia ekonomiki i gosudarstvo. [Modernization of the Economy and the State] Ed. by E G. Yasin, 1. SU-HSE; Zasimova L. S., Kuznetsov B. V., Kuzyk M. G., Simachev Yu. V., Chulok A. A. (2008). Problemy perekhoda promyshlennosti na put' innovatsionnogo razvitiia: mikroekonomicheskii analiz. [Issues of Industry's Switchover to the Path of Innovation Development: Microeconomic Analysis. / Series Nauchnye doklady: nezavisimyi ekonomocheskii analiz. [Scientific Reports: Independent Economic Analysis, No. 201. M.: Moscow Public Science Foundation (MPSF); Simachev, Yu. (2009). Ili naidi dorogu, ili prolozhi ee sam [Either Find the Road, Or Biuld It Yourself]. Priamye investitsii [Direct Investment], 11. P. 18-22; Kuznetsov, B., Simachev, Yu. (2009). Konets sveta otkladyvaetsia. [The Doomsday Is Postponed]. Expert, (049–050). P. 58-61; Simachev, Yu., Kuzyk, M., & Kuznetsov, B. (2010). Otsenka vozdeistviia razlichnykh antikrizisnykh mer na predpriiatii obrabatyvaiushchei promyshlennosti [Estimation of the Effect of Different Anticrisis Measures on Enterprises in the Processing Industry]. Economicheskaia politika, 1. P. 122–134; Ivanov, D. S., Kuzyk, M. G., Simachev, Yu. V. (2012). Stimulirovanie innovatsionnoi deiatel'nosti rossiiskikh promyshlennykh predpriiatii: vozmozhnosti i ogranicheniia. [Promotion of the Innovation Activity of Russian Industrial Companies: Possibilities and Limitations]. Foresight, V. 6, No. 2. P. 18–42; Simachev, Y., Kuzyk, M., Ivanov, D. (2012). Fostering innovation in Russian companies in the post-crisis period: Opportunities and constraints. MPRA Paper No. 41284, University Library of Munich, Germany; Kuznetsov, B., Simachev, Y. (2010). Impact of economic crisis on innovation behaviour of industrial firms in Russia. MPRA Paper No. 43675, University Library of Munich, Germany.

nies have the following features: (1) participation of foreign investors in their capital; (2) a rather short business history ('aged' less than 10 years);
- innovation-active companies are characterized by *a positive dynamics of expenditures on technological innovations;*
- an increasing demand for new products across the economy, the population being the main driving force behind that demand, while the government, within the framework of government purchases, so far has created no significant incentives for the production of innovation goods (or services);
- an increasing demand among companies for research and development, including the demand for new product development, with the increasing globalization of that demand.

Moreover, there exist some preconditions for the increasing interest of companies in research and development, which are as follows:
- the potential for improving the traditional products is shrinking, the implementation of technologies for manufacturing new types of products is becoming increasingly important;
- the consumer market is displaying an increasing demand for products with new properties;
- enterprises have already in the main solved their most urgent problems associated with the renewal of depreciated fixed assets;
- there exist some signs that the access of successfully operating big Russian companies to advanced technologies is diminishing (the range of tradable technologies is becoming narrower);
- the supply of innovation technologies by a number of universities has emerged, including engineering services based on the use of their qualitatively new equipment and test sites;
- the broadening views of companies' directorates as to the areas of research and development necessary for increasing the competitive capacity of their businesses.

Nevertheless, in spite of some real positive changes occurring on the microlevel, so far there have been no significant shifts on the macrolevel. Probably the reasons for this situation are the lack of a sufficient number of positive examples set by innovation businesses, the institutional environment unfavorable for rapid growth, and the increasing scope of innovation companies in the Russian economy.

On the one hand, the motivation for introducing innovation at the level of companies is evidently insufficient: since 2005, the number of companies with no obstacles for implementing innovations has been clearly multiplying – 6%, 15% and 21% in 2005, 2008 and 2011 respectively, but approximately half of those of them that had no obstacles in 2011 were not engaged in any innovation activity.

On the other hand, the government, whilst improving its innovation policy practices, at the same time implements certain measures in the framework of other policies (also associated with rational tasks), which sometimes impose significant restrictions on the distribution of innovations across the economy. In the OECD's review of Russia's innovation policy[1] it is noted, in particular, that a low level of competition leads to technological backwardness in many sectors and broadens the gap between profitability and productivity; meanwhile, government expenditure allocations to science and technologies continue to exert little influence on the amount of money invested in innovation technologies by businesses. On the whole, the influence of the existing different exemptions and preferences, as well as government protectionist measures on the situation in the business community is negative.

[1] DEMAND. (2011). DEMAND Reviews of Innovation Policy: Russian Federation 2011. DEMAND Publishing.

On the basis of microeconomic and institutional studies, the (rather arbitrary) balance of achievements and constraints in the innovation sphere over the last 5 years may be presented as follows (*Table 14*).

Table 14

Comparison of Major Achievements and Problems in the Implementation of the Innovation Policy in 2007–2012

Advantages and specific features of the government's innovation policy	Conditions, constraints and motivations for innovation at the level of companies
1. Pre-crisis period: 2007 – 2008	
vast budget potential; innovation is an important direction of government policy; increasing investment activity of the government; adoption of long-term strategies, target programs in the field of science and technologies; growing budget allocations to innovation; tax incentives for innovation; creation of big development institutions, venture funds	stable conditions for economic activity, a reduction in the tax load on businesses; limited areas of competition with foreign companies; risks of property takeovers and negative motivation for expanding the scale of business activity; predominantly the adaptive innovation model, without significant allocations to R&D; narrow circle of genuinely innovation-active companies
Major constraints: large-scale application, by the government, of rough direct mechanisms in the support of innovations, introduction of strong distortions in the market environment	
2. Crisis phase: 2009–2010	
dramatic shrinkage of budget potential; compensatory orientation of the anti-crisis measures; temporary protective measures, promotion of domestic demand; selective support of big and superbig companies; innovation at the top of the declared policy's agenda; establishment of commissions on modernization, technologic development; setting modernization priorities; launch of big innovation projects in a 'manual' mode	hard financial constraints for companies; dramatic lowering of the predictability of conditions for economic activity; concentration of innovation activity in the sphere of big businesses orientation of the innovation activity of businesses towards bringing down costs
Major constraints: 'confiscation' of potential advantages from innovation-active companies (expansion of market shares as a result of departure of inefficient competitors, potential for attracting additional qualified workforce) due to the government policy's focus on social stability to the detriment of economic performance	
3. Post-crisis phase: 2011 – 2012	
considerable budget constraints, welfare-oriented budget; innovation is one of government policy's priorities; significant alterations to regulation; new innovation promotion instruments, but weak institutional development of the business environment multiple 'experiments with no consequences' and learning projects	uncertainty, low predictability of government policy; multiple 'innovation signals' from the government; businesses wait and focus on completing their current projects; imitation of innovation activity by some enterprises; orientation of some companies to receiving rent in the innovation sphere; increasing importance, for businesses, of the task of mastering new products (services)
Major constraints: uncertainty of the conditions for economic activity; postponement of a number of key economic decisions by the government; considerable slowdown in the institutional development of the business environment	

The period prior to the crisis saw the emergence of a significant group of companies with a highly dynamic innovation activity, which laid the foundation for the expectations of the appearance of the 'second echelon' in economic development as a result of growth of medium-sized hi-tech companies. However, in the *pre-crisis period* when considerable resources were available, the government began to actively promote the demand for innovations, while at the same time evidently paying too much attention to direct promotion mechanisms in the form of FTP. As a result, significant part of the resources was from the very start orientated towards relatively big companies operating in the traditional industries. Besides, the amount of government investment in the economy was increased alongside the development of infrastructure; however, the increasing government purchases had little to do with applying higher requirements to the quality of the products or services being purchased. As a consequence, companies bean to seek more attractive and less risky directions (outside of the innovation field) for expanding their activity. On the whole, over that period, while government direct expenditures on economic development were increasing, in the business community the motivation for looking for ways of generating rent was inevitable on the rise.

During the *crisis* period, the budget constraints imposed on innovation companies quickly became much harder, which resulted in a decline of innovation activity - first of all with regard to investment in new equipment. At the peak of the crisis, budget expenditures and some innovation policy instruments were partly reoriented to compensate some of the businesses for the losses resulting from the crisis. The government, whose main priority was now to maintain social stability, significantly restricted the flow of resources to innovation-active competitive companies, and reallocated resources instead to the support, on a large scale, of big companies, many of which had been performing badly even before the crisis[1] . The informal requirements that were now applied by the government to the behavior of big companies became a significant obstacle to the ongoing restructurization processes in the business sector. The business environment generally became worse due to the active implementation of all kinds of quotas and preferences designed to support domestic producers, as well as protective measures on the domestic market[2].

However, that period also saw a re-evaluation of the role of innovations in boosting the competitive potential of Russia's national economy, and so a number of 'new wave' innovation measures had already been proposed and discussed by 2009.

The *post-crisis* period was characterized by some very controversial trends both in the government policy and in the behavior of businesses. The government had drawn several diametrically different lessons from the crisis situation: on the one hand, the 'manual management' practice was estimated to be positive, while on the other, it was considered to be necessary to reduce the government's direct participation in the functioning of the economy, and to improve both the investment climate and the interaction with businesses.

The distinctive feature of Russia's innovation policy in the post-crisis period became the initiation of comprehensive mechanisms for the support of cooperation between the different participants in the innovation processes, the creation of networks and partnerships in the innovation sphere, and the promotion of research at universities[3]. However, the activization of innovation policy in the post-crisis period has been too versatile and multi-vectored; big businesses, with their habit of responding to the signals displayed by the government, are faced with certain difficulties when mapping their strategic plans. The decision-making with regard to some fundamentally important directions of government policy has been started only recently, and in some areas the final decisions have not yet been elaborated (tax policy¸ pension reform).

The results of microeconomic studies also point to the negative influence on innovation growth of the lack of stability in companies' economic environment and the low predictability of government economic policy. Thus, at present, the most relevant factors that hinder the innovation activity of companies are, on the one hand, the unstable conditions for economic activity, which increase risks and reduce the planning horizon; and on the other, the internal bu-

[1] See, in particular, Simachev Yu. V., Ivanov D. S., Korotkoe M. Yu., Kuznetsov B. V., Kuzyk M. G. (2012). Gosudarstvennaiia antikrizisnaiia podderzhka krupnykh i sistemo-obrazuiushchikh kompanii: napravleniia, osobennosti i uroki rossiiskoi praktiki [Government Anti-crisis Support of Big and System-forming Companies: Directions, Specificities and Lessons of Russia's Practice. Ed. A. D. Radygin. Delo Publishers, RANEPA.

[2] Simachev, Yu. V., Kuzyk, M. G. (2012). Gosudarstvennaiia antikrizisnaiia podderzhka rossiiskikh kompanii: pomoshch i orranicheniia [Government Anti-crisis Support of Russian Companies: Aid and Restrictions]. Journal of the New Economic Association. No 1. P. 100-125.

[3] Dezhina, I., Simachev, Y. (2012). Partnering universities and companies in Russia: effects of new government initiative. MPRA Paper No. 43622, University Library of Munich, Germany.

reaucratization of the business processes inside companies, which makes them less open and receptive to innovations[1].

Alongside the basic institutional factors that work against the process of innovation development in the Russian economy, *there also exist a number of sectoral-level constraints* (it should be noted that the removal of those constraints is a task that usually belongs to domains beyond the framework of 'standard' innovation policy):

(1) *the sector of superbig companies with substantial innovation potential and - with a high level of direct government participation in some companies.*

Due to the political and social importance of some of these companies, the government follows a policy of direct influence on their behavior. They are asked to behave in compliance with the socially acceptable norms, but the companies, in their turn, fight for certain exemptions and preferences. On the whole, the satiation is characterized by low transparency and predictability, which results in a lower motivation for these companies, their owners and managers, to implement innovations,;

(2) *the traditional hi-tech sectors with a relatively high level of innovation activity.*

The factors that restricts the effect of innovations and their rapid distribution across these sectors are their traditionally vertical structure coupled with very insufficient unification and standardization. When applied to this sector, the general competition promotion measures can work only on a very limited scale;

(3) *new, relatively rapidly developing sectors with horizontal organization and predominantly small and medium-sized businesses.*

The development of these sectors is very sensitive to the entrepreneurial climate and the quality of administration (for example, customs or tax administration). The companies operating in these sectors are highly mobile, and so in view of an unfavorable situation may relatively easily move their business activity to other countries. The specificity of these sectors and their development potential are not easily understandable for the government.

On the whole, in recent years Russia has been witnessing an intensive *cooperation between innovation and industrial policies,* while at the same time there have been some reverse trends, when the innovation policy loses neutrality and becomes more oriented to the specificities of different sectors and markets, and the industrial policy becomes more horizontal and shifts towards dealing with technological development issues. Among the positive changes that occurred with regard to the elaboration and adjustment of Russia's innovation policy, the following ones can be noted:

- broadening access of different interest groups to the elaboration of the innovation policy and relevant proposals, the development of a system of consultative and coordinating bodies under the RF President and the RF Government to deal with the innovation and industrial policy issues;
- large-scale expansion of the representation and general strengthening of the influence of the interest groups linked to development institutions, educational establishments and research organizations;
- creation and development of instruments designed to encourage the search for new 'players' in the innovation sphere and the formation of partnerships (technological platforms, innovation clusters, tied grants).

[1] Simachev, Y., Kuzyk, M., Ivanov, D. (2012). Fostering innovation in Russian companies in the post-crisis period: Opportunities and constraints. MPRA Paper No. 41284, University Library of Munich, Germany.

However, there still remain the following attributes of a classical vertical policy (with its specifically high costs and risks in conditions of underdeveloped institutions):

- orientation to the interests of biggest players, even when their composition is made more complex by involving other entities from the sphere of science, education and technological development;
- weak competition between government institutions, in some cases there are the signs of monopolistic approaches and estimations;
- limited attention to the effect of demonstrations and sharing of best practices, focus on the use of government (or quasi-governmental) resources;
- relative openness to proposals, but closeness (non-transparency) of the processes of decision-making and estimation of achieved results.

6.4.5. Conclusions and Lessons for the Future

1. In recent decades, innovations have been increasingly referred to as a very important factor that determines economic development and adequate solutions to social problems. As inter-country competition is getting more intense, the requirements to the quality of innovation policies implemented by national governments are becoming tougher. These processes trigger the elaboration of new innovation promotion instruments and the methods of estimating the influences of different mechanisms applied in supporting the innovation activity. The international exchange of best practices of innovation support is growing in scale, and the role of inter-country transfer of innovation promotion instruments is becoming more prominent.

In many countries over the past few years, the general view of the government's role in promoting innovations, of the directions and forms of support of innovation activity have undergone a fundamental change. At the same time, in conditions of shortage of budget resources, governments are focusing their efforts on the regular assessment of the influences of various innovation promotion instruments on economic development and the identification of their long-term effects. This serves as a basis for continual improvement and adjustment of the mechanisms of incentives for implementing innovations.

All these phenomena determine the current serious challenges that Russia will need to adequately respond to by elaborating a reliable innovation policy, capable of boosting the competitive potential of domestic businesses and ensuring sustainable long-term socio-economic development.

2. Russia's current innovation policy represents an active process of elaborating new innovation promotion instruments. However, the impressive scale of experimenting within the innovation policy's framework has so far been inadequately followed by formulating the achieved results and using them as lessons for the future. It can be notes in this connection that, due to the limited number of estimated effects we often tend to overlook not only failures, but also the good examples of successful development. The process of adjusting successful instruments to the scale and level of their implementation is limited, and the adaptation of the functioning mechanisms to a changing environment occurs even less frequently.

The process of decision-making with regard to the innovation policy mechanisms and the argumentation it is based upon are not very transparent, and so there appears to be little sense in such experimenting, while its unpredictability is indeed high.

It should be admitted that the issue of the outcomes of Russian innovation policy, of the efficiency of the rather broad variety of currently applied promotion mechanisms, in the post-crisis period has been raised at the government level with sufficient clarity, but no adequate

answers have been provided so far, while the results of independent estimations may turn out to be dubious and disappointing for certain ministries. This imposes significant restrictions on any real progress in the organization of independent expert's estimations of the innovation promotion measures being implemented in Russia.

3. To reveal the existing best practices, it is important to determine the approaches to estimating the mechanisms applied in promoting innovations. In this connection, we may point out two major drawbacks of Russia's innovation policy: (1) excessive emphasis on monitoring the numerical indicators of allocated resources, and (2) expectation of short-term positive effects.

At present, the targets for innovation policy implementation are based in the main on the expected changes in resource management (for example, increased allocation of companies' money on R&D), while much less attention is paid to the end results of innovation activity (productivity growth, broader segments of world market taken over by hi-tech products, etc.). At present, many potential effects are overlooked by the applied estimation methods, and so the existing possibilities for identifying and distributing best practices in the framework of Russia's innovation policy are limited. The direct resource-based numerical targets in some cases produce a situation when a company implements its innovation activity only formally, which results in imitation of progress in the innovation sphere. What is usually being overlooked in the existing estimations is the spectrum of behavioral effects associated with different promotion mechanisms. However, it is these effects that are most sustainable and contagious in the entrepreneurial environment.

As for the expectations of the influences of different mechanisms on the end results of companies' activity, such changes take place with a significant lag, and so any early conclusions (made after 1–2 years after their implementation) of the functioning of new instruments and their comparison in order to select the best approach on their basis are by no means always reasonable and appropriate. Patience is necessary, and support must be provided on a stable basis for a relatively long period of time, so that the better performing companies could perceive lower future risks and reflect this circumstance in their plans, which will then be oriented to further expansion of their innovation activity.

4. There has been a significant progress in the expansion of the arsenal of innovation promotion instruments. However, in addition to all these achievements, it also necessary to broaden, in practical terms, the notion of an innovation policy. So far it has mostly been associated with the classical linear model – science, technologies, innovation. But in the framework of innovation-oriented development - especially in its current phase - the central role is being increasingly taken over by policies based on accumulation and absorption of knowledge, network interactions and transfer of skills, and development of search networks, and so the importance of measures aimed at human capital development is increasing manifold.

At present, the range of companies in some or other way influenced by the government's innovation promotion measures is rather broad – thus, the positive influence of such measures was noted by the majority of directors of innovation-active companies included in the analyzed sample. Contrary to the widespread beliefs, the measures implemented by the government are mostly oriented to the support of successful companies rather than the 'outsider' businesses.

However, among the currently applied innovation promotion instruments, only a few are designed to boost the rate of companies' development. Besides, these measures are not, on the

whole, orientated towards supporting new businesses. A considerable number of the existing instruments (backed by sufficient resources) are intended mostly for the traditional sectors. The actual results of the use of innovation promotion instruments could indeed be better but for the low quality of their administration.

The ongoing changes in the outlooks of the business community with regard to the ways of technological modernization (and we believe that this process will be sped up even further) determine the need for elaborating some new, 'clever' innovation promotion mechanisms that could be adjusted to or even anticipate the ever-increasing demand of companies for new technologies.

5. When comparing the advantages and problems associated with the use of the major groups of innovation promotion instruments in Russia, we should like to stress the following points:

(1) Tax incentives have no significant barriers for access, and are generally neutral. However, they are predominantly associated with the resource component of innovations, and so do not create strong stimuli for development.

(2) Budgetary mechanisms are more closely linked to the end results of innovation activities than tax mechanisms. At the same time, companies can gain only limited access to budgetary mechanisms due to the complexity of the selection procedures and the voluminous reporting documentation required from them. For the dynamically developing medium-sized companies the bureaucratic costs are too high, and for big companies the amount of support is too modest to be of any real significance.

(3) Quasi-budgetary innovation promotion instruments (first of all, the government development institutions) have at least one important advantage – they are project-oriented, sometimes to a degree of boosting the rate of companies' development. These instruments are subject to somewhat less regulation than budgetary mechanisms, but at the same time they usually shift the bulk of the risks involved onto the recipients of support.

(4) Regulatory and communication-based innovation promotion mechanisms (in particular, improvement of technical regulation, promotion of the development of networks and partnerships) so far belong to the group of least developed mechanisms, although in recent years some improvement has been noted in that sphere. A significant potential for their development is created by the rising demand for advanced technologies and by the evident need to coordinate the behavior of innovation companies in certain sectors, as well as by the emerging new links between science and industry. However, the risks associated with failures to fulfill the proclaimed technical regulation development plans are also high.

On the whole, it can be noted that there still exist some significant risks of a 'takeover' of the new instruments by the traditional interest groups and the strengthening of direct government influence within the framework of innovation promotion mechanisms, on the one hand, and lack of adequate selection mechanisms, on the other.

6. There exist no 'universally useful' innovation promotion mechanisms. A serious problem associated with the estimation of mechanisms applied in fostering innovations is the heterogeneity of their effects, which strongly depend on companies' sectoral specificity, size, property structures, business history, etc. Thus, in particular, the investment in the research and development studies carried on in the hi-tech sectors yields higher more return than that in the low-tech sectors. At the same time, the priority for the low-tech sectors is to create favorable conditions for attracting investment needed for the modernization of their production base.

When a new innovation promotion instrument is being introduced, it is highly probable that its influences will be heterogeneous, and so it must first be applied neutrally and on a sufficiently broad scale; this will help to identify its sectoral specificity and possible market failures, thus providing a basis for its specialization later on.

7. It would be incorrect to believe that a low level of innovation activity is associated exclusively with lack or shortage of resources or improper adjustment of the innovation promotion mechanisms. On the basis of the available results of studies it can be argued that there is insufficient motivation for innovation at the level of companies.

The most serious barriers in the way of innovation development are unstable conditions for economic activity and low predictability of government policy. Thus, one of the most important priorities is to ensure regulation stability, because even positive alterations in the regulation procedures usually give rise to uncertainty and increase risks, especially in case of long-term innovation projects. On those markets where the need for changes is strongest, their potential positive influence reveals itself in the framework of procedures designed to assess the effects of regulation. In fact, the process of planning and introducing adjustments in regulation must be transparent for the business community.

8. The pressure exerted on big companies by the government for the good cause of encouraging their innovation activity may, in fact, result only in their formal imitation of innovation activity. The most negative outcome in this case seems to be the tuning of companies' internal innovation systems to the government's preferences (which can be especially true of companies with state stakes). By doing so, they will become less capable of interacting with other (generally speaking – more important) participants in the innovation processes – individual inventors, research centers, universities, small-sized hi-tech companies, etc.

9. A considerable (if not the principal) part of the barriers in the way of innovation development in the Russian economy are not linked directly to innovation policies. Instead, they have emerged due to the inadequate quality of the institutional business environment: distortions in the competitive environment caused by the existence of different quotas and preferences; the government’s support of poorly performing companies; constraints on the growth of small and medium-sized companies; the possibility for some companies to take advantage of the fact of their social welfare orientation. It is necessary to note that, both at the time of crisis and in face of newly emerged 'mobilization' strategies, the government cannot resist the temptation to resort to some protective measures, introduce the mechanism of direct support for some selective industries and sectors, markets, or technologies, initially declaring them to be only temporary and of relatively short duration. However, as a rule, it eventually turns out that these 'temporary' measures later on display an amazing viability and adaptability to various new situations, and a lot of political effort is required to finally abolish them.

Any distortions in the institutional business environment significantly reduce the demonstration effects of the operation of successful innovation companies, as well as the attractiveness and, consequently, distribution of the relevant business behavior models across the economy. In principle, any acts aimed at improving the general environment may go hand in hand with support of individual projects, thus making it possible to better perceive the existence of real regulation-related problems. However, such support must from the very start be oriented to the achievement of demonstration effects, encouragement of new or relatively young companies in need of distribution of their risks, as well overall systemic improvement of the business environment.

10. It is not really a productive approach to directly counterbalance the problems existing in a less than perfect business environment by boosting the stimuli for innovation, because the availability of additional resources does not reduce the existing risks. On the contrary, such measures can only further increase companies' motivation for seeking sources of rent in the innovation sphere and imitate the innovation behavior model.

The mechanisms of support must not create excessively beneficial conditions for the support recipients. Rather, it is necessary to develop an innovation-friendly regulation, and the government must truly share the innovation risks with businesses and be ready sometimes to lose some of its resources allocated for the support of innovations - that is, to really assume responsibility for some of the risks borne by businesses.

The granting of support must be combined with sufficiently serious responsibilities assumed by its recipients, which must be subject to qualitative control. It is fundamentally important to shift the emphasis from the selection of the best candidates for the allocation of support (a task that would be very difficult for the government to accomplish) to the procedures of monitoring the process of implementation of the relevant projects, with a subsequent selection, in a regular basis, of those who have achieved the best results.

11. An excessively vigilant search for 'market failures' and the ways to compensate for them may result in inevitable 'government failures' in the actual practice of this activity. This kind of risk becomes even more significant in absence of adequate independent assessment of the influences of different measures, or if the government's potential for administering complex mechanisms is limited, or if the government has limited ability to abolish unreasonable initiatives, especially in face of powerful lobbying by the traditional interest groups. In this situation, it is necessary to impose some reasonable constraints on the number of large-scale big initiatives launched by the government in the innovation sphere, make more versatile the composition of major innovation policy 'actors' (regions, development institutions, business associations), introduce special procedures for regular monitoring of the applied instrument, as well as their regular adjustment on the basis of independent estimations.

12. The process of elaborating and implementing an innovation policy in Russia is itself in need of in-depth modernization; in this connection, the following aspects can be pointed out:

(1) a search for new instruments, measures and initiatives must always be supplemented by clearing off any old, outdated or obsolete measures and mechanisms, with the abolition of any wasteful areas and inefficient support mechanisms. This approach will also be useful if applied to the estimation of target budget-funded programs in the field of science and technology, the activity of development institutions, and the use of different tax incentives for promoting innovations;

(2) to adequately implement a state-of-the-art innovation policy, it is necessary to develop some 'clever' instruments, while at the same time looking for highly reputed individuals and organization capable of implementing such instruments in actual practice. The effects of such instruments cannot be based on direct numerical indicators alone - it is also very important to pay attention to the indirect qualitative effects. It is necessary to create appropriate conditions for conducting studies in several 'sessions', implement pilot projects to test the new instruments and adjust their 'design', and later on, at the time of assessment, to determine the steps necessary for adjusting these instruments;

(3) it is imperative to develop appropriate ways for communicating with the business community prior to the actual elaboration and use of new instruments. The classical problem is that a succession of new instruments is put forth, but support is sought (and received) al-

ways by the same few organizations. It is important to work with businesses and with different segments of the business community, so that they could really believe in the possibility of partnering with the government. It quite often happens so that those businesses that have never had any experience with government support instruments perceive much more negatively the potential risks and problems associated with their use. It is necessary to identify and publicize the available positive examples, which will conduce to better and more significant positive behavioral effects;

(4) in order to ensure progress in creating the motives for the spread of best practices, it is feasible to further broaden the spectrum of innovation promotion institutions and mechanisms, encourage competition between the institutions, and conduct regular assessment of the achieved results on the basis of external independent estimates. The latter appears to be especially important for two reasons. Firstly, any attempts to redistribute resources and to shift accents in the innovation policy are likely to be met with increased resistance on the part of the traditional interest groups; and secondly, consideration must be given to the existing mistrust in society of any new innovation promotion initiatives put forth by the government. This can result in lesser 'flexibility' of the innovation promotion instruments, as the desire to make them more attractive in the eyes of the public will inevitably result in 'roughening' of the practiced approaches.

6.5. Russia's Real Estate Market

6.5.1. The Land Plots Market

According to the RF Federal Service for State Registration, Cadastre and Cartography (*Rosreestr*), the land area in the ownership of RF individuals continues to decrease. As of 1 January 2012, it amounted to 119.6 million hectares (m ha) (7% of the total land surface) vs. 121.4 m ha (7.1%) in 2011 (*Table 15).* By contrast, the land area in state or municipal ownership and in the ownership of legal entities is on the rise. Over the course of last year, the area of land plots in the ownership of legal entities increased by 1.5 m ha, to 13.5 m ha, or to 0.8% of the total land surface, which represented a 0.3 pp. increase on 2009. In the main, these changes resulted from transfers of the ownership of participatory shares in the right of common ownership to land plots of agricultural designation.

Table 15

The Structure of the Russian Federation's Land Area by Form of Ownership

Form of ownership	1 January 2009		1 January 2010		1 January 2011		1 January 2012	
	m ha	%	m ha	%	m ha	%	m ha	%
In state and municipal ownership	1,576.9	92.2	1,576.3	92.2	1,576.4	92.2	1,576.7	92.2
In the ownership of individuals, including:	124.3	7.3	123.2	7.2	121.4	7.1	119.6	7.0
Land shares of individuals	107.4	6.4	104.3	6.1	100.8	5.9	97.6	5.7
In the ownership of legal entities	8.6	0.5	10.3	0.6	12.1	0.7	13.5	0.8
In private ownership	132.9	7.8	133.5	7.8	133.4	7.8	133.1	7.8

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

As of 1 January 2012, most of Russia's privatized land remained in common share ownership, including 72.8%, or 96.873.3 thousand ha in unclaimed land shares (*Table 16),* vs 75.04%, or 100,136.8 thousand ha as of 1 January 2011.

Table 16

The Distribution of Russia's Privatized Land by Form of Ownership and Owner

	1 January 2011		1 January 2012	
	thousands of ha	%	thousands of ha	%
Total share ownership (land shares in the ownership of individuals)	76,131.3	57.05	75,077.4	56.42
Land in the ownership of individuals (peasant (farmer) households, personal subsidiary plots, individual housing construction, gardening, *dacha* construction, etc.).	20,546.5	15.40	21,994.4	16.53
Total joint ownership	698.7	0.52	681.6	0.51
Land in the ownership of legal entities	12,064.1	9.04	13,526.6	10.16
Unclaimed land shares in the ownership of individuals	24,005.5	17.99	21,795.7	16.38
Total	133,446.1	100.00	133,075.7	100.00

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

According to the State (National) Report 'On the State and Use of Land in the Russian Federation in 2011', one of the tasks of the ongoing land reform is privatization, by individuals owning land plots by right of permanent (or infinite) use or by right of inheritable possession for life, of these land plots, with the right of ownership thereto being formalized in accordance with existing legislation.

Apart from privatizing land plots free of charge, individuals also buy land plots on the land market. According to available incomplete data, ownership rights have been formalized with regard to 12 million land plots with the total area of 44.5 m ha. Out of that amount, 24.3 m ha have been registered as participatory shares in the right of common ownership to land plots of agricultural designation.

According to *Rosstat* (the RF Federal State Statistics Service), as of 1 January 2012, out of the total land area owned by individuals (21,994.4 thousand ha), 463.6 thousand, or 2.11%, had been granted to them for individual housing construction (*Table 17*), which is more than the figure recorded one year earlier (434.1 thousand ha).

Table 17

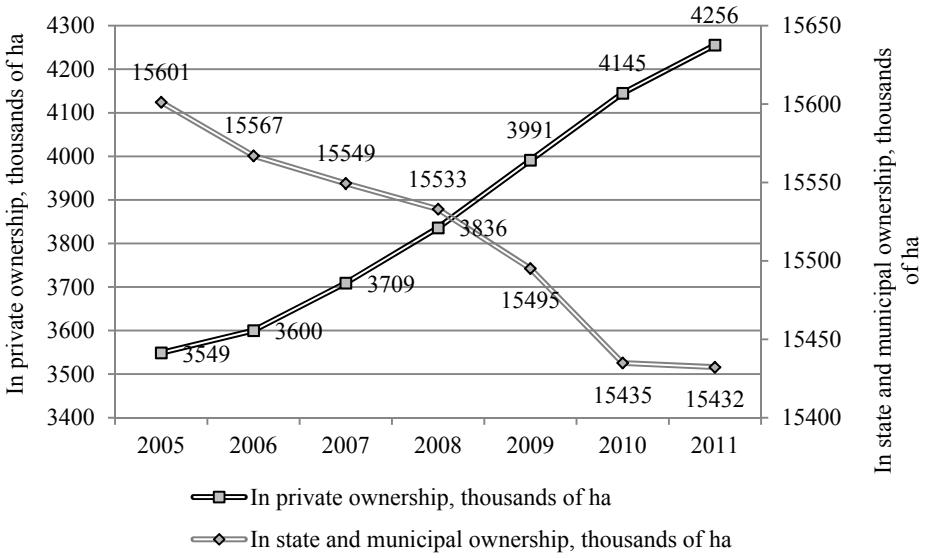
The Distribution of Russia's Land Owned by Individuals

	1 January 2012		1 January 2011	
	thousands of ha	%	thousands of ha	%
Owners of land plots	9,407.6	42.77	8,374.5	40.80
Personal subsidiary plots	5,534.7	25.16	5,414.6	26.30
Peasant (farmer) households	4,942.6	22.47	4,809.1	23.40
Gardening	807.7	3.67	797.9	3.90
Individual housing construction	463.6	2.11	434.1	2.10
Individual entrepreneurs engaged in agricultural production	642.8	2.92	532.8	2.60
For other purposes	195.4	0.89	183.5	0.90
Total	21994.4	100.00	20546.5	100.00

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

Privately owned land in inhabited localities steadily increases both quantitatively and as a percentage of the total land area of inhabited localities. As of 1 January 2012, it amounted to 4,256 thousand ha, or 21.62% of the total land area of inhabited localities (*Fig. 8*).

In 2011, the largest amount of land owned by individuals per 1,000 people was recorded in the Republic of Kalmykia (4.8 ha per person), where the share of privately owned land in the total land area amounted to 18.25% (*Table 18*). As regards the federal districts, first place in this index is held by the Siberian Federal District with 1.6 ha per person, while the North-Western Federal District with 0.31 ha per person is in the last place.



Source: The State (National) Report *On the State and Use of Lands in the Russian Federation in 2011.*

Fig. 8. The Dynamics of the Distribution of the Land Area of Inhabited Localities in the Russian Federation, by Form of Ownership, 2005-2011

Table 18

The Distribution of Land, by Form of Ownership, by RF Federal District, HA per 1,000 People (as of 1 January 2012)

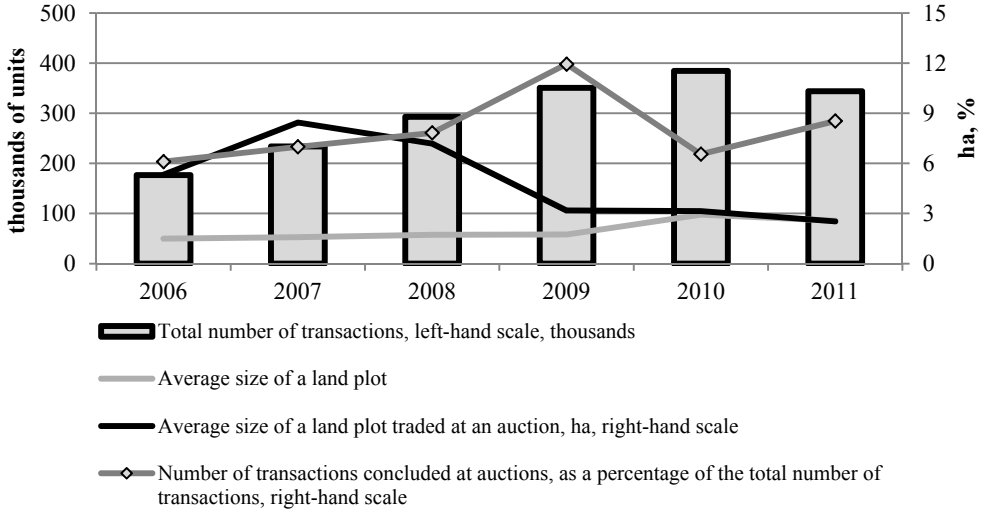
RF subjects and RF federal districts	Total land area, ha per 1,000 people	Land owned by individuals, ha per 1,000 people	Land owned by people, as percentage of total land area	Land owned by legal entities, as percentage of total land area	Place with regard to amount of land owned by individuals per 1,000 people and to total area in ha per 1,000 people
1	2	3	4	5	6
Republic of Kalmykia	26,066.92	4,756.72	18.25	0.05	1; 22
Trans-Baikal Krai	39,284.48	3,859.94	9.83	0.17	2; 14
Kurgan Oblast	7,976.22	3,408.37	42.73	2.92	3; 37
Republic of Altai	44,573.83	2,918.56	6.55	1.56	4; 12
Altai Krai	6,978.81	2,643.20	37.87	1.55	5; 39
Volgograd Oblast	4,350.08	2,447.26	56.26	2.90	6; 48
Omsk Oblast	7,146.98	2,305.12	32.25	3.77	7; 38
Pskov Oblast	8,306.64	2,259.48	27.20	1.99	8; 36
Nizhny Novgorod Oblast	3,752.02	2,203.58	58.73	2.30	9; 50
Saratov Oblast	4,035.47	2,200.97	54.54	7.59	10; 49
Novosibirsk Oblast	6,615.74	2,042.16	30.87	0.72	11; 40
Orel Oblast	3,155.33	1,733.31	54.93	5.87	12; 58
Tambov Oblast	3,183.42	1,663.21	52.25	10.37	13; 56
Republic of Khakassia	11,570.18	1,628.16	14.07	0.12	14; 32
Siberian Federal District	*26,711.85*	*1,557.68*	*5.83*	*0.31*	*15; 21*
Kirov Oblast	5,770.25	1,473.36	25.53	5.19	16; 42
Rostov Oblast	2,369.76	1,447.46	61.08	4.61	17; 69
Republic of Buryatia	36,168.13	1,440.51	3.98	0.17	18; 15
Stavropol Krai	2,373.85	1,426.86	60.11	5.93	19; 68
Kursk Oblast	2,674.57	1,419.18	53.06	10.38	20; 66
Southern Federal District	*3,031.36*	*1,302.60*	*42.97*	*3.21*	*24; 59*
Volga Federal District	*3,478.44*	*1,055.32*	*30.34*	*4.13*	*30; 53*
Russian Federation	**11,952.10**	**835.68**	**6.99**	**0.79**	**37; 29**
Urals Federal District	*14,975.14*	*749.17*	*5.00*	*0.37*	*44; 26*
Central Federal District	*1,687.20*	*523.78*	*31.04*	*6.78*	*57; 80*
North Caucasian Federal District	*1,795.43*	*448.62*	*24.99*	*2.37*	*64; 75*

cont'd

1	2	3	4	5	6
Far Eastern Federal District	*98,459.84*	*345.62*	*0.35*	*0.04*	*68; 07*
North Western Federal District	*12,349.60*	*314.32*	*2.55*	*0.35*	*69; 27*
Moscow Oblast	636.21	103.59	16.28	11.55	74; 90
City of St. Petersburg	28.33	1.39	4.92	13.33	90; 91
City of Moscow	9.39	0.04	0.46	1.83	92; 92

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

In 2011, the number of sales of state and municipal lands dropped by 10.6% on 2010 - to 343.81 thousand, while the land area sold dwindled by 21.53% (to 882.52 thousand ha), and the average size of a sold lot – by 12.23% (to 2.57 ha) (*Fig. 9*). In Russia as a whole, the number of transactions involving land sales at auctions increased on 2010 by 16.51% - from 25,185 to 29,343 land plots, while the amount of sold land dropped by 6.17% (from 79,044.77 ha to 74,166.91 ha), which resulted in the average area of a land lot sold at an auction shrinking by 19.46% (to 2.57 ha). As a result, the average size of sold state and municipal land plots became practically equal to that of land plots sold at auctions (*Fig. 9*).

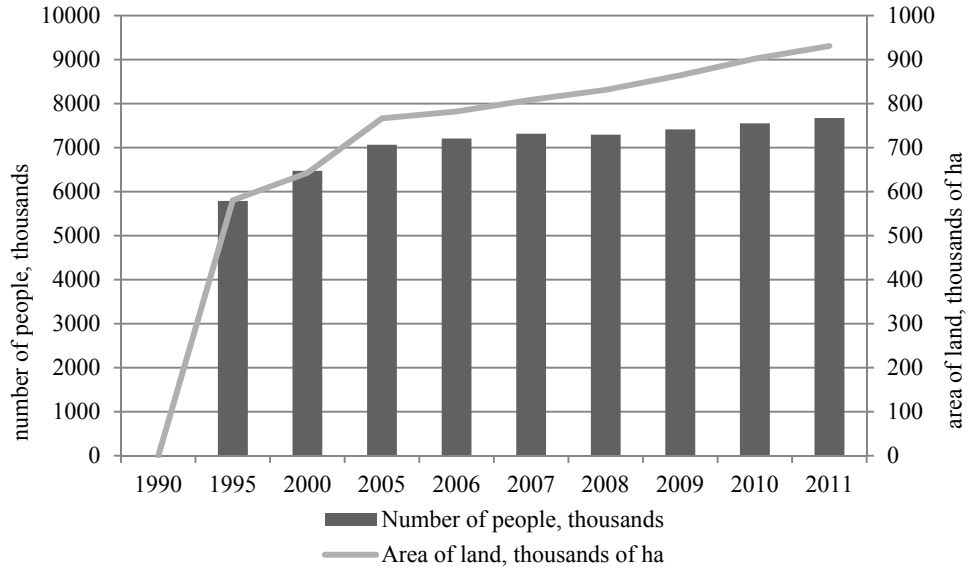


Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

Fig. 9. The Dynamics of Sales of State and Municipal Lands, 2006-2011

According to the State (National) Report 'On the State and Use of Land in the Russian Federation in 2011', Russia's individuals bought 227,928 land plots with the total area of 64.96 thousand ha, to be used by them for individual housing and *dacha* construction, gardening, vegetable gardening and animal husbandry or for conducting personal subsidiary economy. 214,498 land plots with the total area of 60.63 thousand ha were bought in inhabited localities. The number of land plots sold in 2011 was 40,808 less than in 2010, while the average size of a sold land plot rose from 0.18 ha to 0.29 ha.

By the beginning of 2012, the number of persons who owned land plots for individual housing construction had increased to 7,671.5 thousand, while the total land area allotted to them for that purpose had risen to 930.8 thousand ha. On the whole, both these indices were steadily on the rise: over the course of 2011, more than 120 thousand persons acquired land plots for individual housing construction, with the total area of 28.6 thousand ha (*Fig. 10*).



Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

Fig. 10. Changes in the Number of Persons Who Owned Land Plots for Individual Housing Construction and in Total Land Area Granted to Them for That Purpose, 1990-2011

Out of the total amount of land plots granted for individual housing construction, 55.3% are in individual ownership; 44.7% are in the ownership of state, and are held by individuals by right of inheritable possession for life, by right of permanent (or infinite) use, by right of lease and right of temporary use (*Table 19*).

Table 19

The Structure of the Ownership of Lands Granted for Individual Housing Construction, 2011

Lands granted for individual housing construction	Thousands of ha	%
In private ownership	514.3	55.3
In state and municipal ownership, including:		
in permanent (or infinite) use	206.2	22.2
under lease	110.8	11.9
in free-of-charge temporary use (or temporary use)	2.2	0.2
in inheritable possession for life	56.2	6
without right to land being formalized	41.1	4.4

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

In 64 RF subjects alone, land plots for *dacha* construction, with the total area of 75.1 thousand ha, were granted to 189.8 thousand families. According to the RF Federal Service for State Registration, Cadastre and Cartography, the highest number of newly-granted '*dacha* plots' was registered in Moscow Oblast, Novgorod Oblast, Rostov Oblast, Irkutsk Oblast, Leningrad Oblast, Yaroslavl Oblast, and the republics of Sakha and Buryatia. In 2011, the number of families engaged in *dacha* construction increased by 17.4 thousand, while the total area of *dacha* plots rose by 11.3 thousand ha.

In 2011, the average price of land plots in inhabited localities, designated for individual housing or *dacha* construction, dropped by 5.34% on 2010, while that of land plots outside of inhabited localities rose 1.5 times (*Table 20*). In this respect, differences among federal districts are considerable: in the North Western Federal District, the prices of land plots in inhab-

ited localities rose by 210.9%, while in the Southern Federal District they dwindled by 59.4% (*Table 20*).

Table 20

The Average Per Square Meter Prices, in Rubles, of State and Municipal Land Plots Sold to Individuals and Legal Entities in the Russian Federation in 2011, and Their Change on 2010, %

	To individuals and their associations, for the purposes of:				To legal entities, in order to be used for industrial or other special purposes		To peasant (or farmer) households and agricultural organizations	
	individual housing or *dacha* construction		conducting personal subsidiary economy, gardening, vegetable gardening, and animal husbandry					
	in inhabited localities	outside of inhabited localities	in inhabited localities	outside of inhabited localities	in inhabited localities	outside of inhabited localities	in inhabited localities	outside of inhabited localities
Russian Federation	54.95	4.31	12.15	8.17	126.02	65.1	19.15	3.74
percent change	*-5.34*	*48.62*	*-14.07*	*34.15*	*68.52*	*434.48*	*73.62*	*-21.43*
Central	82.04	2.11	20.9	15.7	192.89	172.56	73.17	2.56
percent change	*-13.24*	–	*3.11*	*4.11*	*-24.53*	*884.37*	*-2.21*	*113.33*
North Western	66.93	9.48	16.57	12.84	99.37	31.27	2.78	0.61
percent change	*210.87*	*12.46*	*109.48*	*32.64*	*159.38*	*38.36*	*227.06*	*-62.11*
Southern	10.77	0	5.98	0.9	82.83	67.77	3.00	1.05
percent change	*-59.36*	*100.0*	*-51.26*	*-29.69*	*102.02*	*558.60*	*1.35*	*-11.02*
North Caucasian	93.72	0.22	2.48	0.29	72.57	25.26	1.82	1.06
percent change	*-7.74*	–	*-86.90*	*107.14*	*-47.73*	*137.85*	*127.50*	*-17.19*
Volga	46.29	18.95	12.18	8.81	171.71	77.13	2.72	1.96
percent change	*62.82*	*112.4*	*-0.08*	*31.30*	*461.51*	*326.37*	*34.65*	*-83.46*
Urals	23.95	2.38	15.12	4.32	191.5	75.09	0.51	0.61
percent change	*21.82*	*480.5*	*249.19*	*64.89*	*309.01*	*677.33*	*-90.78*	*-76.54*
Siberian	48.35	1.36	7.84	10.28	142.08	41.49	46.01	21.45
percent change	*10.09*	*62.12*	*35.41*	*27.86*	*499.75*	*497.84*	*3522.83*	*210.87*
Far Eastern	67.53	0.01	16.12	12.25	55.22	30.2	23.2	0.64
percent change	*-47.34*	*99.25*	*-48.76*	*137.86*	*136.08*	*1676.47*	*116000*	*-94.43*

Sources: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011 and The State (National) Report On the State and Use of Lands in the Russian Federation in 2010.

According to the RF Federal Service for State Registration, Cadastre and Cartography, as of 1 January 2012, the total leased land area amounted to 159,420.52 thousand ha, including 20,526.43 thousand ha leased out in 2011. Over the course of that year, the authorities sold leases on 5,938.50 thousand ha of land in state and municipal ownership. Leases on state and municipal land account for 62.0% of transactions concluded on Russia's land market and for 82.7% of the land area covered by those transactions.

In 2011, the average lease payment for state and municipal land plots for housing and *dacha* construction, situated in inhabited localities, dropped by 22.18% on 2010, to Rb 13.44 per square meter. At the same time, the average lease payment for such land plots situated outside of inhabited localities declined by 11.63%, to Rb 0.76 per square meter (*Table 21*).

In the main, lease payments are determined on the basis of the cadastral value of relevant land plots, multiplied by a number of coefficients, depending on the economic importance of one or other territory, the targeted use of land, and the category of lease-holder.

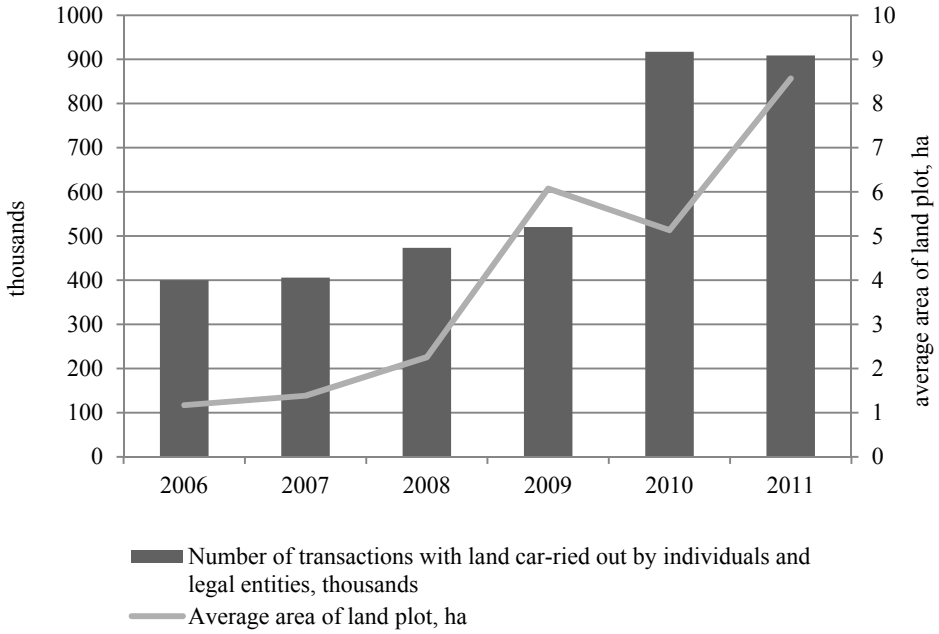
Table 21

The Average Per Square Meter Lease Payments, In Rubles, for the Use of State and Municipal Lands in the Russian Federation in 2011

Individual leasers and their associations using leased land plots for the purposes of:	2008		2009		2010		2011	
	in inhabited localities	outside of inhabited localities	in inhabited localities	outside of inhabited localities	in inhabited localities	outside of inhabited localities	in inhabited localities	outside of inhabited localities
housing and *dacha* construction	7.47	5.95	13.43	1.27	17.27	0.86	13.44	0.76
conducting personal subsidiary economy, gardening, and vegetable gardening	0.66	0.07	1.49	0.17	2.02	1.07	2.26	1.04

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

In 2011, the turnover of privately owned lands amounted to 908,867 transactions (*Fig. 11*), while the total area of land subject to those transactions was 7,787,561 ha. By comparison with 2010, the number of transaction slightly decreased - by 0.93%, while the total area of land subject to those transactions rose by 65.45%. The average area of a land plot grew by 67.0%, to 8.57 ha (*Fig. 11*).



Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

Fig. 11. The Dynamics of Sale and Purchase Transactions with Privately Owned Land Plots Concluded by Individuals and Legal Entities, 2006-2011

Land mortgages accounted for 6.74% of the 1,617,090 transactions with privately owned land plots concluded in 2011, which represented a 1.18 pp. rise on 2010 (*Table 22*).

Table 22

The Number of Transactions with Privately Owned Land Plots Concluded in the Russian Federation in 2011

RF Federal Districts	Land sale	Gift	Inheritance	Pledge	Total number of transactions	Pledge transactions, as a percentage of the total number of transactions, %	
	2011						2010
Russian Federation	908,867	189,043	410,125	109,055	1617,090	6.74	5.56
Central	283,423	63,291	148,223	25,959	520,896	4.98	3.54
North Western	57,345	16,386	39,879	6,628	120,238	5.51	6.08
Southern	86,760	8,349	15,690	7,160	117,959	6.07	3.64
North Caucasian	41,602	8,272	17,687	8,249	75,810	10.88	2.29
Volga	206,271	50,662	116,624	33,541	407,098	8.24	7.68
Urals	113,235	14,055	33,759	4,320	165,369	2.61	4.60
Siberian	96,721	23,580	27,110	21,222	168,633	12.58	12.31
Far Eastern	23,510	4,448	11,153	1,976	41,087	4.81	5.64

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

The ratio between the total area of pledged land plots and the total area of land in the ownership of individuals and organizations fluctuated from 0.26% in the North Caucasian Federal District to 10.01% in the Central Federal District. In 2011, this index for the Russian Federation as a whole amounted to 2.67%, which represented a two-fold rise on 2010 (*Table 23*). Most of the pledged land plots were land plots designated for agricultural use. In 2011, the proportion of mortgaged land designated for agricultural use to the total area of pledged land decreased by 33.44 pp. - to 46.1%.

Table 23

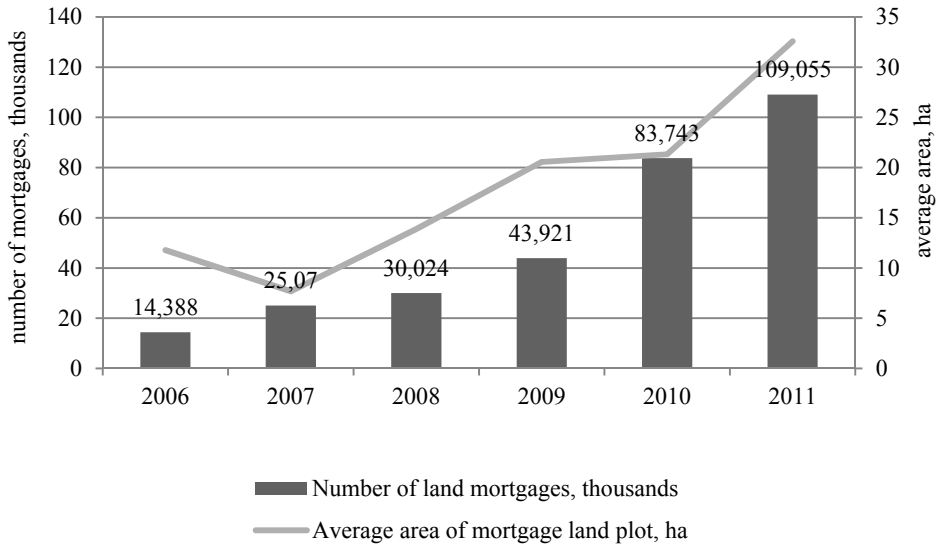
A General Characteristic of Pledges of Land in the Russian Federation

RF Federal Districts	In private ownership, thousands of ha	Of which in the state of being pledged, %		Including mortgages of land designated for agricultural use, %	
	2011	2011	2010	2011	2010
Russian Federation	133,075.7	2.67	1.33	46.10	79.54
Central	24,593.0	10.01	2.44	30.22	96.37
North Western	4,883.4	0.77	0.63	63.36	53.41
Southern	19,435.6	0.43	0.40	95.67	59.79
North Caucasian	4,662.0	0.26	0.54	57.10	88.06
Volga	35,745.0	1.66	1.55	93.93	95.90
Urals	9,775.6	0.83	2.07	92.20	18.39
Siberian	31,589.2	0.84	0.91	51.06	64.26
Far Eastern	2,391.9	0.77	0.24	85.50	61.09

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

The year 2011 saw 109,055 pledge transactions with land plots (or mortgages), which represented a 30.23% rise on 2010 (*Fig. 12)*. At the same time, the total area of pledged land rose to 3,553,568 ha, which was twice as much as in 2010. In 2011, the average area of a pledged land plot amounted to 32.59 ha, which represented a 52.78% rise on 2010 (*Fig. 12)*.

On 1 February 2012, in accordance with the joint Order of the RF Federal Tax Service and the RF Federal Service for State Property Management (*Rosnedvizhimost*), of 13 September 2007, No. P/0235/MM-3-13/529, and Order of the RF Ministry of Finance, of 20 June 2005, No. 75n, the territorial bodies of the RF Federal Service for State Registration, Cadastre and Cartography (*Rosreestr*) prepared electronic data on all land plots subject to taxation and transferred them to the territorial bodies of the RF Federal Tax Service. The actual amount of land tax due should be established as a percentage of the tax base (cadastral value), which must not exceed the upper limit stipulated in the RF Tax Code, by the corresponding normative legal acts of the representative bodies of a municipal formation.



Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2011.

Fig. 12. The Dynamics of Pledges of Land Plots by Individuals and Legal Entities in 2006-2011

Most of the representative bodies of municipal formations have decided that the maximum possible land tax rates based on the cadastral value of land plots should be introduced within their respective territorial jurisdictions. However, according to *Rosreestr*, the representative bodies of municipal formations in a number of RF subjects have used their right to take decisions more favorable to taxpayers. For example, the land tax rate

- for the land plots occupied by residential buildings is set at 0.01% of the cadastral value of a land plot in the municipal formations of Sverdlovsk Oblast; at 0.03% of the cadastral value of a land plot in the municipal formations of Stavropol Krai; and at 0.06% of the cadastral value of a land plot in the municipal formations of Tyumen Oblast;
- for the land plots occupied by garages is set at 0.023% of the cadastral value of a land plot in the municipal formations of Smolensk Oblast;
- for the land plots granted to individuals for conducting personal subsidiary economy is set at 0.026% of the cadastral value of a land plot in the municipal formations of Tyumen Oblast, and at 0.08% of the cadastral value of a land plot in the municipal formations of Perm Krai;
- for the land plots occupied by trade outlets is set at 0.037% of the cadastral value of a land plot in the municipal formations of Smolensk Oblast.

According to RF Federal Tax Service data for 2011, land tax levied on the basis of the cadastral value of land plots yielded Rb 122.193bn, which represents an 11.7% rise on 2010 (Rb 109.414bn).

6.5.2. The Dynamics of Residential Housing Commissioning

The year 2012 was a second post-crisis year in a row that saw an increase in the residential housing commissioning volume (by 4.7% on 2011).

Over the course of 2012, 826.6 thousand apartments with the total floor area of 65.2 million square meters were commissioned (*Table 24*) – most of them in the second half of 2012.

Table 24

The Commissioning of Residential Housing in Russia in 1999-2012

Year	Total floor area in millions of square meters	The rate of growth, %	
		on the previous year	on 2000
1999	32.0	104.2	105.6
2000	30.3	94.7	100.0
2001	31.7	104.6	104.6
2002	33.8	106.6	111.5
2003	36.4	107.7	120.1
2004	41.0	112.6	135.3
2005	43.6	106.3	143.9
2006	50.6	116.0	167.0
2007	61.2	120.9	202.0
2008	64.1	104.7	211.5
2009	59.9	93.4	197.7
2010	58.4	97.5	192.7
2011	62.3	106.6	205.6
2012	65.2	104.7	215.2

Sources: Rossiiskii statisticheskii ezhegodnik. 2007 [Russia: Statistical Yearbook 2007]: *Stat. Sb*. [Statistics Collection]: *Rosstat*. Moscow, 2011. P. 461; *O zhilishchnom stroitel'stve v 2012* [On Housing Construction in 2012], www.gks.ru, Authors' calculations.

Thus, in 2012, the volume of newly commissioned residential space surpassed its previous historic high achieved in the 2000s.

In 2012, the share of individual housing construction in the total area of completed residential housing units in Russia as a whole amounted to 43.2%. In this respect, individual housing construction in 2012 was at approximately the same level as in 2010, although the completion rate of individual housing construction hit its 5-year (2008-2012) high (5.2%). Moreover, in a number of regions (Dagestan, Tyva, Kabardino-Balkaria, Chechnya, Astrakhan Oblast and Belgorod Oblast) individual housing construction was clearly predominant: it accounted for more than 80% of newly commissioned residential space.

The positive dynamics of housing construction was observed in the majority of Russia's regions, including almost all regions where the volume of newly commissioned residential space exceeded 1 million square meters (*Table 25*).

As suggested in *Table 25,* a dynamics of housing commissioning considerably above the RF average (more than 8%) was recorded in Chelyabinsk Oblast, Tyumen Oblast (including the Khanty-Mansi [Yugra][1] and Yamalo-Nenets autonomous okrugs), Samara Oblast, Bashkortostan and Moscow. At the same time, the volumes of residential housing construction in Kemerovo Oblast and Tatarstan grew by less than 0.5%, while in Stavropol Krai, St. Petersburg and Moscow Oblast housing construction volumes dropped. A very significant drop in the volume of housing construction, by more than 10%, was registered in the area around Moscow.

Despite this setback, Moscow Oblast retained its first-place position among Russian regions, in terms of the absolute volume of housing commissioning. Moreover, Moscow, where the growth rate of this index amounted to 8.7%, practically caught up with St. Petersburg in this respect. At the same time, the share of the Moscow region (Moscow Oblast and the city of Moscow) in Russia's aggregate residential housing construction volume contracted to 14.5% (vs. 16.1% in 2011). Most of that percentage was accounted for by Moscow Oblast (10.6% vs. 16.1 in 2011), while the rest of it – by Moscow proper (3.9% vs. 2.9% in 2011).

[1] At the same time, in Khanty-Mansi Autonomous Okrug alone the residential housing commissioning volume exceeded 1 million square meters.

Table 25

The Dynamics of Housing Commissioning In Russia's Regions in 2012 (Ranked by Housing Commissioning Rate)

Region	Hosing commissioning rate, as a percentage of 2011
Chelyabinsk Oblast	127.3
Tyumen Oblast	119.1
Krasnodar Krai	116.8
Dagestan	116.0
Voronezh Oblast	112.2
Samara Oblast	111.5
Bashkortostan	109.9
Moscow	108.7
Leningrad Oblast	105.9
Belgorod Oblast	105.8
Rostov Oblast	105.5
Sverdlovsk Oblast	104.4
Novosibirsk Oblast	103.0
Nizhny Novgorod Oblast	102.2
Krasnoyarsk Krai	101.8
Kemerovo Oblast	100.3
Tatarstan	100.1
Stavropol Krai	96.2
Saint Petersburg	95.2
Moscow Oblast	89.6

Source: O zhilishchnom stroitel'stve v 2012 [On Housing Construction in 2012], www.gks.ru.

However, judging by a number of statements made by Moscow's authorities, one should admit that the prospects for residential construction in the capital of Russia look very modest.

Based upon the 2012 volume of residential construction in Moscow, officially stated by *Rosstat* (approximately 2.6 million of square meters)[1], it can be expected that some 9 million square meters of residential units will be built in the territory of 'Old' and New Moscow in the next three years. According to Moscow Deputy Mayor for Urban Development and Building Construction Marat Khusnullin, these numbers are precisely those that have been borne in mind by the city authorities when they were composing Moscow's targeted investment program with regard to municipal engineering infrastructure objects. Moscow's three-year targeted investment program for 2013-2015 envisages that Rb 145bn should be allocated for residential construction.[2]

To a certain extent, the real estate market of the Moscow region was influenced by the recent expansion of Moscow's borders.

The announcement of the plans that a number of areas around Moscow should be annexed thereto became a strong growth driver for the housing market. The level of consumer activity was considerably increased by expectations of changes in the status of the newly annexed areas, which gave the market a major impetus to raise housing prices. As a result, in 2011, the annual growth rate of asking prices at the market of newly built homes in 'New' Moscow amounted to 27.4%, four to five times higher than in Moscow proper (5.7%) and Moscow Oblast (7.2%). However, by December 2011, the influence exerted by that news on the market had largely disappeared.

[1] It should be noted that *Rosstat* has pointed out that its data on Moscow, a city of federal subject significance, and Moscow Oblast relate to their new boundaries established on 1 July 2012 in accordance with Decree of the Federation Council of the RF Federal Assembly, of 27 December 2011, No 560 SF. For the sake of comparability, relative indicators were calculated with due regard for the latest change to the boundary between the city of Moscow and Moscow Oblast.

[2] http://realty.rambler.ru, 27 February 2013.

Over the course of 2012, the volume weighted average asking price on the primary housing market of 'New' Moscow rose by 13%, which was considerably higher than the price rise in the area around Moscow, but only slightly differed from that in the city of Moscow (10.9%). At the same time, the supply volume significantly increased, pushed up by continued stable demand and by new real-estate objects being put on sale. The areas newly annexed to Moscow also account for much of the 6% rise in the number of purchase-and-sale transactions with apartments, recorded in 2012[1].

Overall, the above data indicate that the 2009-2010 collapse in residential construction investment has been largely overcome by now, and that the volumes of residential housing commissioning both in Russia as a whole and in the majority of her regions have been on the rise for two years in a row. This general trend is apparent – but for a few exceptions (for example, Moscow and Moscow Oblast - in connection with the reorganization of their territories; Stavropol Krai - because of the growing local tensions reducing its attractiveness to investors) which, as the saying goes, confirm the rule.

A number of problems besetting the mechanism of share participation in housing construction have not been resolved. According to the data presented by RF Prosecutor General Yuri Chaika at a collegium session of the Prosecutor General's Office of the Russian Federation in December 2012, as of the end of 2012 in Russia there were 750 so-called *problem objects* with unclear prospects, where construction investment affected the interests of 75.6 thousand people. More than 40% of the *problem objects* were situated in 5 regions: Moscow Oblast (109), Samara Oblast (64), Novosibirsk Oblast (57), Moscow (52), and Perm Krai (42).

In order to improve the residential construction situation, a package of amendments has been recently introduced to the well-known law 'On Participation in the Shared Construction of Multi-Unit Apartment Buildings and Other Real Estate Objects, and on the Introduction of Alterations to Some Legislative Acts of the Russian Federation', No. FZ-214, dating back to the end of 2004. It should be noted that the Law had already been repeatedly amended, most radically in 2010, when construction companies became obliged to use only one method of attracting investment from individuals – the participatory share construction agreement subject to mandatory state registration.

Without a doubt, the most important of recent legal innovations (including the changes introduced to the laws associated with Law No. FZ-214) has been the adoption of yet another method to guarantee the fulfillment of contractual obligations by property developers (alongside the pledge and the bank guarantee). The new legislation introduces civil liability insurance for property developers, effectuated by way of an insurance contract to be concluded by the property developer, or by the property developer's membership in a mutual insurance company of developers (MIC). Also, the new legislation establishes requirements with regard to the minimum amount of insurance, the determination of an insured event, the procedure for payments, etc.

Bearing in mind that insurance companies are currently not interested in insuring developers and the mechanism of functioning of the MIC, and also that the role of the State in this connection remain unclear, it is doubtful whether the proposed measures will actually be ef-

[1] *Novaia Moskva prinesla stolitse record po prodazhe kvartir* [New Moscow Pushes Apartment Sales in the Capital City to a Record High], http://news.rambler.ru, 14 January 2013.

fective. Moreover, there is a strong risk that developers will pass on the insurance costs to investors, which would most certainly result in a price-rise in the primary housing market[1].

Subjects of the housing markets are also rather pessimistic with regard to the possible deregulatory actions of the authorities.

Thus, according to Moscow Deputy Mayor for Economic Policy Andrei Sharonov, the 42 currently existing procedures for obtaining a permit for construction will be replaced by only 14 procedures, and so the applicant will spend fewer days getting a permit for construction. He also noted in this respect that, during the previous 2012 World Bank support mission, it had been noted that the number of days necessary for getting a permit for construction had dropped from 423 to 344.

When asked for comment on that statement, Aleksey Balykin, director of the project management department of the TEKTA GROUP development company, noted that in order to have any impact on the market, all those innovative ideas should first make their way into law; besides, he noted that the so-called 'administrative component' was simply not calculated as part of the overall cost in the majority of construction projects, and in reality the cost of housing was much stronger influenced by the 'infrastructure component' represented by the price of land and communications[2].

6.5.3. Housing Prices

The Price Situation in the Secondary Housing Market in 2007-2012, and the Regularities of Its Post-Crisis Development

Before turning to an analysis of the price situation in Russia's secondary housing market in the past few years, it should be reminded that, over the course of the growth phase (from mid-2000 to Autumn 2008 – the second long-term cycle of the housing market's development), ask prices on the housing market of Russian cities and towns increased five- to sevenfold. Overall, the duration of that cycle, with the time limits being set at the two lowest points (June 2000 and December 2009), amounted to about 10 years, precisely as in the case of the first cycle of the Russian housing market's development (from June 1990 through June 2000)[3].

Table 26 contains data on the dynamics of prices in the secondary housing market of almost 30 Russian cities (all towns of Moscow Oblast are presented as a single urban unit) in the period from December 2006 through December 2010. The collection and processing of data were carried out on a single methodological basis by real estate analysts certified by the Russian Guild of Realtors (RGR)[4].

---

[1] *Dol'shchikov podstrakhuiut* [Stake Holders will be Insured] // *Ekonomika i zhizn'* [Economy and Life]. No. 01 (9467). 11 January 2013. P. 06; *Chuvstvo bezopasnosti* [A Sense of Security] // *Profil'* [The Prophile]. January 2013. P. 36.

[2] Kuznetsova, Anna, RealEstate.ru.

[3] *Rossiiskii rynok zhil'ia* [Russia's Housing Market] // *Ekonomika perekhodnogo perioda. Ocherki economicheskoi politiki postkommunisticheskoi Rossii. Ekonomicheskii rost 2000-2007* [The Economy of the Transition Period. Essays on the History of the Economic Policy of Post-communist Russia. Economic Growth in 2000-2007]. Moscow: Delo, *ANKh* [Academy of National Economy], 2008. P. 620-646 (Section 16.3); Sternik G.M., Sternik S.G. *Analiz rynka nedvishimosti dlia proffessionalov* [An Analysis of the Real Estate Market Intended for a Professional Audience]. Moscow: Ekonomika, 2009.

[4] All calculations were performed by the authors on the basis of the monthly data on the median price asked for housing units in Russian towns, submitted by the RGR-certified real estate analysts S. G. Sternik (OJSC

Table 26

The Dynamics of Nominal Housing Prices in Russian Cities in 2006-2012, Including Some Typical Points (Ranked by the Level of Prices in December 2012)

City	Median unit price, thousands of rubles per square meter										
	Dec 2006	Dec 2007	maximum		Dec 2008	minimum		Dec 2009	Dec 2010	Dec 2011	Dec 2012
			date	price		date	price				
Moscow	126.9	133.4	11.2008	191.5	186.8	12.2009	153.0	153.0	168.5	185.5	203.0
St. Petersburg	68.2	78.6	10.2008	107.7	101.3	12.2009	81.1	81.1	82.3	88.3	95.0
Moscow Oblast	66.3	62.3	11.2008	93.2	91.0	02.2010	71.3	71.5	73.0	78.1	84.3
Yekaterinburg	63.5	64.1	06.2007	67.3	61.7	05.2010	52.9	53.0	55.5	63.8	70.1
Rostov-on-Don	41.1	52.0	09.2008	64.1	55.7	06.2010	48.3	48.4	50.5	55.8	62.8
Nizhny Novgorod	43.4	49.0	11.2008	61.4	59.9	08.2010	45.3	46.4	45.8	47.0	61.3
Kazan	40.0	40.7	09.2008	42.5	42.5	10.2009	37.8	38.0	43.0	51.5	n. d.
Tyumen	42.1	53.7	09.2008	52.9	51.5	12.2009	42.7	43.1	45.4	53.0	59.4
Novosibirsk	43.6	59.0	08.2008	65.2	56.6	12.2009	45.5	45.5	49.7	50.8	59.1
Tver	36.0	44.9	07.2008	69.0	62.0	08.2009	45.6	46.1	49.5	52.5	57.8
Yaroslavl	46.2	46.9	08.2008	54.6	51.6	08.2010	40.4	41.1	42.8	50.5	57.6
Irkutsk	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	46.0	48.7	50.2	57.2
Krasnoyarsk	30.2	54.3	02.2008	63.7	52.6	09.2009	40.0	40.3	43.5	48.8	56.2
Perm	38.1	56.8	09.2008	61.4	58.2	10.2009	41.5	42.4	44.1	48.4	53.4
Vladimir	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	41.6	42.5	46.7	51.3
Kemerovo	35.5	45.8	04.2008	54.0	52.5	10.2010	39.9	40.3	40.6	44.4	50.2
Novgorod	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	40.2	39.9	42.7	n. d.
Ufa	48.3	45.8	02.2009	55.5	50.2	08.2010	41.8	41.0	43.9	49.2	n. d.
Barnaul	n. d.	n. d.	06.2008	43.3	39.4	09.2009	31.5	34.4	35.1	40.2	48.1
Cheboksary	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	32.0	33.8	39.1	48.1
Izhevsk	48.5	45.4	03.2007	51.8	42.1	11.2009	33.0	33.3	34.9	39.6	46.4
Ryazan	30.0	36.9	08.2008	42.0	40.0	12.2009	35.4	35.4	37.7	40.8	46.2
Omsk	27.8	44.2	05.2008	45.6	43.3	06.2010	32.5	33.4	35.5	38.2	44.7
Chelyabinsk	n. d.	n. d.	12.2008	51.7	51.7	11.2009	36.8	37.2	37.2	39.9	44.4
Togliatti	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	37.9	43.5
Sterlitamak (Bashkortostan)	22.8	26.3	10.2008	29.1	27.9	06.2010	23.0	22.9	23.7	28.5	40.3
Ulyanovsk	22.6	30.5	02.2009	36.9	34.2	03.2010	30.8	31.0	31.8	34.2	39.9
Stavropol	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	n. d.	33.1	30.5	31.6	34.9
Shakhty (Rostov Oblast)	12.6	22.1	01.2009	31.2	31.1	08.2010	25.8	27.0	26.3	27.6	30.3

As shown by *Table 26*, as a rule, prices hit their historic highs in 2008, mainly in the second half-year, although some cities (Kemerovo, Krasnoyarsk, Barnaul and Omsk) had had their all-time price peak in the first half-year of 2008, while Yekaterinburg and Izhevsk – as early as 2007. For the three cities with the highest housing prices (including Moscow Oblast), the price peak was most clearly associated with the financial and economic crisis in October and November of 2008; as soon as that period was over, prices began to decline. The latest to

Sternik's Consulting), A. I. Rzhavskii, A. N. Sever'ianov (the *Azbuka Zhil'ia* [ABC about Housing] real estate agency) and A. G. Beketov (all of whom are Moscow - or Moscow Oblast-based), S. V. Bobashev, M. A. Bent (the *Biulleten' Nedvizhimosti* [Real Estate Bulletin] group of companies, St. Petersburg and Novgorod), M. A. Khor'kov, A. A. Antasiuk, G. T. Tukhashvili (all of whom are from the Realtor Information Center of the Urals Real Estate Chamber, Yekaterinburg), Ye. G. Sosnitskii, S. V. Fomina (the *Titul* [Title] real estate agency, Rostov-on-Don), A. A. Chumakov (Rostov-on-Don), A. L. Chemodanov (the *Indikatory Nizhegorodskoi Nedvishimosti* [Indicators of the Nizhny-Novgorod Real Estate Market] analytical center, Nizhny Novgorod), Ye. A. Yermolaeva (RID Analytics, Novosibirsk, Kemerovo, Barnaul, Krasnoyarsk), S. G. Molodkina (Association ALKO, Tyumen), E. D. Episheva, Yu. V. Selivestrova (*GK Kamskaia Dolina* [the Kama Valley group of companies], Perm), V. N. Kaminskii (the *Titan* real estate agency, Tver), A. V. Gollai (OJSC Metro-Otsenka [Metro-Valuation], Yaroslavl), M. Yu. Savina (*Agenstvo Pechati i Informatsii* [Information and Press Agency], Ryazan), R. M. Kazakov (Publishing House *Yarmarka* [The Fair], Ryazan), A. M. Cheremnykh (the ASSO-Stroi asset management company, Izhevsk), N. V. Koval'chuk (the *Sluzhba Nedvizhimosti* [Real Estate Services] real estate company, Chelyabinsk), A. S. Trofimov (Stavropol), Ye. R. Gamova, T. N. Kuklova (*Tsentr Nedvizhimosti* [Real Estate Center], Ulianovsk), M. A. Repin (OMEKS, Omsk), A. V. Trushnikov (B.I.N.-Expert, Sterlitamak), G. Yu. Eidlina (Realty, Shakhty), S. V. Esikov (Vladimir, Irkutsk, Togliatti, Cheboksary).

hit their peak housing prices were Ufa, Ulyanovsk and Shakhty, which achieved this only in early of 2009.

As a result, despite the onset of the acute phase of the crisis in the autumn of 2008, a year-on-year drop in housing prices (in comparison with December 2007) took place only in a relatively small segment of the sample, which included most of Ural and Siberian cities (Krasnoyarsk, Yekaterinburg, Novosibirsk, Tyumen and Izhevsk). However, the following year, in 2009, the housing prices tumbled across the whole of Russia (*Table 27*).

Table 27

The Dynamics of Housing Prices in Russian Cities in 2007-2012, as a Year-over-Year Percent Change from December of the Previous Year to December of the Current Year

City	from Dec 2008 to Dec 2007, %	from Dec 2009 to Dec 2008, %	from Dec 2010 to Dec 2009, %	from Dec 2011 to Dec 2010, %	from Dec 2012 to Dec 2011, %
Moscow	140.0	81.9	110.1	110.1	109.4
St. Petersburg	128.9	80.1	101.5	107.3	107.6
Moscow Oblast	146.1	78.6	102.1	107.0	107.9
Yekaterinburg	096.3	85.9	104.7	115.0	109.9
Rostov-on Don	107.1	86.9	104.3	110.5	112.5
Nizhny Novgorod	122.2	77.5	98.7	102.6	130.4
Kazan	104.4	89.4	113.2	119.8	-
Tyumen	095.9	83.7	105.3	116.7	112.1
Novosibirsk	095.9	80.4	109.2	102.2	116.3
Tver	138.0	74.4	107.4	106.1	110.1
Yaroslavl	110.0	79.7	104.1	118.0	114.1
Irkutsk	-	-	105.9	103.1	113.9
Krasnoyarsk	096.9	76.6	107.9	112.2	115.2
Perm	102.5	72.9	104.0	109.8	110.3
Vladimir	-	-	102.2	109.9	109.9
Kemerovo	114.6	76.8	100.7	109.4	113.1
Novgorod	-	-	99.3	107.0	-
Ufa	109.6	81.7	107.1	112.1	-
Barnaul	-	87.3	102.0	114.5	119.7
Cheboksary	-	-	105.6	115.7	123.0
Izhevsk	092.7	79.1	104.8	113.5	117.2
Ryazan	108.4	88.5	106.5	108.2	113.2
Omsk	098.0	77.1	106.3	107.6	117.0
Chelyabinsk	-	71.9	100.0	107.3	111.3
Togliatti	-	-	-	-	114.8
Sterlitamak (Bashkortostan)	106.1	82.1	103.5	120.3	141.4
Ulyanovsk	112.1	90.6	102.6	107.5	116.7
Stavropol	-	-	92.1	103.6	110.4
Shakhty (Rostov Oblast)	140.7	86.8	97.4	104.9	109.8

As far as the moment of hitting the price floor is concerned (*Table 26*), it can be seen that it differs considerably across the cities represented in the sample – just as it was in the case of achieving the price ceiling.

First of all, there is a group of cities (Moscow, St. Petersburg, Novosibirsk, Tyumen, Izhevsk, Chelyabinsk and Ryazan) where the housing price floor was hit in November-December 2009.

In some cities (Tver, Krasnoyarsk, Barnaul and Perm) this happened a bit earlier; while in other cities – much later, only in 2010, and not exclusively in its first half-year (Moscow Ob-

last, Ulyanovsk, Yekaterinburg, Rostov-on-Don, Omsk and Sterlitamak), but also in the second half-year (Nizhny Novgorod, Yaroslavl, Ufa, Kemerovo and Shakhty).

The results of calculations (*Table 28*) indicate that the crisis effect calculated using the ratio of the lowest (minimum) price (registered during the crisis period) to the preceding peak price, manifested itself through an 11 to 37% drop in prices on the secondary market. The cities where prices dropped by more than 30% were Krasnoyarsk, Izhevsk, Tver, Perm and Novosibirsk. The other pole of the spectrum was represented by the cities where prices dropped by no more than 20% – Kazan, Shakhty, Ryazan, Ulyanovsk and Tyumen.

Table 28

The Dynamics of Housing Prices in Russian Cities in 2007–2012 in Relation to Typical Points

City	Dec 2007, thousands of rubles per sq m	maximum, thousands of rubles per sq m	minimum		December 2009			December 2012			
			thousands of rubles per sq m	relative to maximum	thousands of rubles per sq m	relative to December 2007	relative to maximum	thousands of rubles per sq m	relative to minimum	relative to maximum	relative to December 2007
Moscow	133.4	191.5	153.0	0.799	153.0	1.147	0.799	203.0	1.327	1.060	1.522
St. Petersburg	78.6	107.7	81.1	0.753	81.1	1.032	0.753	95.0	1.171	0.882	1.209
Moscow Oblast	62.3	93.2	71.3	0.765	71.5	1.148	0.767	84.3	1.182	0.905	1.353
Yekaterinburg	64.1	67.3	52.9	0.786	53.0	0.827	0.788	70.1	1.325	1.042	1.094
Rostov-on Don	52.0	64.1	48.3	0.754	48.4	0.931	0.755	62.8	1.300	0.980	1.208
Nizhny Novgorod	49.0	61.4	45.3	0.738	46.4	0.947	0.756	61.3	1.353	0.998	1.251
Kazan	40.7	42.5	37.8	0.889	38.0	0.934	0.894	n. d.	-	-	-
Tyumen	53.7	52.9	42.7	0.807	43.1	0.803	0.815	59.4	1.391	1.123	1.106
Novosibirsk	59.0	65.2	45.5	0.698	45.5	0.771	0.698	59.1	1.299	0.906	1.002
Tver	44.9	69.0	45.6	0.661	46.1	1.027	0.668	57.8	1.268	0.838	1.287
Yaroslavl	46.9	54.6	40.4	0.740	41.1	0.876	0.753	57.6	1.426	1.055	1.228
Irkutsk	n. d.	n. d.	n. d.	-	46.0	-	-	57.2	-	-	-
Krasnoyarsk	54.3	63.7	40.0	0.628	40.3	0.742	0.633	56.2	1.405	0.882	1.035
Perm	56.8	61.4	41.5	0.676	42.4	0.746	0.691	53.4	1.287	0.870	0.940
Vladimir	n. d.	n. d.	n. d.	-	41.6	-	-	51.3	-	-	-
Kemerovo	45.8	54.0	39.9	0.739	40.3	0.880	0.746	50.2	1.258	0.930	1.096
Novgorod	n. d.	n. d.	n. d.	-	40.2	-	-	n. d.	-	-	-
Ufa	45.8	55.5	41.8	0.753	41.0	0.895	0.739	n. d.	-	-	-
Barnaul	n. d.	43.3	31.5	0.727	34.4	-	0.794	48.1	1.527	1.111	-
Cheboksary	n. d.	n. d.	n. d.	-	32.0	-	-	48.1	-	-	-
Izhevsk	45.4	51.8	33.0	0.637	33.3	0.733	0.643	46.4	1.406	0.896	1.022
Ryazan	36.9	42.0	35.4	0.843	35.4	0.959	0.843	46.2	1.305	1.100	1.252
Omsk	44.2	45.6	32.5	0.713	33.4	0.756	0.732	44.7	1.375	0.980	1.011
Chelyabinsk	n. d.	51.7	36.8	0.712	37.2	-	0.719	44.4	1.207	0.859	-
Togliatti	n. d.	n. d.	n. d.	-	n. d.	-	-	43.5	-	-	-
Sterlitamak (Bashkortostan)	26.3	29.1	23.0	0.790	22.9	0.871	0.787	40.3	1.752	1.385	1.532
Ulyanovsk	30.5	36.9	30.8	0.835	31.0	1.016	0.840	39.9	1.295	1.081	1.308
Stavropol	n. d.	n. d.	n. d.	-	33.1	-	-	34.9	-	-	-
Shakhty (Rostov Oblast)	22.1	31.2	25.8	0.827	27.0	1.222	0.865	30.3	1.174	0.971	1.371

If the chosen typical points are December 2007 (when clear signs of crisis were absent) and December 2009 (the end of a calendar year characterized by an across-the board drop in prices, that would be followed, in most of the cities, by a transition to oscillating stability), Moscow Oblast, St. Petersburg, Tver, Ulyanovsk and Shakhty clearly stand out as being most

robust, for even at the beginning of 2010 housing prices in these cities were higher than in December 2007, which means that despite a significant fall their growth potential had not been exhausted during the months directly before the crisis. It was precisely this circumstance that had predetermined the relative insignificance (by no more than 17-18%) of the drop in the real value of housing (not adjusted for consumer price inflation - which amounted to 23% over the period 2008-2009 (13.1% in 2008 and 8.8% in 2009)) traded in the consumer market (the IGS Index)[1] in those cities over the course of 2 years (2008-2009), while in the majority of Ural and Siberian cities (Yekaterinburg, Tyumen, Novosibirsk, Omsk, Perm, Krasnoyarsk and Izhevsk) that drop amounted to about 33 to 40% (*Table 29*).

In 2010, Moscow saw the beginning of a smooth rise in housing prices (which grew by more than 10%), while most of the other cities included in the sample demonstrated an oscillating stability of that indicator. In nominal terms, the price rise that took place in most of the cities did not exceed the rate of inflation. Therefore a real rise in housing prices took place, beside Moscow, only in Kazan and Novosibirsk. In four cities (Nizhny Novgorod, Novgorod, Stavropol and Shakhty) nominal prices continued to shrink, while in Chelyabinsk they remained at the same level as one year earlier.

In 2011, nominal housing prices went up in all towns (without exception) included in the sample. The price rise amounted to 2 to 20%, and in the absolute majority of those cities its rate was high enough to indicate that housing prices were increasing with inflation being taken into account. In this respect, the only exceptions to the rule were the five cities (Nizhny Novgorod, Novosibirsk, Irkutsk, Stavropol and Shakhty) where housing prices increased to a smaller extent than the rate of inflation, and Tver, where the rate of increase in housing prices was approximately equal to the rate of inflation.

In 2012, housing prices continued to grow across the board, and it should be noted that, unlike 2011, the rate of their rise exceeded the rate of inflation in all cities without exception. In most of the cities included in the sample, the rise in nominal housing prices amounted to more than 10%. Especially noteworthy in this regard were Sterlitamak (more than 41%), Nizhny Novgorod (more than 30%), and Cheboksary (23%). The group of cities with the most moderate increase in nominal housing prices (from 7.5% to 10%) included Yekaterinburg, Vladimir, Shakhty, Moscow, Moscow Oblast, and St. Petersburg. It should be noted that in Q4 2012, nominal housing prices breached the Rb 200 thousand per sq m mark.

In most of the cities included in the sample, prices grew to a larger extent that in 2011. The only exceptions were Moscow, Yekaterinburg, Tyumen and Yaroslavl, where the growth rate of prices decreased, and Vladimir, where it remained at the same level as one year earlier. As far as 2012 housing prices in real terms are concerned (that is, not adjusted for annual consumer price inflation which amounted to 6%) (the IGS Index), the only locality where a slowdown in the nominal growth of prices occurred (beside the above-mentioned cities, including Vladimir, which experienced a decline in the nominal growth of prices) was St. Petersburg (*Tables 27, 29*).

[1] The IGS Index is calculated by the formula: IGS=RPI/CPI, where RPI is the housing price index in rubles, and CPI is the consumer price index.

Table 29

The Dynamics of Housing Prices in Russian Cities in 2007-2012, Including the Indices of Nominal and Real Prices

City	Dec 2007, thousands of rubles/ sq m	December 2009.			December 2011			December 2012				
		thousands of rubles/sq m	price index as compared to Dec 2007		thousands of rubles/sq m	price index as compared to Dec 2010		thousands of rubles/sq m	price index as compared to Dec 2011		price index as compared to Dec 2007	
			nominal	real		nominal	real		nominal	real	nominal	real
Moscow	133.4	153.0	1.147	0.930	185.5	1.101	1.038	203.0	1.094	1.026	1.522	1.003
St. Petersburg	78.6	81.1	1.032	0.837	88.3	1.073	1.011	95.0	1.076	1.009	1.209	0.797
Moscow Oblast	62.3	71.5	1.148	0.931	78.1	1.070	1.008	84.3	1.079	1.012	1.353	0.892
Yekaterinburg	64.1	53.0	0.827	0.671	63.8	1.150	1.084	70.1	1.099	1.031	1.094	0.721
Rostov-on Don	52.0	48.4	0.931	0.755	55.8	1.105	1.041	62.8	1.125	1.055	1.208	0.796
Nizhny Novgorod	49.0	46.4	0.947	0.768	47.0	1.026	0.967	61.3	1.304	1.223	1.251	0.825
Kazan	40.7	38.0	0.934	0.757	51.5	1.198	1.129	n. d.	-	-	-	-
Tyumen	53.7	43.1	0.803	0.651	53.0	1.167	1.100	59.4	1.121	1.052	1.106	0.729
Novosibirsk	59.0	45.5	0.771	0.625	50.8	1.022	0.963	59.1	1.163	1.091	1.002	0.661
Tver	44.9	46.1	1.027	0.833	52.5	1.061	1.000	57.8	1.101	1.033	1.287	0.848
Yaroslavl	46.9	41.1	0.876	0.711	50.5	1.180	1.112	57.6	1.141	1.070	1.228	0.809
Irkutsk	n. d.	46.0	-	-	50.2	1.031	0.972	57.2	1.139	1.068	-	-
Krasnoyarsk	54.3	40.3	0.742	0.602	48.8	1.122	1.057	56.2	1.152	1.081	1.035	0.682
Perm	56.8	42.4	0.746	0.605	48.4	1.098	1.035	53.4	1.103	1.035	0.940	0.620
Vladimir	n. d.	41.6	-	-	46.7	1.099	1.036	51.3	1.099	1.031	-	-
Kemerovo	45.8	40.3	0.880	0.714	44.4	1.094	1.031	50.2	1.131	1.061	1.096	0.722
Novgorod	n. d.	40.2	-	-	42.7	1.070	1.008	n. d.	-	-	-	-
Ufa	45.8	41.0	0.895	0.726	49.2	1.121	1.057	n. d.	-	-	-	-
Barnaul	n. d.	34.4	-	-	40.2	1.145	1.079	48.1	1.197	1.123	-	-
Cheboksary	n. d.	32.0	-	-	39.1	1.157	1.090	48.1	1.230	1.154	-	-
Izhevsk	45.4	33.3	0.733	0.595	39.6	1.135	1.067	46.4	1.172	1.099	1.022	0.674
Ryazan	36.9	35.4	0.959	0.778	40.8	1.082	1.020	46.2	1.132	1.062	1.252	0.825
Omsk	44.2	33.4	0.756	0.613	38.2	1.076	1.014	44.7	1.170	1.098	1.011	0.667
Chelyabinsk	n. d.	37.2	-	-	39.9	1.073	1.011	44.4	1.113	1.044	-	-
Togliatti	n. d.	n. d.	-	-	37.9	-	-	43.5	1.148	1.077	-	-
Sterlitamak (Bashkortostan)	26.3	22.9	0.871	0.706	28.5	1.203	1.134	40.3	1.414	1.326	1.532	1.001
Ulyanovsk	30.5	31.0	1.016	0.824	34.2	1.075	1.013	39.9	1.167	1.095	1.308	0.862
Stavropol	n. d.	33.1	-	-	31.6	1.036	0.976	34.9	1.104	1.036	-	-
Shakhty (Rostov Oblast)	22.1	27.0	1.222	0.990	27.6	1.049	0.989	30.3	1.098	1.030	1.371	0.904

It is pertinent to ask to what extent the effects of the crisis have been overcome by now.

In December 2012, prices in all cities included in the sample were higher than their minimum values recorded in the period 2007-2010. The most considerable rebounds in prices were observed in Sterlitamak (by more than 75%), Barnaul (by around 53%), Yaroslavl (by around 43%), Krasnoyarsk and Izhevsk (by around 41%). The most moderate price rebounds took place in Moscow Oblast, St. Petersburg and Shakhty (by 17 to 18%).

However, prices climbed above their pre-crisis highs only in less than half of the cities represented in the sample, including Sterlitamak (by more than 8%), Tyumen and Barnaul (by around 12%), Ryazan (by 10%), Ulyanovsk (by more than 8%), Moscow (by 6%), Yaroslavl (by 5.5%), and Yekaterinburg (by more than 4%). At the same time, the December 2007 level of prices was surpassed in all cities except for Perm. The largest rises in prices were observed in Moscow, Sterlitamak (by more than 52% and 53% respectively), Shakhty (by more than 37%), Moscow Oblast (by more than 35%), and Ulyanovsk (by around 31%).

We believe that one of the most interesting results of the housing market's development during and after the crisis was the relative drop in inflation-adjusted housing prices in the secondary housing market. Over the course of 5 years (2008-2012), housing prices in real terms (not adjusted for consumer inflation which amounted to 51.7% over the course of that period

(2008 – 1.131; 2009 – 1.088; 2010 – 1.088; 2011 – 1.061; 2012 – 1.066)) dropped in almost all cities except for Moscow and Sterlitamak. The largest (by more than 30%) drops in prices were observed in Perm, Omsk, Izhevsk and Krasnoyarsk.

Thus, it could be noted that, by December 2012, prices in 9 cities (Nizhny Novgorod, Yekaterinburg, Yaroslavl, Moscow, Ulyanovsk, Barnaul, Ryazan, Tyumen and Sterlitamak) out of the 21 cities[1] included in the sample, had regained and surpassed their peak levels. Three cities (Rostov-on-Don, Omsk and Shakhty) were extremely close to their previous highs. In 9 cities prices lagged behind their peak levels by 7 to 16% (*Fig. 13*).

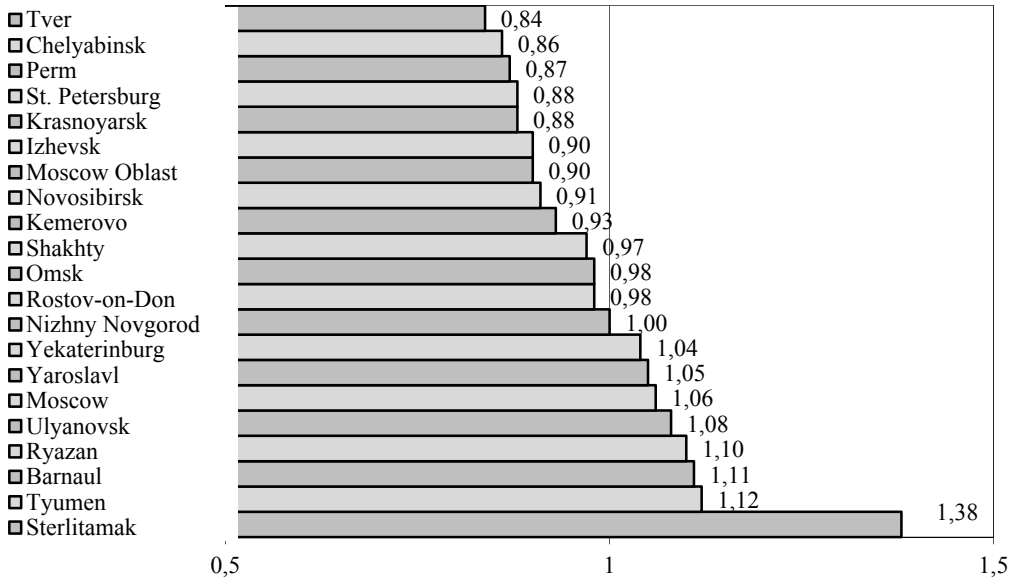


Fig. 13. Price Indices in the Secondary Housing Market in December 2012, Relative to their Peak Levels

Our analysis of the regularities of post-crisis recovery of prices suggests that, on average, prices rebounded faster in the cities where their drop had been small or moderate.

Nevertheless, the scatter in price recovery rates was relatively significant, which resulted from both the objective differences in the socio-economic situations from one region to another and the specific factors influencing the housing market of one or other region.

Some of these local specificities are as follows. In Sterlitamak, analysts note a rise in the number of speculative investment transactions, which clearly boosts prices. In Kazan, the current unprecedented growth of prices is associated with the activities celebrating the city's 1000th anniversary and with Kazan's preparation for the 2013 World University Summer Games. In St. Petersburg, the supply of affordable housing for sale dwindled. The decline in the growth rate of personal incomes has resulted in a shrinkage of demand for mortgage loans, and, consequently, in a fall of the growth rate of prices.

By contrast, in Moscow, where the supply of affordable housing for sale is on the rise, and that of prestigious housing is on the decline, the number of mortgage transactions has sharply increased (because of the greater availability of small mortgage loans), surpassing the pre-crisis peak levels. As a result, housing prices have gone up, and continue to grow. Over the

[1] The whole sample represented in *Tables 25-28*, comprises around 30 cities. However, many of these cities lack sufficient data to make statistically reliable comparisons.

course of 2012, the number of mortgage transactions increased by 29%, and it should be noted that one in three apartments purchased in Moscow last year was bought on credit (almost 32 thousand out of 96.7 thousand transactions)[1]. Also, according to *Rosreestr*, the total number of purchase-and-sale transactions carried out on the Moscow housing market in 2012 grew by 6% vs. by 6.5% in 2011, and by 53.9% in 2010[2].

The Dynamics of Prices in the Primary Housing Market

A comparison of prices in the secondary and primary housing markets indicates that, on the whole, the dynamics of prices in the primary market was close to that in the secondary market. However, after the crisis had spread to Moscow, property developers were in no hurry to cut prices, in spite of a catastrophic decline in demand. In other cities their pricing policies were more reasonable, which helped the housing market to maintain its turnover.

As a result, after the Moscow housing market had returned to its growth trajectory, in the autumn of 2011 prices in the capital city's primary housing market breached the Rb 200,000 per sq m mark and surpassed their previous peak. They persistently remained above that level throughout 2012 (e.g. by more than 13% in December). In Tyumen, prices surpassed their previous peak in the first months of 2012; by the end of that year, the excess over the previous peak had risen to more than 11%. In Moscow Oblast, Nizhny Novgorod and Novosibirsk, prices regained their previous highs only as late as Q4 2012. In St. Petersburg, Ryazan, Perm and Izhevsk, the ratio between primary market prices and their previous peak was in the range from 0.86 to 0.93.

As one year earlier, in most of the cities included in the sample, prices in the secondary housing market were higher than primary housing market prices. The only exception to this trend was Moscow, where the median unit price in the secondary housing market in 2012 was by 12 to 16% lower than that in the primary market. In Chelyabinsk, these indices were relatively close.

In the rest of the cities, in 2012, the median unit price in the secondary housing market was higher than that in the primary market. It widely fluctuated over the course of the year: by 4 to 8% in Nizhny Novgorod; by 7 to 13% in Izhevsk; by 7 to 20% in Perm; by 18 to 27% in Moscow Oblast; by 19 to 21% in Tyumen; by 16 to 24% in Novosibirsk; and by 16 to 33% in Ryazan.

The main factor determining such a ratio between the median unit prices in the secondary and primary housing markets was the quantitative and qualitative differences in the structure of housing traded in these markets.

Thus, in Moscow, nearly half of the supply volume in the primary housing market consists of apartments in high-standard residential houses (of business and elite classes), situated, as a rule, in the central district or other prestigious areas of the city. In other cities, the supply volume in the primary housing market predominantly consists of affordable residential houses (of economy and comfort classes). With better lay-outs than those of older residential houses, they are situated, as a rule, far from the city center, in the areas with underdeveloped or non-existent transport and social infrastructure.

Another factor pushing down the ratio between prices for apartments residential houses under construction and prices for apartments in completed residential houses is the discounts (from 20 to 40% of the presumed value of the apartments after the commissioning of the rele-

[1] According to the Agency for Housing Mortgage Lending (AHML), in Russia as a whole, the proportion of housing mortgage transactions amounted to around 20% (in 2011 – to 17.6%).
[2] *Zhit' v kredit ne zapretish* [It cannot be Forbid to Live on Tick]. RBK daily. 14 January 2013.

vant projects) provided by property developers to apartment purchasers at early stages of housing construction in the form of share participation agreements. Naturally, there have been examples to the contrary: thus, in Yekaterinburg, the *Renova-Stroi* property development company has begun selling its apartments in Akademicheskii District only on their completion. The same approach to sales has been taken by the *Zhilstroi-9* company in Chelyabinsk. However, such practices are only exceptions to the general rule.

Naturally, the ratio between prices in the primary housing market and prices in the secondary housing market changes over time, and depends not only on the quality of residential houses being built but also on the state of the housing market: during the crisis, property developers in different regions adopted different pricing policies in response to changes in demand.

The home acquisition schemes used in the primary housing market of Moscow differ in many interesting respects from those used in the primary housing market of Moscow Oblast.

In 2012, the predominant home acquisition scheme in Moscow Oblast was the mechanism of share participation in accordance with the well-known Federal Law No. FZ-214 (89% of housing market transactions), while in Moscow, share participation in housing construction accounted for less than one half of housing market transactions (46%); although, according to the Moscow branch of *Rosreestr*, the number of such transactions registered in 2012 (12,107) was 2.7 times higher than in 2011. While share participation in housing construction was relatively unpopular in Moscow, the contrary can be said of such methods as the purchase of target housing under a preliminary agreement (approximately one-third of all transactions vs. a symbolic 1% in Moscow Oblast). Also, house-building cooperation is much more widespread in Moscow than in Moscow Oblast (20% and 8% respectively). Both in Moscow and Moscow Oblast, purchases of housing under simple purchase and sale agreements (widely used in the secondary housing market) account for a tiny percentage of the primary housing market (1% in Moscow and 2% in Moscow Oblast)[1].

The aforesaid differences existing within the Moscow region perfectly illustrate the relationship between the quantitative differences in the structure of the new dwelling stock being commissioned on the one hand, and the most popular home acquisition schemes, on the other. The lesser use of the share participation scheme in Moscow, as compared to Moscow Oblast, can be explained by the fact that elite-class and business-class houses account for a far greater proportion of the new dwelling stock (buyers of such dwellings do not need share participation agreements). In Moscow Oblast, where economy-class houses account for a predominant proportion of the new dwelling stock, buyers usually insist on such agreements being concluded. Moscow property developments have so far been reluctant to comply with such requests - unless stimulated in this respect by buyers of expensive homes.

By comparison with the mechanism of share participation in residential housing construction, which envisages special norms designed to safeguard the rights of shared construction participants[2], the purchase of a dwelling under a preliminary agreement poses more risks to the

[1] Grekova, O. *Chrezvychainye metry* [Extraordinary Meters] // *Moskovskii Komsomolets*. 15-21 February 2013. No. 33(87). P. 16; *Novaia Moskva prinesla stolitse rekord po prodazhe kvartir* [Thanks to New Moscow, Apartment Sales in the Capital Hit a Record High], http://news.rambler.ru, 14 January 2013.

[2] The property developer is legally required to register its ownership or leasing rights to the land plot, to obtain permission for construction and for publishing the project declaration, to register the share construction agreements with the RF Federal Service for State Registration, Cadastre and Cartography (*Rosreestr*), and to pay a fixed penalty in the event of the developer failing to meet its obligations. The buyer has the right to demand that all defects of construction be rectified free of charge, and to claim compensation for repairs or for the apartment's loss in value.

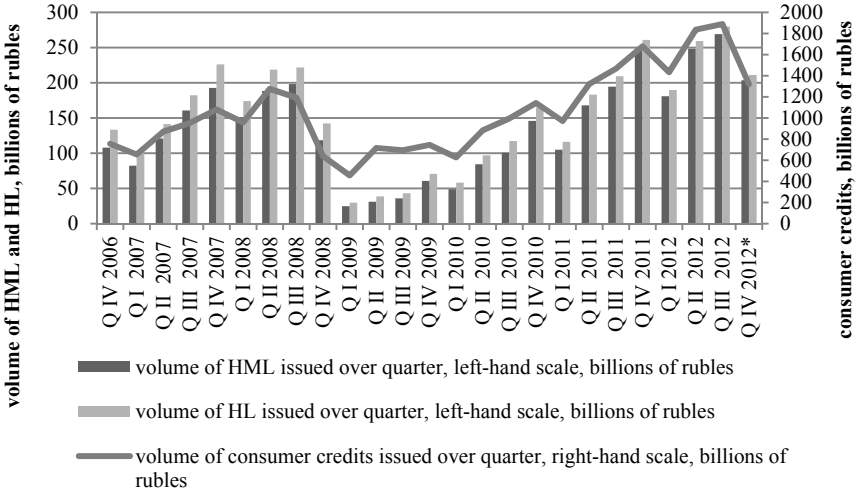
buyer because the object of such a transaction is only the *intention* of the parties. Moreover, under the existing law, such transaction can be deemed legal only in the event when the property developer has been granted permission to commission the object of construction. While the possibility of the seller going bankrupt and the risk of multiple sales always exist in share participation agreements, that is also true of housing purchases under preliminary agreements.

The main advantage of share participation in residential housing construction is the possibility, for a participant, to pay his or her contribution through installments over a long period of time. However, this scheme implies that participants can assume ownership of the property in question only on its completion, and that they must pay participant contributions. Moreover, this scheme makes its participants dependent on the decisions adopted by a general meeting of participants, which involves the risk of being expelled, without an explanation of the reasons, from the ranks of participants. And finally, it implies the possibility of the price of an apartment being increased, because house-building cooperatives do not take on the responsibility to keep the prices of apartments unchanged and to rectify the defects of construction.

Apart from the afore-noted schemes, the use of two more schemes – housing savings cooperatives and the investment agreement - is potentially possible. However, these two tools are almost nonexistent in the primary housing market for the following obvious reasons: the mechanism of housing savings cooperatives is extremely complicated, while investment agreements can be concluded only with legal entities[1].

6.5.4. Housing Mortgage Lending

According to the RF Central Bank, as of 1 December 2012, 664 credit institutions had issued, since the beginning of 2012, 611,487 housing mortgage loans (HML) in the amount of Rb 904.56bn, which represents a 47.3% rise on the amount of HML issued as of 1 December 2011, and a 37.93% rise on the amount of HML issued throughout the pre-crisis year 2008. In Q3 2012, the HML issued by credit institutions amounted to Rb 203.6bn, which represents a 35.76% rise on Q3 2008 (*Fig. 14*).

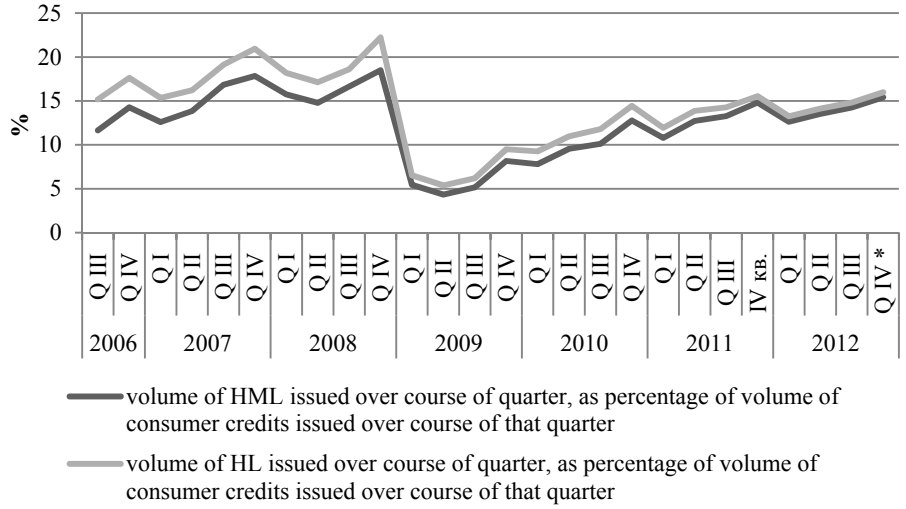


** October–November.*
Source: RF CB data.

Fig. 14. The Dynamics of Loans Issued to Individuals over the Course of a Quarter, 2006-2012

[1] Before Law No. FZ-214 was amended, investment agreements could also be concluded by individuals.

In Q3 2012, the share of HML in the volume of consumer lending grew by 0.98 p.p. on Q3 2011 - to 14.25% (*Fig. 15*). The volume of consumer lending in Q3 2012 (Rb 1,889.5bn) rose by 48.14% on its pre-crisis record high registered in Q2 2008.



*) – October-November 2012.
Source: RF CB data.

Fig. 15. The Dynamics of the Volume of HML Issued to Individuals over the Course of a Quarter, as a Percentage of the Volume of Consumer Credits Issued Over the Course of that Quarter, 2006-2012

According to *Rosreestr*, the share of mortgaged real estate objects in the total number of real estate objects registered in housing transactions has been on the rise since 2009. In 2012, one in five housing transactions was a residential mortgage transaction (*Table 30*).

Table 30

The Share of Mortgaged Real Property Objects in the Total Number of Real Property Objects Registered in Housing Transactions, %

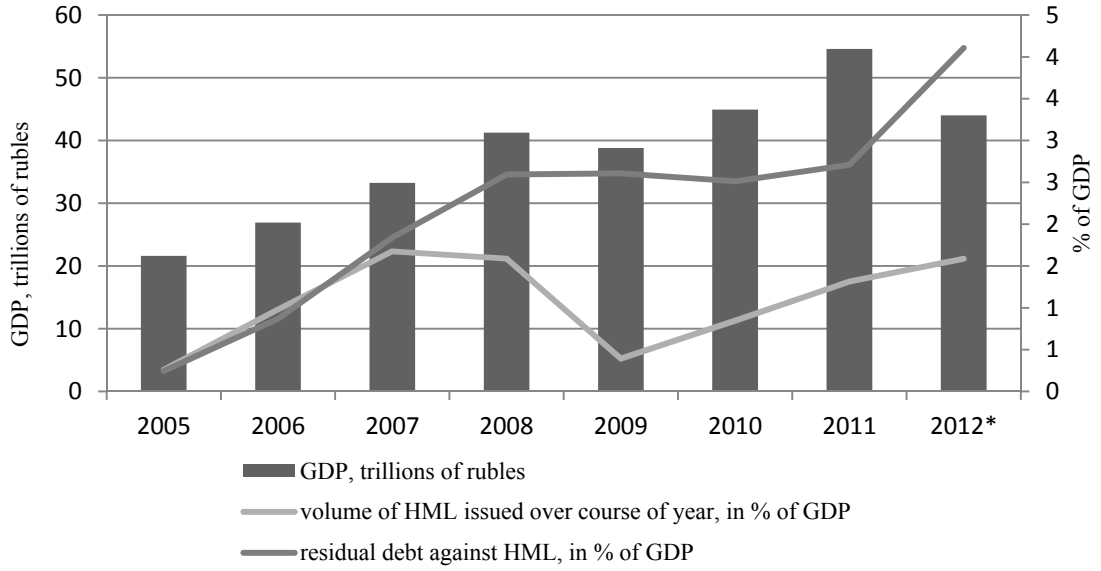
2005	2006	2007	2008	2009	2010	2011	January –November 2012
4.2	9.5	15.6	16.9	11.9	14.6	17.6	20.5

Source: OJSC Agency for Housing Mortgage Lending, on the basis of *Rosreestr* data.

As of 1 October 2012, the volume of issued HML as a share of GDP amounted to 1.59% vs. 1.31% as of the end of 2011. Expressed as a percentage of GDP, this index rose to its record high in 2007 (1.67% of GDP) (*Fig. 16*). As of 1 October 2012, the amount of debt outstanding against HML, expressed as a percentage of GDP, was 4.11%, which represented a 1.4 p.p. rise on that index as of the end of 2011 and a 1.51 p.p. rise on its pre-crisis record high registered in 2008 (*Fig. 16*).

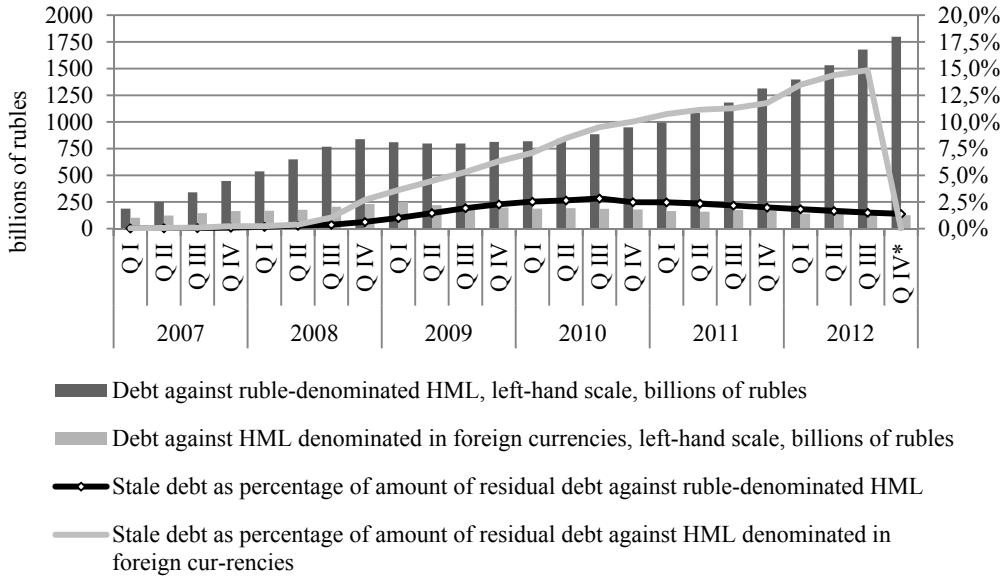
The year 2012 saw a continuation of the rise in the amount of residual debt against ruble-denominated HML, and also a continuation of the drop in the ratio of the amount of stale debt against ruble-denominated HML to the amount of residual debt (*Fig. 17*). As of 1 December 2012, the amount of debt against ruble-denominated HML rose by 42.41% on 1 December 2011 - to Rb 1,797.73bn, while the amount of stale debt dropped by 4.65%, to Rb 24.8bn, or 1.38% of the amount of residual debt. At the same time, the amount of residual debt against HML denominated in foreign currencies shrank by 23.22% - to Rb 125.73bn, while the

amount of stale debt against such HML grew by 0.75% - to Rb 19.3bn, or 15.35% of the amount of residual debt (*Fig. 17*). The share of effective stale debt in effective residual debt declined to 2.29% as of 1 December 2012 (*Fig. 17*).



*) – January–September 2012.
Source: RF CB data.

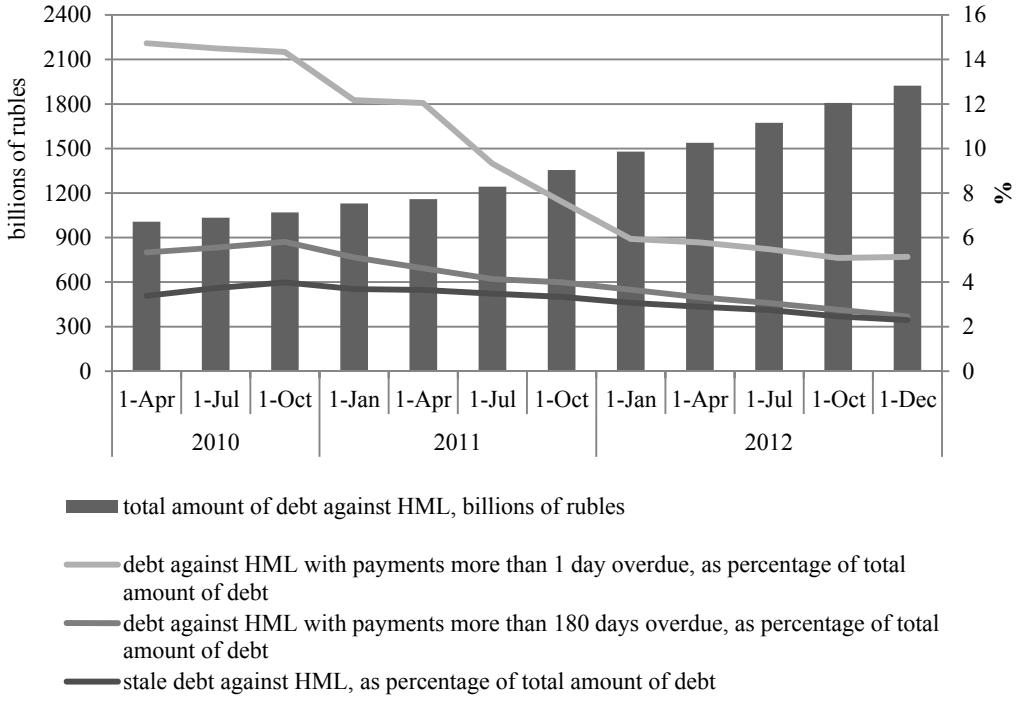
Fig. 16. The Dynamics of Housing Mortgage Lending as a Percentage of GDP, 2005-2012



*) – as of 1 December 2012.
Source: RF CB data.

Fig. 17. The Dynamics of Residual and Stale Debt against Housing Mortgage Loans, 2007-2012

The year 2012 saw a continuation of the rise in the amount of residual debt against HML with no overdue payments and of the rise of its share in the total amount of debt (*Fig. 18*). As of 1 December 2012, residual debt against such HML amounted to Rb 1,824.8bn, while its share in the total amount of debt rose by 0.81 p.p. on 1 January 2012, to 94.87%. As of 1 December 2012, the share of debt against HML with payments more than 180 days overdue (debt against defaulted loans) in the total amount of debt dropped by 1.2 p.p. on 1 January 2012.

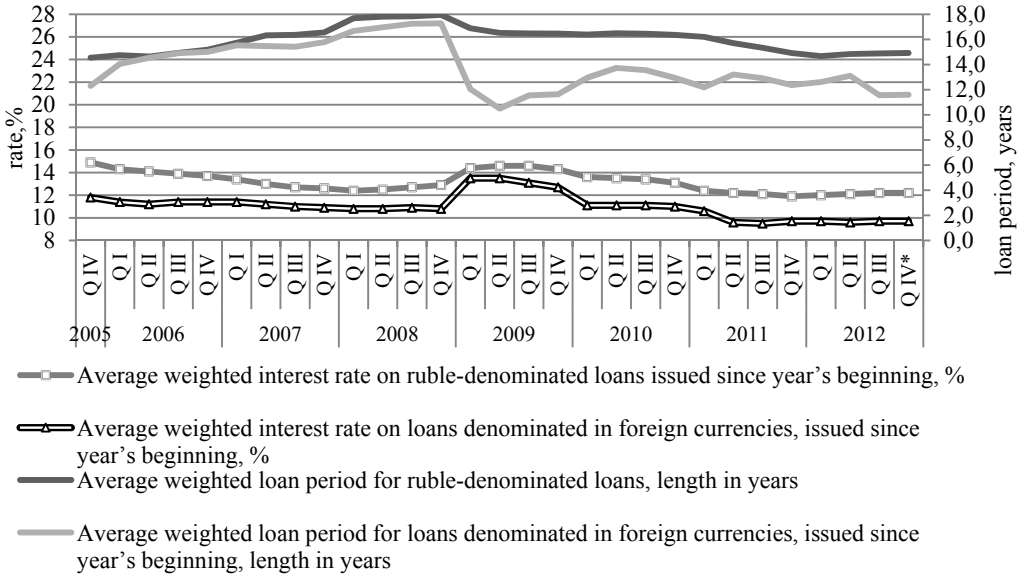


Source: RF CB data.

Fig. 18. The Dynamics of Debt against Housing Mortgage Loans and Stale Debt against Housing Mortgage Loans with Overdue Payments, 2010-2012

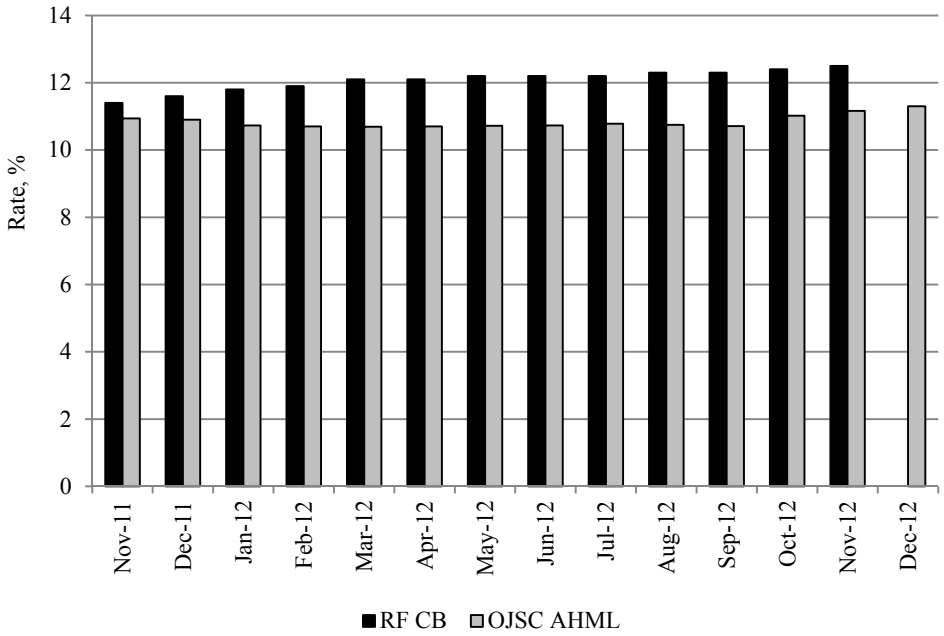
In 2012, the steady fall in the average weighted interest rate on ruble-denominated HML issued since the year's beginning, which had been taking place throughout 2010 and 2011, was replaced by its rising, from 11.9% as of 1 January 2012, to 12.2% as of 1 December 2012 (*Fig. 19*). The average weighted interest rate on HML denominated in foreign currencies, issued since the year's beginning, increased from 9.4% as of 1 March 2012 to 9.7% as of 1 December 2012. As of 1 December 2012, the average weighted loan period for ruble-denominated HML issued since the year's beginning amounted to 14.91 years, while that for HML denominated in foreign currencies amounted to 11.59 years (*Fig. 19*).

According to RF CB data, the average weighted interest rate on ruble-denominated HML issued since the year's beginning across the Russian Federation increased from 11.4% in November 2011 to 12.5% in November 2012 (*Fig. 20*). According to the Agency for Housing Mortgage Lending's data, the average weighted interest rate on ruble-denominated HML refinanced over the course of a month began to increase later than the aforesaid interest rate. It grew from 10.7% in April 2012 to 11.3% in December 2012 (*Fig. 20*).



*) – as of 1 December 2012.
Source: RF CB data.

Fig. 19. Average Weighted Data on HML Denominated in Rubles and Foreign Currencies, Issued Since the Year's Beginning, 2004-2012

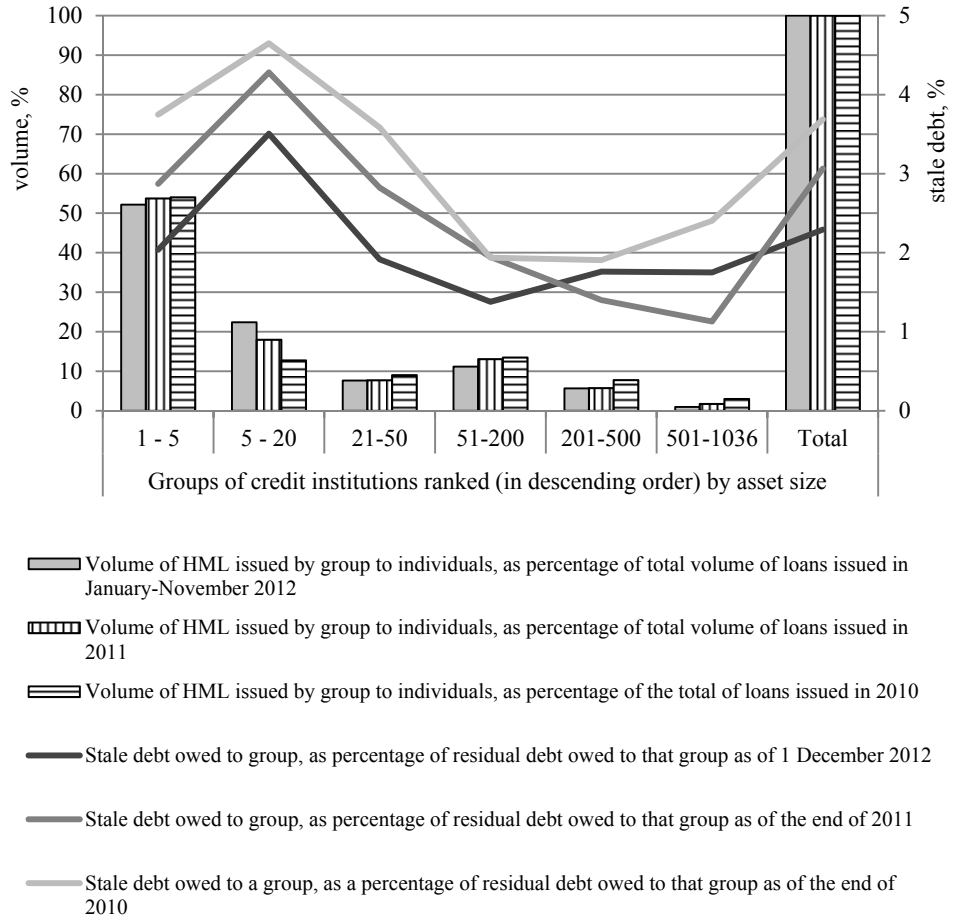


Source: data provided by the RF CB and the Agency for Housing Mortgage Lending (AHML).

Fig. 20. The Dynamics of the Average Weighted Interest Rate on Ruble-Denominated HML Issued Over the Course of a Month, November 2011 – December 2012

The share of the topmost group of credit institutions with the largest assets, comprising 5 such entities, in the total volume of HML issued over the course of a year dropped to 52.18% as of 1 November 2012 vs. 53.76% in 2011, and 54.2% in 2010 (*Fig. 21*). The share of the second group, comprising 15 credit institutions, rose to 22.39% as of 1 November 2012. Giv-

en the existing general trend towards a decline in the share of stale debt in total debt across Russia, as of 1 December 2012 the second group of credit institution continued to keep the largest share of stale debt (3.5%), which means that its HML portfolio was the most risky one. As of 1 December 2012, the first two groups of credit institutions account for three quarters of the HML market (74.58%).

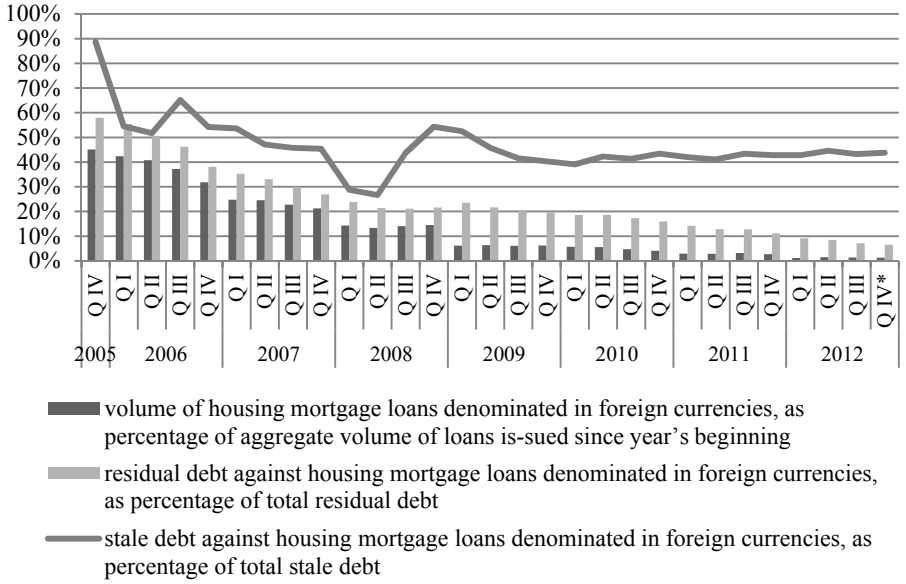


Source: RF CB data.

Fig. 21. The Dynamics of the Volumes of Issued HML and Stale Debt, by Group of Credit Institutions Ranked by Asst Size, 2010-2012

As of 1 December 2012, the share of the volume of HML denominated in foreign currencies, issued since the year's beginning, in the total volume of HML dropped to 1.33%, while the share of debt against HML denominated in foreign currencies in total debt declined to 6.54%. At the same time, the share of stale debt against HML denominated in foreign currencies in total stale debt hovered around 44% (*Fig. 22*).

According to the expert estimation carried out by OJSC AHML, the share of mortgage lending in the primary housing market is steadily on the rise. In January-November 2012, it amounted to 20.0% of the total volume of HML, having risen by 5.0 p.p. on 2011 (*Table 31*).



*) – January-November 2012.
Source: RF CB data.

Fig. 22. The Ruble / Foreign Currencies Relationship with Regard to Housing Mortgage Loans, 2005-2012

Table 31

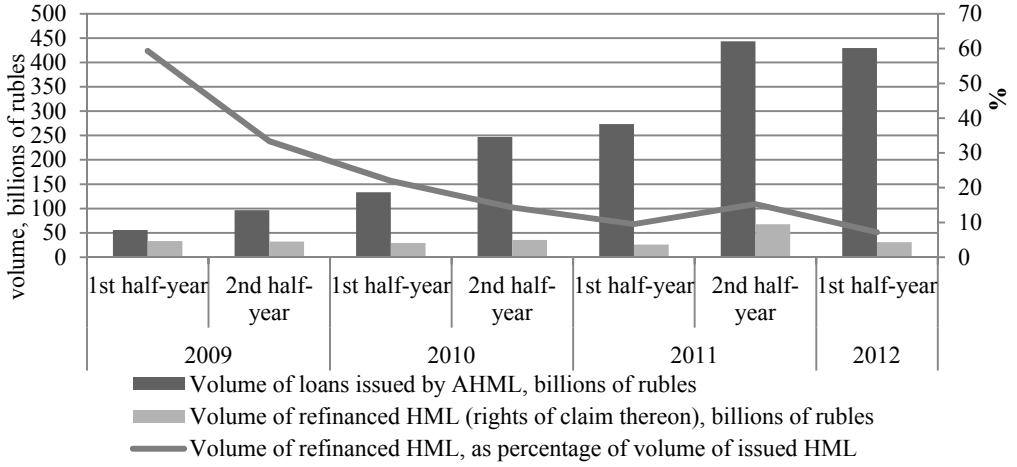
The Dynamics of HML in the Primary and Secondary Housing Markets

	2008	2009	2010	2011	January – November 2012	Forecast: 2013
Mortgage loans for housing acquisition at the secondary market						
Aggregate amount of loans, billions of rubles	534.9	136.9	340.1	609.4	723.6	760–920
Number of loans, thousands	285.1	116.7	270.2	445	489.2	507–613
Floor area, millions of sq m	13.5	3.7	8.1	16.3	18.8	21–24.3
Mortgage loans for housing acquisition at the primary market						
Aggregate amount of loans, billions of rubles	120.9	15.6	38.8	107.5	180.9	190–230
Number of loans, thousands	64.4	13.3	30.8	78.5	122.3	127–153
Floor area, millions of sq m	3.3	0.5	1.2	3.2	5.4	5.9–6.8
The volume of the HML primary market, as a percentage of the total volume of issued HML						
Aggregate amount of loans	18.4	10.2	10.2	15.0	20.0	20.0
Number of loans	18.4	10.2	10.2	15.0	20.0	20.0
Floor area	19.6	11.9	12.9	16.4	22.3	21.9

Source: the expert estimation carried out by OJSC AHML.

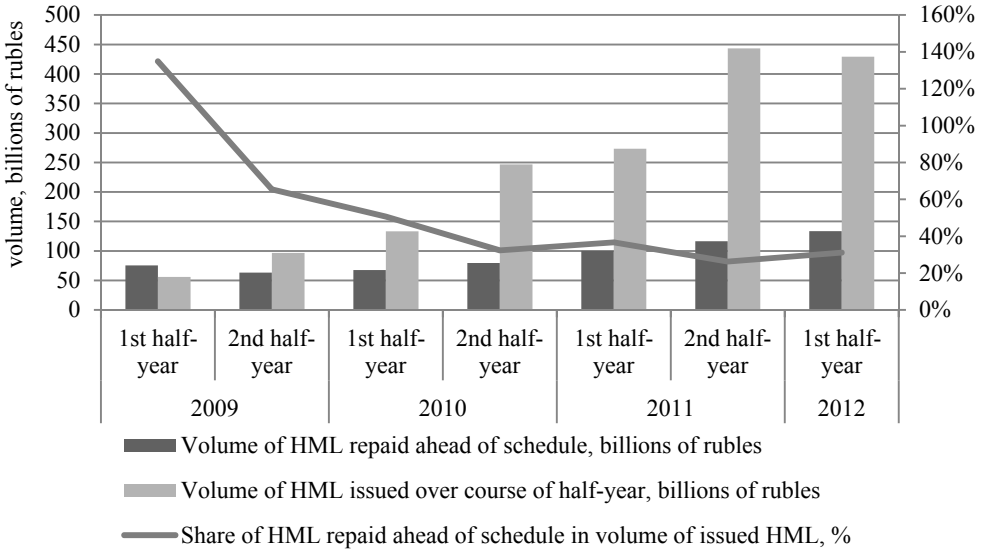
According to RF CB data, in the first half-year of 2012, 131 institutions (including 30 credit institutions) refinanced housing mortgage loans with the sale of the pool of those loans (the rights of claim thereon) in the amount of Rb 30.71bn (*Fig. 23*), which accounted for 7.15% of the volume of HML issued over the course of the first half-year of 2012. Credit institutions accounted for 29.56% of the refinancing volume, while 92 specialized institutions accounted for 65.5% of the refinancing volume.

As of 1 July 2012, housing mortgage loans in the amount of Rb 108.65bn had been repaid ahead of schedule, which represented a 35.13% rise on 1 July 2011. This amount accounted for 25% of the volume of loans issued in the first half-year of 2012. The amount of HML repaid before schedule by the money raised through the sale of mortgaged properties was Rb 2.05bn (*Fig. 24*).



Source: RF CB data.

Fig. 23. The Dynamics of HML (the Right of Claim Thereon) Refinancing, 2009-2012



Source: RF CB data.

Fig. 24. The Dynamics of HML Repaid Ahead of Schedule, 2009-2012

In 2012, OJSC AHML refinanced 45,489 ruble-denominated mortgage loans in the amount of Rb 61.39bn (*Table 32*), which was by Rb 10.14bn more than in 2011. In January - November 2012, the mortgage redemption rate set by the Agency for Housing Mortgage Lending amounted to 10.63% (for the following standard products: 'Standard', 'House Under Construction', 'Young Teachers – Standard', 'Young Scholars' and 'Military Mortgage'), which was by 1.57 p.p. lower than Russia's average weighted rate for that period, based on RF CB data.

According to data released by OJSC AHML, over the period from 1 October 2009 through 1 December 2012, it assumed obligations under the *Stimul* [Stimulus] project in the amount of Rb 79.93bn, of which a total of Rb 17.08bn has already been invested in the project's implementation. Out of the total sum of Rb 54.26bn issued by banks to legal entities to be invested

in housing construction under the *Stimul* [Stimulus] project at an average interest rate of 12,75%, the Agency refinanced a total of Rb 33.39bn at the rate of 7.71%.

Table 32

The Redemption of Mortgages by OJSC AHML in 2012 (as of 1 January 2013)

	For all products	Standard product	Military mortgage	Mother capital	House under construction	Other
Redemption of mortgages, number	45,489	27,587	8,313	4,279	5,223	87
Redemption of mortgages, thousands of rubles	61,390,454	32,505,840	16,593,420	5,913,840	6,113,801	263,553
Average value of mortgage, thousands of rubles	1,350	1,178	1,996	1,382	1,171	3,029

Source: OJSC AHML data.

As evident from data released by OJSC AHML, housing mortgage loans to young school teachers under the program put forth by the Agency in September 2012 are currently issued only in 12% of the regions. In accordance with the program's conditions, if the first contribution in the amount of 10% is paid, the borrowers may be granted joint subsidies (from the Federal Treasury and regional budgets) against their loans, while the interest rate is relatively low - 8.5%. The main obstacle to the realization of this plan, in addition to teachers' low salaries, is the difficulty associated with the actual allocation of money from regional budgets.

6.5.5. The Prospects for the Housing Market's Development

The forecasts of the pricing trends on Russia's housing market made over the previous years were based on the assumption that the prices stabilization in 2010 would be followed by their growth in 2011–2012. The growth rate was expected to be slower than in 2000–2001(an L-shaped trend).

The forecast for 2011 and later years was already based on a new methodology, which relied on the assumption that the growth rate of prices depended on the growth rates of per capita incomes adjusted for different types of markets[1,2].

The same methodology was applied in plotting the forecasts for 2012 and 2013.

The data on the growth rate of the population's real income and expected inflation rate were taken from the *Medium-term Forecast of the Socio-economic Development of the Russian Federation for 2011 and 2012–2013*[3] and the corresponding regional forecasts, all of which demonstrated movement patterns of their main socio-economic indicators that differed little from Russia's average pattern, the only exception being that of Perm Krai[4]. The market types for 2012 were established as follows: for Moscow – developing market; for St. Peters-

[1] Sternik G. M., Sternik S. G. *Tipologia rynkov nedvizhimosti po sklonnosti k obrazovaniiu tsenovykh puzyrei* [The Typology of Housing Markets Based on Their Propensity for the Emergence of Price Bubbles]. - *Imushchestvennye otnoshebiia v RF* [Property Relations in the RF] (Journal). No. 8 (95) 2009, pp. 18–28.

[2] Sternik G. M. *Metodika prognozirovaniia tsen na zhil'e v zavisimosti ot tipa rynka* [The Methodology for Forecasting Housing Prices depending on the Type of market]. – *Imushchestvennye otnoshebiia v RF* [Property Relations in the RF] (Journal) 2011, No. 1, pp. 43-47.

[3] *Forecast of the Socio-economic Development of the Russian Federation for 2011 and the Planning Period 2012–2013* - http://www.economy.gov.ru/minec/activity/sections/macro/prognoz/doc20100923_07. Indicators of the Adjusted Forecast of the Socio-economic Development of the Russian Federation for 2011-2013 - http://www.economy.gov.ru/minec/activity/sections/macro/prognoz/doc20101217_03.

[4] The initial conditions for plotting the development scenarios for Perm Krai's economy in the period until 2012 (basic scenario conditions) – http://www.gorodperm.ru. The document envisages a decelerated growth rate of the population's income (2%) and a higher inflation rate at the regional level (12.5%).

burg and Moscow Oblast – stable market in the first half-year, and developing market in the second half-year; and for Perm (considering its lower than average growth rate of real income, and higher than average inflation rate) – stable market over the entire year's course.

Our comparison of the actual data with the forecasts for 2012 confirms that the forecasts were in the main correct. The actual data for Moscow, St. Petersburg and Moscow Oblast demonstrated slight downward deviations from the forecasts due to the lower actual growth of personal incomes against the government's forecast.

The forecast for 2013 is based on the same methodology and applies the initial data on the growth rate of personal incomes plotted in the RF Government's *Medium-term Program*. It is presented in *Fig. 25*.

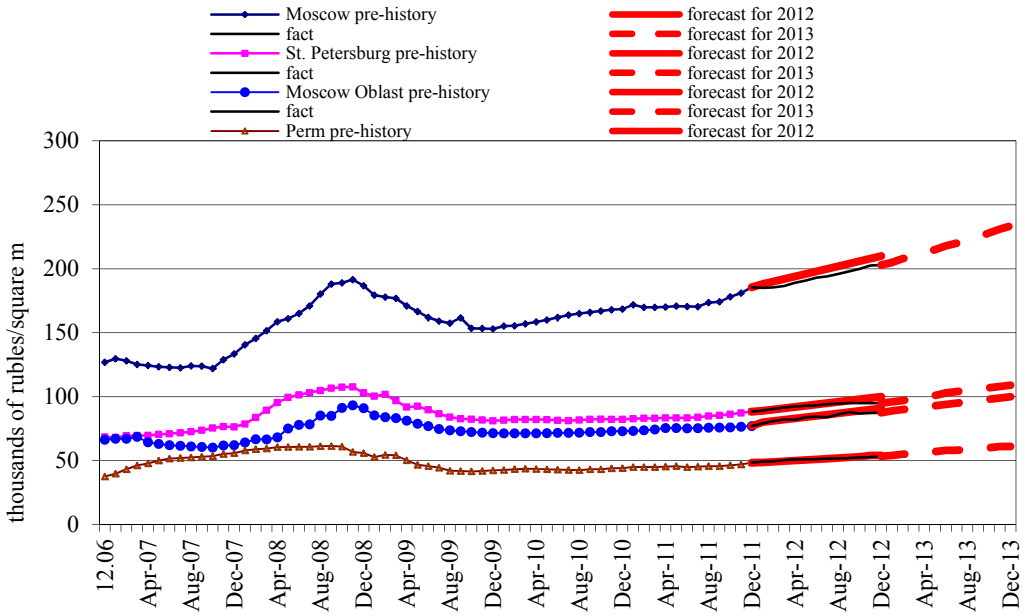


Fig. 25. A Forecast of Supply Prices in the Secondary Housing Market

Given the current macroeconomic situation in Russia (relatively high oil prices; the strengthening ruble; the decline in capital outflows; and the drop, however slight, in the rate of inflation), it can be expected that, in 2013, personal incomes - the main factor underlining the dynamics of housing prices - will marginally go up. The growth rates of housing prices can definitely increase provided that personal incomes continue to grow. If the dynamics of that index remains as it was in 2012, it can be expected that housing prices in Moscow and other cities will rise by 8 to 14%.

Thus, on the whole, the Russian housing market experienced in 2012 a slow but steady rebound in housing prices and housing commissioning volumes.

As far as the analyzed sample is concerned, prices in the secondary housing markets of more than 40% of the Russian cities where corresponding data were available have regained and surpassed their previous peaks. It is highly probable that, in 2013-2014, the same result will be achieved in the rest of the cities as well. It can be expected that housing prices in Shakhty, Omsk and Kemerovo will return to their pre-crisis levels in early 2013; prices in Novosibirsk, Moscow Oblast and Izhevsk – in late 2013; while prices in Krasnoyarsk, St. Petersburg, Perm, Chelyabinsk and Chita – in the first half-year of 2014.

6.6. The military economy and military reform in Russia

In early 2012 the Armed Forces (AF) were overshadowed by the accident with the fleet ballistic missile submarine (FBMS) K-84 "Yekaterinburg" and its grave consequences. The fire occurred three days before the New Year, during welding works as part of unscheduled repairs of the FBMS and where, in breach of safety requirements, the ballistic missiles and torpedoes had not been first unloaded. This compromised not only the crew and workers at shipyard No. 82 in Roslyakovo, but also the whole region and other nearby countries[1]. Following this, and six weeks before the transfer of authority of the Supreme Commander, D. Medvedev had said: "the reform of the Armed Forces is almost complete." However, the sensation planned on the top level has not happened - public opinion has been almost unanimously set with on continuing the military reforms. New areas of reform which had previously been ignored were put on the agenda as a result of corruption revealed within the senior management of the Defence Ministry, which led to its sudden replacement in November, and this was probably the main news in Russia in 2012.

6.6.1. Military staffing and social policy

The military HR policy applied in Russia in 2012 was significantly different from the guidelines set by the country's government in late 2008. It was found that the AF management's feasibility studies of appropriate designs had been of low quality and were not based on demographic and economic considerations. As a result, newly organised brigades were only partly combat ready by the spring 2012 because of low staffing.

On the whole, the military draft situation has not worsened, provided we ignore the fact that only half the numbers specified by the former Chief of Staff as necessary to create the new "image of the AF" were actually called-up. Out of a total of 155 570 individuals called-up during the spring of 2012, 35,600 (22.9%) had studied in higher education and this undoubtedly contributed to the improvement of combat training and law enforcement in the AF.

Despite a decline in military recruitment numbers the problem of evasion of conscription remained unsolved. In the spring of 2012 more than 166,000 people evaded military service by various means. The total number wanted for evading military service was reduced by 3,900 (27%) as compared to the beginning of the previous year[2].

The same situation was observed in the autumn of 2012, when it had been planned to call-up 140,140 personnel. In reality, 295,710 people were called-up and sent to the Armed Forces and other troops during the year. As a result, according to a representative of the Audit Chamber of the Russian Federation, the AF staffing level stood at 77% by late 2012[3].

A well known feature of the staffing of the AF is that "... the transition to a 1 year term of military service means that, after their training, junior specialists who have acquired the skills necessary to operate the new generation of military equipment will then leave at the expiry of their legal compulsory military service, i.e. although personnel will always be in training there will be no fully trained junior specialists[4]." The only real way out of this situation is a transition to contract staffing.

---

[1] *M. Lukin, I. Safronov Jr.* Fake boat / / Kommersant Vlast. 2012. No. 6.
[2] *A. Tikhonov* The number of draft-dodgers has decreased / / Red Star. February 4, 2012.
[3] The staffing level is 77% / / Military-Industrial Courier. March 13-19, 2013 (No. 10).
[4] The concept of the new programme for the transition to contractual staffing was approved by the Prime Minister Vladimir Putin on 15 July 2008.

Therefore, immediately after taking office, President Vladimir Putin told the Russian government to provide "an increase in the number of contracted troops of not less than 50,000 people annually over five years[1]."

However, the President's absolute social policy priority is solving the housing problem in relation to the AF. The first paragraphs of the decree quoted above require "the provision, in 2013, of housing for Armed Forces servicemen, other troops, military formations and bodies, in full, and in accordance with the legislation of the Russian Federation" and "the creation of a service housing fund by 2014."

The housing situation in the army is still very far from good. Thus, according to the Audit Chamber it follows that the triumphant reports of the former Defence Minister, on the mass resettlement of officer families, were significantly different from the reality[2]. The criminally low quality of planning has led to 59,600 apartments being unoccupied due to general and infrastructure deficiencies. Thus, in 2012 the total amount of construction in progress for the Ministry of Defence exceeded RUR 317 billion, yet, at the end of the year, 100,000 servicemen were without housing.

In 2012, the main achievement of AF-related social policy was a significant increase in the size of the allowance for servicemen and for military pensions. Not only did the amount increase, but the payment system for the cash allowance has also been modernised through the use of bank cards. Unfortunately, however, the new centralised allowance accrual system has been "in fever" for nearly half of the year due to various faults. Fraudsters did not fail to take advantage of the situation – employees at the unified computing centre of the Ministry of Defence, who had introduced "dead souls" into the system, were detained. It is interesting that in the spring of 2012 significant errors and delays also occurred in the Centralised Allowance Computing System of the French AF, which, as it turned out, was the model for the new Russian system.

After the change of management at the Defence Ministry, some saw an opportunity to review military HR policy. In particular, the chairman of the Defence Committee of the State Duma, Vladimir Komoyedov, proposed the extension of the compulsory military service term to one and a half years[3]. This caused a negative reaction from society, so the Komoyedov's proposal was left hanging. In general, the change in management at the Defence Ministry has not added clarity to the policy on Russian military personnel.

6.6.2. Military-technical policy

Throughout 2012 the state armament programme (SAP), state defence procurement and the military-industrial complex (MIC) were the particular areas of focus of the Russian military and political management.

At the beginning of the year, on 20 February at a meeting in Komsomolsk-on-Amur President Putin, addressing members of the Government, said: "We need more than just developing these financial resources, these billions, millions and trillions - results are needed here. In

[1] Decree No. 604 dated 7 May 2012 "On further improvement of military service in the Russian Federation".
[2] *Yu. Gavrilov.* Apartment calculations / / Rossiyskaya Gazeta. 4 December 2012.
[3] Vladimir Komoyedov: "The conscription term should be 1.5 years and the conscription age should be 19 years" / Izvestiya. 23 November 2012.

the end, we need weapons, so we don't need to report the number of assimilated billions, but the number of equipment units, the latest technology delivered to the army and navy"[1].

Remember that 2012 was the second year of implementation of the regular armament programme. Plans for the first year were not met, the debt, including that in aeronautical engineering, was carried forward to 2012, which in turn began with difficulties in placing defence procurement (contracting). In addition, the Federal Target Programme "The Development of the MIC for the period up to 2020" was approved only at the beginning of March, after more than a year's delay.

Transcripts, published in the summer, of meetings between the President and the commanders of the AF on the implementation of the relevant sections of the SAP for 2011 - 2020, and media reports have refined its performance with regard to the Russian Defence Ministry (*Table 33*).

Table 33

The main indicators of the state armament programme of the Russian Defence Ministry for 2011-2020

Programme, subprogramme	Key objectives and indicators	Funding, RUR trillion
1	2	3
SAP, total, including:	The share for modern weapons and military equipment supplied to the armed forces should be 30% in 2016 and 70% in 2020	19.0
- Strategic nuclear forces	The share of modern weapons of 75-80% in 2020, more than 400 land-based and sea-based intercontinental ballistic missiles, 8 missile strategic submarine cruisers	1.0
- Military space forces and Aerospace Defence (ASD)	The share of modern weapons in the ASD in 2020 shall be at least 70%, about 100 spacecraft and 28 S-400 regimental units	4.0
- Air Force	More than 600 aircraft and more than 1,000 helicopters	4.7
- General purpose Navy forces	51 surface warships, 16 attack submarines and 90 support vessels	4.4
- Ground troops and airborne troops	10 Iskander-M regimental units, 9 S-300V4 regimental units, 2,300 tanks, about 2,000 self-propelled guns and more than 30,000 vehicles	2.6
- Main Departments of the Ministry of Defence	The share of modern rear and special equipment shall be at least 65% in 2020	2.3

Note: 1. The funding is 30% up to 2015 and 70% in 2016-2020.
2. More than 70% of the funding is allocated to purchase new equipment.
3. The amount of funding of the Main Departments of the Ministry of Defence is a balancing value.

The formal parameters of the Russian MIC are impressive: 1,353 enterprises and organisations located in 64 regions of Russia and employing approximately 2 million people (1,300 million according to other sources). But the annual results of the system for the Russian Federation are insignificant, except for the increase in sales of military products abroad.

Efforts to preserve the strategic deterrence forces are characterised not only by the "development" of the budget, as noted previously, but also by real perceptible results: with proper care and improvement the old systems are still an effective means of nuclear deterrence whilst they are being replaced with new complexes. Their share of the Strategic Missile Forces (SMF) now accounts for approximately 25-30% and production is established. The main achievement of the year should be considered to be the start of equipping the SMF with the RS-24 "Yars" multicharged complexes. Other new offensive weapons are currently being developed. Given the fact that the strategic missile forces are not only the most effective, but also the most expensive deterrent at current costs, the priority of their development is established correctly.

[1] Meeting on the implementation of the state MIC development policy for the period up to 2020 and beyond. Transcript. Komsomolsk-on-Amur, 20 February 2012. URL: http://www.goverment.gov.ru/docs/18194/ (visited on 21 February 2012).

As regards aerospace defence troops, a new radar is being built in Armavir and will be placed on alert at the beginning of 2013. It will control the airspace and outer space in the southern strategic direction.

Shortfalls in defence procurement related to the Navy are the most frustrating - and in 2012 procurement actually failed, and this failure is not the first. In 2012, the Navy were to get three FBMSs (the "Yury Dolgoruky" and the "Alexander Nevsky" (both of Project 955 "Borey" class) and the "Severodvinsk" (a Project 885 "Yasen" class) and three surface ships – the corvettes "Boykiy" and "Stoykiy" and a leading frigate the "Admiral Gorshkov". But in the end, only the first submarine of the new project the "Yury Dolgoruky" was handed over to the Navy in early 2013, and even then without the standard "Bulava-30" missiles[1]. However, throughout 2012 the departmental press had reported on the successful transfer of harbour tugs and other offshore support vessels to the Navy.

As regards the Air Force, in 2012, three aircraft and eight helicopter squadrons were refurbished. However, nobody knows so far whether the Ministry of Defence collected all the debts related to the 2011 procurement, and to the 58 aircraft and 124 helicopters planned under the 2012 procurement.

Ground forces have not received the 200 BTR-82 armoured personnel carriers - a full set for one infantry brigade - from the Arzamas Engineering Plant, which elected to sell them to a foreign customer. This disrupted about 60% of the state defence procurement for 2011–2012 related to those vehicles[2]. Nevertheless, the Armed Forces fleet received 3,600 new multipurpose vehicles.

An outside observer cannot accurately assess the results of state defence procurement in 2012, because they are carefully sidestepped by all Russian officials. However, even the failure of the naval defence procurement on its own evidences serious problems with the implementation of the state armament programme for 2011 - 2020. It must be assumed that, given the disruption of supply to the Navy and ground forces already made known by the time of the review, the defence procurement for 2012, even with the April reductions (by around RUR 677.4 billion[3]) was basicallynot more than 90% complete.

6.6.3. Reforms of the financial security of the Russian AF

The transition to the outsourcing of maintenance for the AF and the disposal by the Defence Ministry of surplus property, using the proceeds to address pressing issues related to the agency and to servicemen were considered amongst the main achievements of the military reform.

But the red flags started to appear at the beginning of 2012. It turned out that Slavyanka JSC, which, two years ago and without any competition, received all the boilers, infrastructure and property at the Defence Ministry's military camps had not promptly booked and maintained many facilities, resulting in numerous accidents with boilers during the heating season. In this case, as evidenced by human rights organisations, in 2012, the practice of the illegal

[1] In 2012 the Russian Navy did not get five combat ships / / RIA "Novosti". 21 February 2013.
[2] *A. Mikhailov* Arzamas Plant disrupted the delivery of BTR-82 / / Izvestiya. 6 February 2013.
[3] *O.Vladykin.* State defence procurement is cut by RUR 25 billion / / Independent Military Review. 27 April – 17 May 2012 (No. 14).

involvement of conscripts in forced labour had expanded[1]. And by November, the Investigative Committee of the Russian Federation revealed systemic culture of theft in Oboronservice JSC, which included the aforementioned Slavyanka.

Problems with the military camps received much attention at the government meeting at the end of June, 2012 chaired by the Prime Minister, Dmitry Medvedev[2]. The urgency of the problem is determined by the fact that during the last 20 years Armed Forces staffing has decreased by a factor of three and their deployment system has also very significantly changed, yet the military camps themselves and their procurement infrastructure has remained virtually unchanged.

The procedure for changing property titles from one type to another is complex and includes many conciliation procedures and the preparation of numerous documents. As a result, military camps, which have ceased to be used for their intended purpose have been funded only residually. As confirmed by the Minister of Defence at the meeting, the Ministry of Defence is in charge of approximately 7,500 military camps, although about 1,644 of them are not used for their intended purpose, i.e. only 5,856 military camps are currently being used for the needs of the Ministry of Defence. The cash deficit is about RUR 70 billion and this amount is carried forward from year to year as the deficit for the next year. The scale of the property management problem in the Defence Ministry is characterised by the fact that, as of 1 July 2012, 494,279 facilities were reflected on the books, 15,352 of these being land plots, while 157,103 are buildings and 321 824 are apartments.

The change of management at the Ministry of Defence in November 2012 allowed for a sober evaluation of the excesses of the previous stage of the reform and the return of the maintenance and medical support units to the organisational and staffing structure of the combined arm brigades, which had been excluded by a strange misunderstanding.

6.6.4. Military and financial policy

In May. at the conclusion of the presidential election campaign, in the discussions around budget plans for 2013 and the 2014-2015 planning period by the Government, the Russian Ministry of Finance proposed to maintain macroeconomic stability through a reduction of expenditure on defence and law enforcement by RUR 4.3 trillion as compared to that previously planned for the period from 2014 to 2020[3]. A month later the detailed position of the financial authority came to be known - in order to achieve this objective it was also proposed to reduce the number of servicemen and equivalent personnel by 20% within three years[4]. And while plans to reduce staffing are still on paper only, the expenditure under Section 0200 on "National Defence" in the draft federal budget for 2013 has been reduced by RUR 198.2 billion (or 8.5%) in October compared to the amount planned one year ago under federal law No. 371-FZ dated 30 November 2011. According to this, the policy of the Ministry of Finance has found sufficient support within the Government.

---

[1] *L. Vakhnina*. Excess soldiers: Forced Labour in the Russian Army / Independent report. Moscow: Excess Soldier Group of NGOs, 2012, 77 p. URL: http://www.hro.org/files/lishniy_soldat_2012.pdf (visited on 25 February 2012).

[2] Meeting on the transfer of unused Ministry of Defence facilitiesto regions and municipalities, as well as the preparation of military camps for the heating season. Transcript. Petrovskoye, June 26, 2012. URL: http://government.ru/docs/19465/ (visited on June 27, 2012).

[3] *S. Kulikov*. The Ministry of Finance hunkered down / / Nezavisimaya Gazeta. 29 May 2012.

[4] The number of persons equated to servicemen can be reduced by 20% / / RIA Novosti. 28 June 2012.

Implementation of the current federal budget for 2012 has not differed from the 2011 calendar - two significant annual adjustments of the initial release[1] in June[2] and at the end of the year[3], and a formal adjustment[4] in July, with mainly editorial amendments caused by the change of the official name of the legal entities receiving federal budget funds.

As a result of these changes federal budget expenditure under the "National Defence" Section had increased by 1.0% from RUR 1,846,585 million to RUR 1,864,822 million by the end of the fiscal year, with a growth in total budget expenditure by 2.4%. As compared to 2011, the allocations under the "National Defence" Section increased by 11.2% in real terms (the nominal increase was 21.3%) with a 3.0% increase in their amount in terms of GDP.

As in the previous six years, the above indicators of military expenditure are not included in the published budget law, so we again had to resort to the use of secondary data: an explanatory note to the government's draft of the federal budget, a Federal Treasury monthly report on the implementation of the federal budget in January 2013 and materials related to the Defence Committee of the State Duma from October[5]. This period is also the first time that the November materials of the Federal Assembly[6], relating to the final version of this year's budget, do not contain the full amount for defence allocation, but show only its redistribution. The marked deterioration of the situation as regards the transparency of Russian military expenditure occurred after the public statement, made at the beginning of the year, on the intention of V. Komoyedov, the newly elected President of the Defence Committee of the 6th convocation of the State Duma, to take "a fresh look at the problem of the relationship between the public and private items of the military budget"[7].

The confidentiality level of federal budget expenditure in 2012 has not changed compared to the previous year (see *Table 34*), which, with its secret allocations reached RUR 1,520,277 million.

[1] Federal Law No. 371-FZ dated 30 November 2011 "On the Federal Budget for 2012 and the planning period of 2013 and 2014".
[2] Federal Law No. 48-FZ dated 5 June 2012 "On Amending the Federal Law on the Federal Budget for 2012 and the planning period of 2013 and 2014".
[3] Federal Law No. 247-FZ dated 3 December 2012 "On Amending the Federal Law on the Federal Budget for 2012 and the planning period of 2013 and 2014".
[4] Federal Law No. 127-FZ dated 28 July 2012 "On Amending the Budget Code of the Russian Federation, Article 6 of the Federal Law on Amending the Budget Code of the Russian Federation and other legislative acts of the Russian Federation" and the Federal Law "On the Federal Budget for 2012 and the planning period of 2013 and 2014".
[5] Resolution of the State Duma Committee on consideration of federal budget expenditures to support national defence, national security and law enforcement in the draft Federal Law No. 143344-6 "On the Federal Budget for 2013 and the planning period of 2014 and 2015." Moscow, 9 October 2012.
[6] Resolution of the State Duma Committee on consideration of federal budget expenditure to support national defence, national security and law enforcement in the draft Federal Law "On Amending the Federal Law on the Federal Budget for 2012 and the planning period of 2013 and 2014" of the Federal Assembly of the Russian Federation. Moscow, 7 November 2012; Report No. 3.3-04/1846 of the Federation Council Committee on Defence and Security on the Federal Law "On Amending the Federal Law on the Federal Budget for 2012 and the planning period of 2013 and 2014 ". Moscow, 27 November 2012.
[7] Krasnaya Zvezda. 13 January 2012.

Table 34

The share of secret allocations in federal budgets for 2004-2012, in % terms

Code and name of the section (subsection) containing the secret expenditures	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	2	3	4	5	6	7	8	9	10
Total federal budget expenditure	9.83	11.33	11.80	10.33	11.92	10.01	10.46	11.82	11.73
0100 NATIONAL ISSUES	N/A [1]	3.67	6.28	5.52	8.66	5.05	4.75	*8.56*	*10.17*
0108 International relations and international cooperation	18.04	–	0.01	< 0.01	3.66	–	–	–	–
0109 State financial reserve	93.33	82.86	89.23	92.18	90.17	85.01	85.08	*88.15*	*85.71*
0110 Fundamental research	–	2.13	1.22	1.12	0.97	0.78	0.32	*0.66*	*2.89*
0114 Other national issues	N/A	0.05	0.72	0.28	4.42	1.56	1.05	*0.27*	*1.11*
0200 NATIONAL DEFENCE	38.40	42.06	42.77	45.33	46.14	48.09	46.42	*47.56*	*48.60*
0201 Armed Forces of the Russian Federation	36.11	33.07	35.59	37.11	39.04	40.21	39.03	*41.41*	*42.97*
0204 Economic preparedness activities	100.0	100.0	100.0	100.0	100.0	100.0	100.0	*100.0*	*100.0*
0205 Preparation and participation in collective security activities and peacekeeping	–	100.0	100.0	100.0	–	–	–	–	–
0206 Nuclear weapons complex	100.0	100.0	100.0	100.0	100.0	100.0	100.0	*100.0*	*100.0*
0207 Implementation of international obligations in the sphere of military and technical cooperation	41.05	45.22	46.90	50.65	100.0	100.0	100.0	*100.0*	*100.0*
0208 Applied research in the area of national defence	N/A	98.37	93.94	93.69	93.20	92.85	91.32	*91.94*	*94.64*
0209 Other issues pertaining to national defence	N/A	2.49	8.79	24.38	29.21	34.64	42.03	*36.41*	*44.03*
0300 NATIONAL SECURITY AND LAW ENFORCEMENT	20.79	28.52	31.64	31.07	31.84	30.82	32.12	*32.54*	*24.86*
0302 Authorities of the Interior	3.01	4.76	6.31	5.16	4.97	3.70	4.30	*6.56*	*3.42*
0303 Internal troops	11.10	11.76	10.31	9.80	10.25	8.19	8.28	*7.89*	*4.77*
0306 Security agencies	98.91	97.80	95.49	97.31	99.05	99.61	97.05	*99.87*	*99.56*
0307 Border guard agencies	22.88	100.00	98.97	97.62	100.00	99.47	98.61	*99.11*	*99.09*
0309 Protection of population and territories from natural and man-made disasters, civil defence	41.74	59.02	62.39	50.65	51.39	51.00	51.28	*47.35*	*42.81*
0313 Applied research in the field of national security and law enforcement	N/A	73.95	66.41	64.43	75.49	79.35	92.09	*87.07*	*84.50*
0314 Other issues pertaining to national security and law enforcement	N/A	8.26	50.71	39.95	56.32	68.37	67.94	*78.29*	*30.41*
0400 NATIONAL ECONOMY	N/A	0.05	0.02	0.44	0.64	0.55	1.56	*1.94*	*2.70*
0411 Applied research in the field of national economy	N/A	–	–	5.23	5.84	4.49	5.61	*12.07*	*15.24*
0412 Other aspects of the national economy	N/A	0.12	0.06	< 0.01	0.31	0.72	4.47	*2.22*	*2.69*
0500 HOUSING AND UTILITIES	N/A	–	3.42	0.85	6.96	10.09	19.26	*19.75*	*11.22*
0501 Housing	N/A	–	4.22	5.69	15.97	12.91	20.79	*25.04*	*15.02*
0700 EDUCATION	–	2.76	2.69	2.39	2.55	3.06	3.59	*4.30*	*3.21*
0701 Pre-school education	–	2.03	2.17	2.44	2.48	2.45	3.91	*5.00*	*3.58*
0702 General education	–	1.51	1.91	2.14	2.00	2.75	3.45	*0.59*	*0.20*
0704 Vocational education	–	1.06	1.03	1.02	0.86	0.99	–	–	–
0705 Training, retraining and continuing education	–	16.85	15.78	17.22	1.80	2.54	9.40	*18.50*	*8.27*
0706 Graduate and post-graduate professional education	–	3.15	2.93	2.53	3.08	3.64	4.08	*5.32*	*4.18*
0709 Other educational issues	–	0.30	0.33	0.28	0.29	0.48	0.61	*0.26*	*0.26*
0800 CULTURE, FILM-MAKING, MEDIA	–	*0.17*	*0.17*	*0.21*	*0.17*	*0.18*	*0.17*	–	–
0800 CULTURE AND FILM-MAKING	–	–	–	–	–	–	–	*0.12*	*0.12*
0801 Culture	–	0.14	0.10	0.16	0.10	0.14	0.09	*0.14*	*0.14*
0804 Periodical Printing & Publishing	–	*13.46*	*7.45*	*2.57*	*2.62*	*3.14*	*3.59*	–	–
0806 Other issues in the field of culture, film-making and mass media	–	*0.02*	*0.15*	–	–	–	–	–	–

[1] Not applicable due to changes in the structure of the budget classification.

cont'd

1	2	3	4	5	6	7	8	9	10
0900 PUBLIC HEALTH, PHYSICAL EDUCATION AND SPORTS	–	*4.30*	*3.99*	*2.57*	*4.14*	*3.54*	*3.01*	–	–
0900 PUBLIC HEALTH	–	–	–	–	–	–	–	*2.60*	*2.39*
0901 Inpatient care	–	5.61	4.66	2.94	3.24	2.77	2.41	*2.32*	*2.01*
0902 Outpatient care	N/A	N/A	N/A	N/A	13.94	4.34	3.75	*2.70*	*2.90*
0905 Health improvement care	N/A	N/A	N/A	N/A	14.07	15.88	10.73	*11.67*	*10.99*
0907 Sanitary and epidemiological welfare	N/A	N/A	N/A	N/A	2.09	0.63	0.64	*0.70*	*1.04*
0908 Physical education and sports	–	*0.28*	*0.26*	*0.24*	*0.42*	*0.32*	*0.62*	–	–
0910 Other issues in the areas of public health, physical education and sports	–	–	–	–	*1.74*	*1.07*	*1.01*	–	–
0910 Other public health issues	–	–	–	–	–	–	–	*0.43*	*0.30*
1000 SOCIAL POLICY	–	–	–	–	0.01	0.01	–	–	*0.06*
1003 Social welfare of the population	–	–	–	–	0.02	0.02	–	–	*0.24*
1100 PHYSICAL EDUCATION AND SPORTS	–	–	–	–	–	–	–	*0.26*	*0.29*
1101 Physical education	–	–	–	–	–	–	–	*53.51*	*41.53*
1200 MASS MEDIA	–	–	–	–	–	–	–	*0.27*	*0.27*
1202 Periodical Printing & Publishing	–	–	–	–	–	–	–	*3.38*	*3.15*
1400 INTER-BUDGET TRANSFERS TO BUDGETS OF THE RUSSIAN REGIONS AND GENERAL-PURPOSE MUNICIPAL ENTITIES	–	–	–	*0.16*	–	–	–	–	–
1401 Subsidies to equalise the fiscal capacity of the Russian regions and municipal entities	–	–	–	*0.50*	–	–	–	–	–

Source: Federal budgets for 2004–2011, 2012 – the draft dated 30.09.2011 and Federal Law No. 247-FZ dated 3.12.2012. Data for 2004-2010 are normalised to the relevant sections and subsections of the budget classification effected in 2011. The italicised data represent the data of the previously applied budget classification and estimates subject to confirmation.

The absolute and relative values of the main components of the direct military expenditure of the Russian Federation within the federal budget and their changes relative to 2011 are shown in *Table 35*. Due to the fact that in the final December version of the federal budget law for 2012 and that the reports of the committees and commissions of the Federal Assembly contain no data on federal budget expenditure in the context of the sections and subsections of the expenditure classification, as noted above, the relevant data pertaining to Federal Law No. 371-FZ dated 30 November 2011 are used for 2011, which certainly affected the comparability with the data of previous years. Recalculation of the 2011 prices has been made using the first Rosstat deflator of GDP for 2012 (108.0%).

Table 35

Direct military expenditure of the federal budget under the National Defence Section

Name of the section and subsection	2012, RUR million / the same in 2011 prices	Changes in 2012 as compared to 2011, RUR million / increase, %	The share of allocations, % / changes relative to 2011, pp	
			In the 2012 federal budget	In the GDP
1	2	3	4	5
NATIONAL DEFENCE	1,846,585 1,709,801	172,357 11.21	14.25 0.43	2.96 0.21
Armed Forces of the Russian Federation	1,423,968 1,318,489,661	177,574 15.56	10.99 0.73	2.28 0.24
Preparedness and non-military training	7,316 6,774	74 1.10	0.06 –	0.01 –
Economic preparedness activities	4,895 4,533	–363 –7.41	0.04 –0.01	0.01 –
Preparation and participation in collective security activities and peacekeeping	411 380	–41 –9.65	<0.01 –	<0.01 –

cont'd

1	2	3	4	5
Nuclear weapons complex	27,475 25,440	–1,528 –5.67	0.21 –0.03	0.04 –
Implementation of international obligations in the sphere of military and technical cooperation	4,494 4,161	–286 –6.43	0.03 –0.01	0.01 –
Applied research in the area of national defence	163,080 151,000	–10,346 –6.41	1.26 –0.19	0.26 –0.03
Other issues pertaining to national defence	214,946 199,024	7,272 3.79	1.66 –0.07	0.34 –

Source: Estimates of the Gaidar Institute for Economic Policy.

Military allocations under other sections of the federal budget are shown in *Table 36* (estimated amounts of secret allocations made on the basis of the draft law on the federal budget are italicised).

Table 36

Direct and indirect military allocations under other sections of the federal budget

Name of the section or *nature of the allocation*	**2012, RUR million / the same in 2011 prices**	**Changes in 2012 as compared to 2011, RUR million / increase, %**	**The share of allocations, % / changes relative to 2011, pp**	
			In the 2012 federal budget	**In the GDP**
1	2	3	4	5
In the National Security and Law Enforcement Section				
Internal troops	118,858 110,053	36,828 50.29	0.92 0.26	0.19 0.06
Border guard agencies	84,527 78,266	–3,887 –4.73	0.65 –0.09	0.14 –0.01
MOE forces and civil defence	53,846 49,857	–1,161 –2.28	0.42 –0.04	0.09 –0.01
In the National Economy Section				
Organisation of alternative civil service	6 6	– –7.41	<0.01 –	<0.01 –
Presidential programme "Destruction of chemical weapons stockpiles in the Russian Federation"	740 685	–84 –10.88	0.01 –	<0.01 –
Subsidies to transport organisations acquiring the vehicles to replenish the rolling stock of military ground convoys.	55 51	–4 –7.41	<0.01 –	<0.01 –
Subsidies to the operation of the NATO-Russia Council.	49 45	13 39.11	<0.01 –	<0.01 –
Construction of special and military facilities.	11,767 10,895	–538 –4.70	0.09 –0.01	0.02 –
FTP "Industrial disposal of weapons and military equipment (2011-2015)"	101 93	2 2.71	<0.01 –	<0.01 –
Contributions to authorised capitals and subsidies to organisations in the military-industrial complex.	54,404 48,522	17,195 54.89	0.40 0.12	0.08 0.03
Scholarships to young employees of the military-industrial complex organisations	240 225	–9 –3.89	<0.01 –	<0.01 –
Secret expenditure	*48,389* *44,804*	*10,807* *31.79*	*0.37* *0.07*	*0.08* *0.02*
In the Housing and Utilities Sections				
Presidential programme "Destruction of chemical weapons stockpiles in the Russian Federation".	566 524	–135 –20.47	<0.01 –	<0.01 –
Service and permanent housing for servicemen	60,013 55,568	–70,776 –56.02	0.46 –0.67	0.10 –0.13

cont'd

1	2	3	4	5
Secret expenditure	*15,250* *14,120*	*–28,628* *–66.97*	*0.12* *–0.27*	*0.02* *–0.05*
In the Education Section				
Expenditure of the Defence Ministry	58,229 53,916	6,118 12.80	0.45 0.02	0.09 0.01
Secret expenditure	*19,378* *17,943*	*–4,523* *–29.13*	*0.15* *–0.05*	*0.03* *–0.01*
In the Culture and Film-making Section				
Expenditure of the Defence Ministry	1,913 1,772	–719 –28.87	0.01 –0.01	<0.01 –
Secret expenditure	*102* *95*	*–113* *–54.44*	*<0.01* –	*<0.01* –
In the Public Health Section				
Expenditure of the Defence Ministry	39,587 36,655	–2,285 –5.87	0.31 –0.04	0.06 –0.01
Secret expenditure	*40,148* *37,174*	*–3,819* *–9.32*	*0.31* *–0.06*	*0.06* *–0.01*
In the Social Policy Section				
Pensions for the Defence Ministry	251,991 236,390	86,791 58.02	1.94 0.60	0.40 0.14
Pensions for the border guard, internal troops of the MOI, and MOE troops	*28,398* *26,640*	*–1,503* *–5.34*	*0.22* *–0.03*	*0.05* –
Financial security for specialists in the nuclear weapons complex of the Russian Federation	5,745 5,389	295 5.79	0.04 –	0.01 –
Housing for retired and discharged servicemen	20,724 19,189	–581 –2.94	0.16 –0.02	0.03 –
Additional monthly financial support for those disabled as a result of war injuries.	625 586	–454 –43.66	<0.01 –	<0.01 –
Repairs to individual houses belonging to families who have suffered the military loss-of-bread-winner.	607 562	255 83.18	<0.01 –	<0.01 –
Compensation to families of deceased servicemen	1,403 1,316	70 5.65	0.01 –	<0.01 –
Benefits and compensation for military personnel, persons equivalent to them and retired	8,799 8,236	–409 –4.73	0.07 –0.01	0.01 –
Lump sum benefits for pregnant wives of conscripted servicemen and a monthly allowance for the children of conscripted servicemen	2,372 2,226	–13 –0.56	0.02 –	<0.01 –
In the Physical Education and Sports Section				
Expenditure of the Defence Ministry	98 90	90 –	<0.01 –	<0.01 –
Secret expenditure	*117* *108*	*–1* *–0.99*	<0.01 –	<0.01 –
In the Mass Media Section				
Expenditure of the Defence Ministry	1500 1389	–111 –7.41	0.01 –	<0.01 –
Secret expenditure	*177* *164*	*–4* *–2.67*	<0.01 –	<0.01 –
In the Inter-budget transfers to the budgets of Russian regions and general-purpose municipal entities Section				
Grants to the Closed Administrative-Territorial Entity budgets	8,876 8,219	–657 –7.41	0.07 –0.01	0.01 –
Development and support of the social and physical infrastructure of the Closed Administrative-Territorial Entities	2,690 2,491	–199 –7.41	0.02 –	<0.01 –
Resettlement of citizens from the Closed Administrative-Territorial Entities	527 488	–39 –7.41	<0.01 –	<0.01 –

Source: Estimates of the Gaidar Institute for Economic Policy. Pensions, benefits, compensation and scholarships deflated by CPI.

As a result, the direct military allocations (see *Table 37*) of the Russian federal budget, calculated in accordance with the UN military expenditure standard in 2012, are estimated at 4.0% of GDP, and total military allocations based on the costs associated with past military activities (military pensions, destruction of chemical weapons, etc.) at 4.5% of GDP.

Table 37

The totals of military and related allocations from the federal budget

Allocation	Allocation amount, RUR million	The share of allocations, % / changes relative to 2011, pp	
		In the 2012 federal budget	In the GDP
General direct military allocations	2,464,803	19.02 –0.37	3.95 0.09
Total direct and indirect military allocations related to current and past military activities	2,787,381	21.51 0.15	4.47 0.21
Total allocations under the National Defence, National Security and Law Enforcement Sections	3,672,973	28.35 3.35	5.89 0.91

Source: Estimates of the Gaidar Institute for Economic Policy.

A peculiarity of federal budget implementation in 2012 as compared to the previous year was the surge in expenditure under Section 02s00 "National Defence" at the beginning of the year, and the February expenditures were comparable to the December ones (RUR 330 billion and RUR 357 billion, respectively). Under the consolidated federal budget breakdown the greatest excess of the expenditure limit over the allocations under the law on the budget for this Section was only RUR 3 billion in June, and by the year-end our estimated breakdown value was even lower than the statutory RUR 33 billion, revealing problems related not only to budget planning.

In general, the expenditures under Section 0200 "National Defence" were implemented using the savings of RUR 52,487 million (2.8%) relative to the allocations set in the June version of the law on the federal budget and RUR 19,900 million (1.1%) with respect to the consolidated budget plan.

The savings from the federal budget under Subsection 0201, "Armed Forces of the Russian Federation" (which finances the major part of the state defence procurement of the Russian Defence Ministry) relative to the allocations under the initial version of the law on the federal budget dated 30 November 2011 were RUR 73,985 million (5.2%) and RUR 5,179 million (0.4%) with respect to the limit under the consolidated budget plan. In this case, the Ministry of Defence saved RUR 19.48 million (5.4%) on military pay, and pay rises, which is quite remarkable in connection with the declared three-times wage increase in 2012, as the increase was only 28% (20% in real terms based on CPI) as compared to the previous year.

The actual cost of housing construction in 2012 by the Ministry of Defence under the heading of "National Defence" decreased by 52% to RUR 7,295 million as compared to the previous year, while the section "Housing and Utilities" increased by 18% (up to RUR 117,900 million). What has raised hackles is that the additional allocation of RUR 67,319 million for the construction of housing for servicemen during the last federal budget adjustments was made under federal law No. 247-FZ dated 3 December 2012, i.e. less than a month before the end of the year. Federal expenditure on the savings and mortgage system of housing for Defence Ministry servicemen increased by 49% to RUR 44,272 million compared to the previous year.

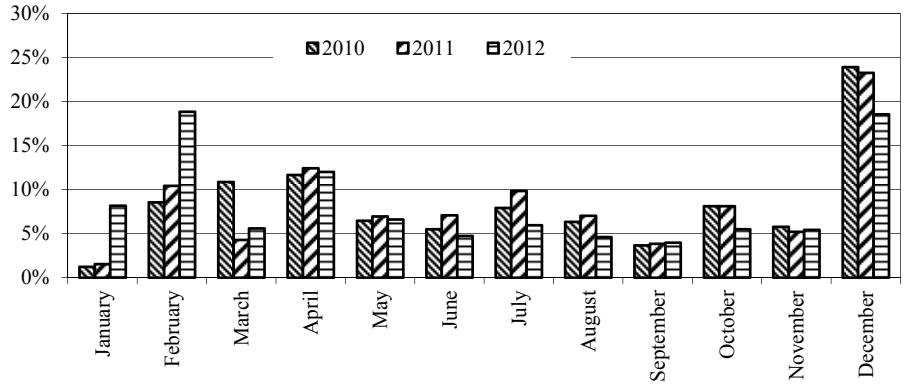
The expenditure of the Defence Ministry on fuel and lubricants (F&L) in 2012 increased by 12.5% to RUR 57,999 million with savings of RUR 1 billion (or 1.8%) relative to the amount allocated under the original version of the budget law. In this case, the Ministry of

Defence could not completely place its orders in the market, and the Government had to resort to compulsory quotas to facilitate the purchase of 42% of the annual demand for F&L products, which actually remained at the level of the previous year.

Federal budget expenditure on food procurement by the Ministry of Defence in 2012 decreased by 14% to RUR 43,035 million and the expenditure on clothing increased by 29% to RUR 16,241 million. Budget savings under these two expenditure items amounted to RUR 4,880 million compared to the original version of the budget law.

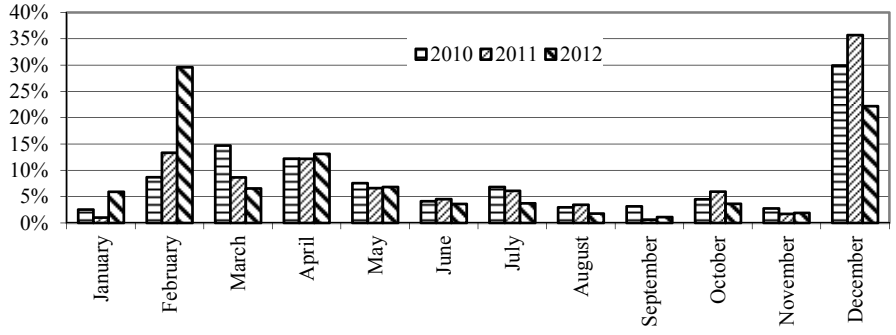
As regards Section 0200 "National Defence", most attention has been paid to the expenditures under Subsection 0209 "Other aspects of national defence" due to their rapid growth - the increase amounted to 32% (up to RUR 253,345 million) compared to the previous year. The excess of budget expenditure relative to the original version of the budget law was RUR 38,399 million, or 18%. The part of the Ministry of Finance reserves funded by this Subsection (TF 2026700) increased by a factor of five, from RUR 6,600 million to RUR 32,536 million over the period between the first and the latest version of the budget law. Incidentally, the December 2012 report of the Federal Treasury regarding the purpose of the budget for this item refers only to RUR 3,392 million, and it remained unused.

The performance of the monthly implementation of expenditure under the major subsections of Section 0200 "National defence" of the federal budget in 2010-2012 is shown in *Fig. 26–28.*



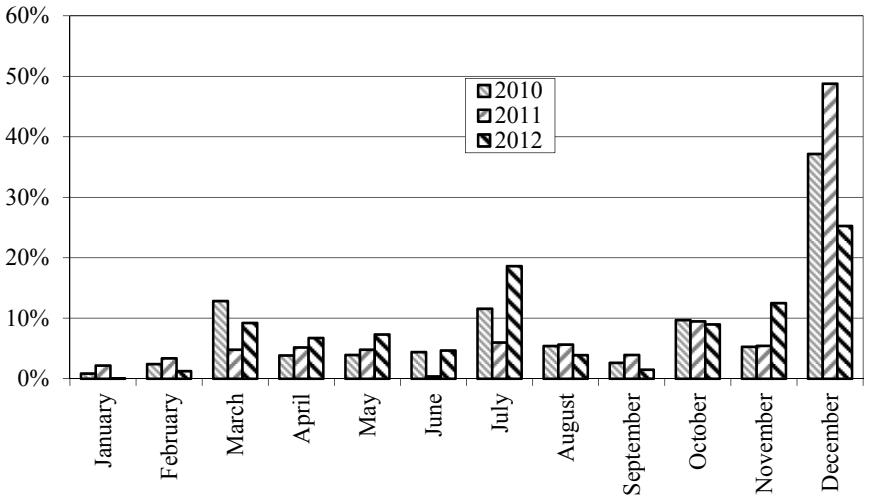
Source: Estimates of the Gaidar Institute for Economic Policy based on Federal Treasury data.

Fig. 26. Implementation of federal budget expenditure under the Subsection "Armed Forces of the Russian Federation" in 2010-2012



Source: Estimates of the Gaidar Institute for Economic Policy based on Federal Treasury data.

Fig. 27. Implementation of federal budget expenditure under the Subsection "Applied research in the area of national defence" in 2010–2012



Source: Estimates of the Gaidar Institute for Economic Policy based on Federal Treasury data.

Fig. 28. Implementation of federal budget expenditure under the Subsection "Other aspects of national defence" in 2010-2012

Table 38 show the military expenditures of those government entities of the regions of the Russian Federation which maintain long-term trends.

Table 38

Military expenditures of the consolidated budgets of the Russian regions in 2004-2012, RUR million*

Subdivision of the expenditure classification	2004	2005	2006	2007	2008	2009	2010	2011	2012
Armed Forces of the Russian Federation	–	–	3.5 0.1	0.5 0.3	0.3 0.3	–	–	–	–
Improvement of the Russian armed forces and military units	–	–	–	–	1.0 0.5	–	–	–	–
Preparedness and non-military training	–	65.6 65.6	899.3 808.6	1,351.9 1,245.6	1,797.9 1,702.2	2,116.0 2,021.6	2,003.7 1,958.4	2,250.0 2,187.3	2,366.7 2,316.4
Economic preparedness activities**	532.4 500.6	485.4 468.6	708.3 692.8	861.2 840.9	1,137.2 1,063.9	1,045.4 989.7	1,298.4 1,247.8	1,351.2 1,266.3	1,781.0 1,689.1
Other issues pertaining to national defence	–	109.6 97.5	32.8 32.1	5.5 5.7	0.7 0.5	4.4 4.4	<0.1 <0.1	2.7 2.7	3.2 3.0
Internal troops	12.4 12.2	9.9 9.9	3.5 1.4	1.0 1.0	0.3 0.3	–	–	–	–
Security agencies	6.7 6.5	0.3 0.3	16.5 16.5	0.1 0.1	0.0 0.0	60.0 60.0	<0.1 <0.1	14.5 14.4	–
Border guard agencies	–	0.1 0.1	–	–	–	–	–	–	–
Protection of the population and territories from natural and man-made disasters, civil defence	7,968.2 7,281.3	11,184.6 10,958.9	15,636.4 14,367.0	19,118.4 18,292.6	23,895.8 21,456.7	23,865.0 21,712.6	27,218.0 25,527.4	34,678.1 32,122.9	40,372.2 37,373.5

* Numerator – allocated; denominator – actually implemented.
** Until 2005, this subsection was not included in the National Defence Section.
Source: Federal Treasury.

Table 39 shows Russian military expenditure for 1999-2012, excluding the expenditures of the consolidated regional budgets of the Russian Federation shown in *Table 38,* in order to avoid double estimates.

Table 39

Key indicators of military expenditure of the Russian Federation in 1999–2012

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. In nominal terms (current prices), RUR billion														
Implementation of the FB expenditure under the heading of "National Defence" in the current budget classification[a]	115.6	191.7	247.7	295.4	355.7	430.0	581.1	681.8	831.9	1,040.8	1,188.2	1,276.5	1,516.0	1,812.3
FB allocations under the heading of "National Defence": in the current budget classification but	93.7	209.4	214.7	284.2	354.9	427.4	578.4	686.1	839.1	1,031.6	1,192.9	1,278.0	1,537.4	1,864.8
transferred to other budget classification sections[b]	–	–	–	–	–	–	44.3	77.7	91.3	126.5	202.4	270.8,	324.4	237.1
in the comparable budget classification.	93.7	209.4	214.7	284.2	354.9	427.4	622.6	763.9	930.4	1,158.1	1,395.3	1,548.8	1,861.9	2,101.9
Military expenditure based on UN data[c]	–	202.6	294.4	325.9	447.0	499.0	665.0	822.1	850.2	1,127.2	1,176.4	1,179.3	–	–
General direct military allocations[d]	120.9	256.1	262.2	321.3	408.4	490.9	692.1	899.7	1,085.4	1,356.5	1,652.7	1,819.1	2,157.1	2,464.8
Total direct and indirect military allocations related to current and previous military actions[e]	137.5	294.3	313.4	429.1	556.2	586.6	788.2	1,000.1	1,263.3	1,502.4	1,822.3	2,006.7	2,375.2	2,787.4
2. In real terms (in 2012 prices)[f], RUR billion														
Implementation of the FB expenditure under the heading of "National Defence" in the current budget classification.	1,301.9	1,391.4,	1,350.6	1,369.5	1,352.8	1,395.4	1,529.5	1,454.2	1,523.0	1,553.0	1,610.2	1,621.3	1,702.4	1,812.3
FB allocations under the heading of "National Defence": in the current budget classification but	1,055.4	1,520.0	1,170.5	1,317.4	1,349.8	1,386.9	1,522.2	1,463.5	1,536.2	1,539.2	1,616.6	1,623.2	1,726.5	1,864.8
transferred to other budget classification sections	–	–	–	–	–	–	116.5	165.8	167.2	188.7	274.3	343.9	364.3	237.1
in the comparable budget classification.	1,055.4	1,520.0	1,170.5	1,317.4	1,349.8	1,386.9	1,638.7	1,629.2	1,703.4	1,727.9	1,890.9	1,967.1	2,090.9	2,101.9
Military expenditure based on UN data	–	1,470.6	1,605.3	1,511.1	1,700.2	1,619.2	1,750.2	1,753.4	1,556.6	1,681.8	1,594.3	1,497.8	1,611.5	–
General direct military allocations	1,361.1	1,858.4	1,429.6	1,489.8	1,553.2	1,593.1	1,821.5	1,919.0	1,987.2	2,024.0	2,239.8	2,310.5	2,422.4	2,464.8
Total direct and indirect military allocations related to current and previous military actions	1,548.7	2,135.8	1,708.8	1,989.6	2,115.6	1,903.5	2,074.5	2,133.0	2,312.9	2,241.7	2,469.6	2,548.7	2,667.4	2,787.4
3. In real terms (in 1999 prices), RUR billion														
Implementation of the FB expenditure under the heading of "National Defence" in the current budget classification.	115.6	123.5	119.9	121.6	120.1	123.9	135.8	129.1	135.2	137.9	143.0	144.0	151.2	160.9
FB allocations under the heading of "National Defence": in the current budget classification but	93.7	135.0	103.9	117.0	119.8	123.1	135.2	129.9	136.4	136.7	143.5	144.1	153.3	165.6
transferred to other budget classification sections	–	–	–	–	–	–	10.3	14.7	14.8	16.8	24.4	30.5	32.3	21.0
in the comparable budget classification.	93.7	135.0	103.9	117.0	119.8	123.1	145.5	144.7	151.2	153.4	167.9	174.7	185.6	186.6
Military expenditure based on UN data	–	130.6	142.5	134.2	151.0	143.8	155.4	155.7	138.2	149.3	141.9	133.0	143.1	–
General direct military allocations	120.9	165.0	126.9	132.3	137.9	141.4	161.7	170.4	176.4	179.7	198.9	205.1	215.1	218.8
Total direct and indirect military allocations related to current and previous military actions	137.5	189.6	151.7	176.6	187.8	169.0	184.2	189.4	205.4	199.0	219.3	226.3	236.8	247.5
4. Military burden on the economy, % of GDP														
Implementation of the FB expenditure under the heading of "National Defence" in the current budget classification	2.40	2.62	2.77	2.73	2.69	2.53	2.69	2.53	2.50	2.52	3.06	2.76	2.72	2.91
FB allocations under the heading of "National Defence": in the current budget classification but	1.94	2.87	2.40	2.63	2.69	2.51	2.68	2.55	2.52	2.50	3.07	2.76	2.76	2.99
transferred to other budget classification sections	–	–	–	–	–	–	0.20	0.29	0.27	0.31	0.52	0.58	0.58	0.38
in the comparable budget classification.	1.94	2.87	2.40	2.63	2.69	2.51	2.88	2.84	2.80	2.81	3.60	3.34	3.34	3.37
Military expenditure based on UN data	–	2.77	3.29	3.01	3.38	2.93	3.08	3.05	2.56	2.73	3.03	2.55	2.57	–
General direct military allocations	2.51	3.51	2.93	2.97	3.09	2.88	3.20	3.34	3.26	3.29	4.26	3.93	3.87	3.95
Total direct and indirect military allocations related to current and previous military actions	2.85	4.03	3.50	3.97	4.21	3.44	3.65	3.72	3.80	3.64	4.70	4.33	4.26	4.47
5. Based on the purchasing power parity (in current prices), USD billion														
Implementation of the FB expenditure under the heading of "National Defence" in the current budget classification	21.9	26.8	30.2	31.9	34.2	36.2	45.6	54.0	59.5	72.6	82.1	80.0	83.8	99.3
FB allocations under the heading of "National Defence": in the current budget classification but	17.7	29.3	26.2	30.7	34.1	35.9	45.4	54.3	60.1	71.9	82.4	80.1	84.9	102.1
transferred to other budget classification sections	–	–	–	–	–	–	3.5	6.2	6.5	8.8	14.0	17.0	17.9	13.0

cont'd

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
in the comparable budget classification.	17.7	29.3	26.2	30.7	34.1	35.9	48.9	60.5	66.6	80.8	96.4	97.0	102.9	115.1
Military expenditure based on UN data	–	28.3	35.9	35.2	42.9	42.0	52.2	65.1	60.9	78.6	81.3	79.3	79.3	–
General direct military allocations	22.8	35.8	32.0	34.7	39.2	41.3	54.3	71.2	77.7	94.6	114.2	114.0	119.2	135.0
Total direct and indirect military allocations related to current and previous military actions	26.0	41.2	38.3	46.3	53.4	49.3	61.9	79.2	90.4	104.8	125.9	125.7	131.2	152.6
For reference														
Deflator of GDP,% YoY	172.5	137.6	116.5	115.5	113.8	120.3	119.3	115.2	113.8	118.0	102.0	114.2	115.5	108.0
Deflator of final consumption expenditure of government managed public services[g], % YoY	140.1	155.2	133.1	117.6	121.9	117.2	123.3	123.4	116.5	122.7	110.1	106.7	113.1	*112.3*
Purchasing power parity[h], RUR/USD	5.29	7.15	8.19	9.27	10.41	11.89	12.74	12.63	13.97	14.34	14.47	15.96	18.10	*18.26*

[a] For 2012 – Preliminary data on the federal budget implementation of the Federal Treasury.
[b] Total expenditure of the Defence Ministry and secret expenditures under sections 05-09 and 11 of the federal budgets for 2005-2011., for 2012 - in addition to section 12.
[c] For 2012 – to be provided by the Government of the Russian Federation to the United Nations in 2013, including the expenditure on the procurement of interior troops, border guards and civil defence.
[d] Including for the procurement of internal troops, border guards and civil defence troops.
[e] Including military pensions.
[f] Deflated by the deflator for final consumption expenditure for government managed public services.
[g, h] For 2012 – IEP estimates.
Source: Federal laws on the federal budget for 2000-2012 and on federal budget implementation 2000-2011, National Accounts of Russia for 1997-2011: Statistical Abstract / Rosstat. Moscow, 2005-2012; Objective information on military matters, including the transparency of military expenditure. UN Secretary General reports, 2001-2012; Rosstat; Federal Treasury.

* * *

The military economy of Russia, which was intended to ensure the completion of a radical military reform and to create a fundamentally new image of our armed forces, by bringing them up to the standard of the five best armies in the world, was mishandled in 2012. The statement made by Dmitry Medvedev before the return to Vladimir Putin of the authority of Supreme Commander: that the planned military reform was successfully completed and that the tasks started by him and put to the Ministry of Defence were largely resolved - was hasty.

At a meeting with his authorised representatives on 10 December 2012 Vladimir Putin said of the military reforms: "based on the fundamental, basic conditions developed in 2005-2006, the reform must continue." And he repeated the requirement, stated several times before, that "the army should be compact, it must meet a number of parameters: it should certainly ensure the safety of the country and should be appropriate for our economy"[1].

However, substantially to reform the army, these general guidelines are not enough.

If we look at it in general terms, the main reason for the failures of the military reform implemented before late 2012, was that it was closed to public scrutiny and lacked control over the actions of senior officials in the Defence Ministry, as well as their subordinates. Many of them were not aware of the specifics of military organisation and did not consider them carefully. The quantity of money and goods allocated to them was enormous, and provided the temptation for embezzlement. In these conditions, the low morality of a number of officials led them to a series of abuses and crimes.

[1] Meeting with authorised representatives. Transcript. Moscow, 10 December 2012. URL: http://www.kremlin.ru/news/17108 (visited on 11 December 2012).

The most important military, economic and legal lesson is that the availability of the budget of the Ministry of Defence, and the Defence Ministry estimate, separately approved by the Minister, plus the simultaneous existence of budgetary and extra-budgetary funds available to Ministry of Defence officials for virtually unchecked disposal, inevitably led to economic crimes. Another contributing factor was the wrongful classification of these assets as a result of incorrect interpretation of the law.

Returning to the effects of the fire on the FBMS "Yekaterinburg", we should note that other factors were also involved there too, instead of the allocation of all the resources to the early recovery of the affected missile carrier as would normally have been expected. In 2012, only RUR 6 million was allocated to conduct an inspection of the affected FBMS. The estimated cost of repairs (about RUR 1 billion) is to be carried forward. It is promised that only by 2014 will the submarine be ready to return to the Northern Fleet.

6.7. North Caucasus in 2012: results and risks

6.7.1. Investment projects and the interests of local communities

In December 2012, the Russian government adopted the ”Programme for the Development of the North Caucasus Federal District (NCFD) up to 2025” (hereinafter referred to as the Programme). The total funding up to 2020 was approved at a level of 2.55 trillion RUR, and it was determined that the state budget would provide 10% of the funds, while 90% should be made up from investor funds. Note that this proportion is roughly consistent with the principle of distribution of budgetary and non-budgetary finance adopted earlier for some of the projects implemented under the Programme. Thus, of the total costs of holiday resort construction projects in the North Caucasus, 60 billion rubles out of 510 billion rubles will be financed from the budget (through the project operator: Resorts of the North Caucasus JSC (with a 98% stake owned by the Government of the Russian Federation). The State has systematically demonstrated its goal to ensure the economic development of the North Caucasus mostly through investors. They are granted tax benefits, if they register in the new special economic zones (SEZ) created in the North Caucasus, as well as government guarantees on loans granted on an individual competitive basis.

However, particular steps taken in 2012 for the implementation of investment projects in the regions of the North Caucasus Federal District (NCFD) show that a key challenge for the creation of new businesses in the North Caucasus is not the search for investors, but the social implications of the future project development. In some cases, new enterprises acquire land which was previously, in one form or another, controlled by the local communities. Moreover, the launch of new businesses will significantly change the economic traditions of the areas where they are created. Below, we consider the impact of a number of investment projects implemented in the North Caucasus Federal District on the economic situation for the local population with particular examples, and then describe the political risks arising from these impacts.

In principle, the major new projects implemented in the North Caucasus, can have both positive and negative consequences for the local people. The positive effects may include the creation of new jobs for residents of the North Caucasus republics and the creation of a market for the services that local business will provide to the new businesses. Negative effects may occur if new companies invade the established local market, depriving its members of

certain economic opportunities, or that the land formerly used by local people for their own purposes (or at least considered as their "own") is acquired by new projects.

We are not aware of any examples of completed or projected enterprises, which would be developed through an appropriate strategy of economic interaction with the local population. All the examples rather suggest that at this time there is no such strategy in for this.

One example is the construction project for the AgroDagItaliya agricultural industrial park in the Babayurt Region of Dagestan, where the shareholders of the company are structures affiliated with certain Dagestani businessmen (the total cost of the project is about 14 billion RUR)[1]. This industrial park is to combine several types of production, including arable, cattle and poultry businesses. In general, the industrial park is expected to create about 16,000 jobs. 46,642 people live in the municipalities of the Babayurt Region (1 January 2011). The Region is characterised by active labour migration to the "oil" regions of Western Siberia (general statistics on the level of this migration are not available, but in the individual villages local residents estimate the proportion of men aged between 20 and 40 working in Siberia as 30-40%). Since the Tyumen Region, the Yamal-Nenets Autonomous District and Ugra are amongst the regions leading the Russian Federation in terms of wages, it is difficult to believe that a large number of residents working "in the North" are ready to change jobs to become farms workers in Dagestan, one of the outsiders in the "Salary ratings" of the Russian regions. This means that it will be impossible to provide the necessary number of employees for the newly created industrial park from residents of the Babayurt Region. The "Labour Reserves" may include people from the so-called transhumance lands, i.e. the land which in Soviet times was provided for farming on the mountain plateaux and where the current status is regulated by a special republican law[2]. At least thirty villages are located within the boundaries of the Babayurt Region, being the municipal communities of the Dagestan mountains and others without any municipal status. According to the National Population Census 2010, the total population of these villages in the Babayurt Region is estimated at 25,579 people. Labour mi-

[1] Osnovately "Summy" Vozvrashayutsia v Dagestan // Ekspert-Yug, (Summa founders return to Dagestan // Expert South, No. 44-45(234), November 5, 2012) (http://expert.ru/south/2012/45/osnovateli-summyi-vozvraschayutsya-v-dagestan/).

[2] For additional information on the transhumance lands see: K. Kazenin. Elementy Kavkaza: zemlia, vlast I ideologia v severokavkazskikh respublikakh. M.: REGNUM. 2012. P. 28–33. O protsesse pereseleniya gortsev na dagestanskuyu ravninu see: Yu.Yu. Karpov. Pereselenie gortsev Dagestana na ravninu: к istorii razvitia prostessa I sotsiokulturnym ego posledstviyam // Yu.Yu. Karpov. Traditsii narodov Kavkaza d meniayuschemsia mire. СПб.: Peterburgskoe vostokovedenie. 2010. P. 402–447; M.-P.A. Ibragimov. Etnodemograficheskaya situatysiya v Dagestane v posledney treti XX – nachale XXI veka // Vestnik Dagestanskogo nauchnogo tsentra RAN. № 34. 2009. P. 48–56; A.I. Osmanov. Agrarnye preobrazovania v Dagestane I pereselenie gortsev na ravninu (20–70-e gody XX veka). Makhachkala. 2000; Yu.Yu. Karpov, E.L. Kapustina. Gortsy posle gor. Migratsionnie protsessy v Dagestane v XX – nachale XXI vekov.: ikh sotsialnie I kulturnie posledstvia I perspektivy. Sankt-Peterburg: Peterburgskoe vostokovedenie. 2011. (K. Kazenin. The elements of the Caucasus: land, power and ideology in the North Caucasus Republics. M.: REGNUM. 2012. P. 28-33. On the process of resettlement of highlanders to the Dagestani plains see: Yu.Yu. Karpov (ed.). Resettlement of Dagestani highlanders to the plain: the history of the process development and its social and cultural implications // Yu.Yu. Karpov (ed.). Traditions of the Caucasian peoples in a Changing World. S.-Pb.: Petersburg Orientalism. 2010. P. 402-447, M.- R.A. Ibragimov. Ethnic and demographic situation in Dagestan in the last third of the XXth - early XXI century // Bulletin of the Dagestan Scientific Center, Russian Academy of Sciences. No. 34. 2009. P. 48-56; A.I. Osmanov. Agrarian reforms and resettlement of Dagestani highlanders to the plain (20-70-ies of the XXth century). Makhachkala. 2000; Yu.Yu. Karpov, E.L. Kapustina. Highlanders after the mountains. Migration processes in Dagestan in the XX - early XXI century: Their social and ethno-cultural implications and prospects. St. Petersburg: Petersburg Orientalism. 2011.)

gration from these villages to regions with high wages is low: according to the local administration of Tsadakh village in the Babayurt Region (part of the mountainous Charodinsky District) with a total population of about 750, only 20-30 people work in Western Siberia (generally in Dagestan, it is the Nogai, Kumyks and Lezgins who migrate actively to Western Siberia, while the Avars and Laks who comprise the majority in the area within the boundaries of the Babayurt Region transhumance lands are less involved in the process). Thus, a massive changeover to employment in the new enterprise by the transhumance land dwellers is more likely than such a change for the residents of the Babayurt Region. However, if the situation does not change, the launch of the agricultural industrial park may exacerbate the existing conflicts in the plains of Dagestan.

As will be shown below, it is the dispute about the transhumance land and the status of villages in this area that has become one of the central themes of life in Dagestan in recent years. The positions on these issues of activists acting on behalf of the indigenous plainsmen and activists acting on behalf of the mountain people, partly moved to the plain in Soviet times, differ significantly. If a significant part of the land in the Babayurt Region is acquired for the project, and mountain residents make up the majority of the people working there, it may intensify the debates between ethnic NGOs.

Another problematic aspect of the project is that it may hinder the economic development of poultry businesses currently existing in Dagestan. According to the project design, the poultry farm, which is intended to be one of the fundamental parts of the industrial park, will produce 50 tons of meat and 650 million eggs a year. Poultry farms which have been operating in Dagestan since Soviet times (particularly in the Buinaksk and Karabudahkent Regions) have less capacity. Currently, their activities are complicated by conflicts over property rights, but the populations of the villages where the poultry farms are located are showing interest in resolving the disputes and resuming production at the poultry farms, where it has been stopped. Obviously, the launch of a larger poultry project in the neighbourhood may call the very possibility of such a resumption into question. In practice, this will depend on the target market of the new poultry factory - Dagestan (which the "old" poultry farms serve) or an external market. In any case, it is important that the community leaders, acting on behalf of the residents of villages where the poultry farms are located, have assessed the project negatively. For example, during the general meeting of the Cohesion Union of Public Associations (specialises in protecting the interests of the indigenous inhabitants of the Dagestan plains) held in Makhachkala on 31 October 2012 one of the speakers said[1]: "I believe that there is no need to build this factory. It would be cheaper, for the Dagestan government to have considered updating the existing poultry farms. The construction of this farm is a source of dissatisfaction for the employees of the existing, non-operational poultry farms which are in need of a certain small amount of investment, as they may lose their jobs and livelihoods."

Thus, despite its attractiveness in terms of scale and the creation of jobs, the industrial park project in the Babayurt Region does not currently seem to have been thought through in respect of its interaction with the local communities and the protection of their interests. Similar problems are characteristic of an even more ambitious investment project implemented in the North Caucasus – the construction of resorts.

This can be illustrated by the Arkhyz resort which is under construction. Commenting on the development in December 2012, the President of the Karachay-Cherkess Republic (KCR) Rashid Temrezov stated that this was supposed to be all-year resort, as the many leisure op-

[1] Minutes of the Meeting courtesy of the author.

tions in the Arkhyz Gorge (rafting, pony-trekking, therapeutic recreation, etc.) may provide for holidays beyond the ski season. The total number of hotel rooms in the the future resort is 24,000. The main question regarding the implications of the resort for the population of the region is related to the prospects of saving the tourist business which already exists in the mountains of the Karachay-Cherkess Republic. Currently, Arkhyz without any operable skiing infrastructure is able simultaneously to accommodate about 1,000 tourists; the main accommodation locations being health resorts left over from the Soviet era (partially owned by companies located outside of the region) and private mini-hotels. The Dombay Ski resort located in the adjacent valley can accommodate up to 5,000 tourists, mostly in private hotels with 10-15 to 300 rooms[1]. Given the instability in the North Caucasus, entrepreneurs operating in the KCR tourist industry do not predict a significant increase in the total number of tourists coming to the region. This means that the businesses now engaged in the tourism sector will have to compete for tourists with a new infrastructurally more developed resort. And, to our knowledge, there are no proposed options for the development of the local tourist industry in cooperation with the new resort.

There are also no schemes for local participation in the food supply chain for the future resort. The level of meat production in the KCR is such that it is easily covers the needs of the existing resorts. For example, the annual demand for mutton at the Dombay resort, estimated at about 5,000 animals, corresponds to the current volume of production in only in the Teberdinsky Valley adjacent to the resort. However, if the Arkhyz resort operates throughout the year, regional producers are unlikely to be able to meet its needs. This is the result of the existing animal husbandry arrangements in the KCR.

The fact is, that the local pastures with special herbal content, which affects the quality of the meat, are suitable for grazing for only about five months of the year due to the climatic conditions. The rest of the cattle are stall-fed. According to our field data, the animal housing facilities available to local farmers, as a rule, allow each to take no more than 100-150 animals for fattening. However, a large resort business, as compared, for example, to the small and mid-range Dombay hotels, will obviously be more interested in working with wholesale suppliers who can provide a regular supply with consistent quality. And according to national agricultural entrepreneurs, to provide an uninterrupted monthly supply of at least 500 sheep, a farmer requires a fairly large feeding complex - not yet available in the region. If by the launch of the resort this facility has not been created, then it is likely that Arkhyz managers will give preference to suppliers from other regions.

So, the two large enterprise projects created in the North Caucasus which we have considered, in fact do not offer any form of local community cooperation, and one of these projects could also exacerbate the existing difficulties over cooperation in the land sector. This state of affairs with the administrative support provided to the projects is unlikely to be a barrier to their implementation, but it will have negative political consequences, since the local population will not develop a conscious loyalty to these initiatives of the federal government in the North Caucasus.

[1] For information on the Dombay resort economy see: I.V.Starodubrovskaya, N.V.Zubarevich, D.V.Sokolov, T.P.Intigrinova, N.I.Mironova, H.G.Mahomedov. Severniy Kaukaz: modernizatsionniy vyzov. M.: Izdatelskiy dom «Delo» (RANKHiGS). 2011. P.196–234 (I.V. Starodubrovskaya, N.V. Zubarevich, D.V. Sokolov, T.P. Intigrinova, N.I. Mironova, Kh.G. Magomedov. North Caucasus: the modernization challenge. Moscow: Delo Publishing House (Russian Presidential Academy of National Economy and Public Administration). 2011. P.196-234).

6.7.2. Renaissance of the national movement in the North Caucasus

In 2012, in some regions of the North Caucasus, especially in Dagestan a noticeable strengthening of national social movements has been observed compared to previous years. Their involvement in local politics is not as important at the moment as in the first years after the collapse of the Soviet Union, but it is much more active than in the mid-2000s.

Formal and informal social movements, positioning themselves as defenders of the interests of a particular ethnic group, first loudly declared themselves in the North Caucasus in the late 1980s - 1990s. Their goals and rhetoric were substantially different from region to region. For example, in the North-West Caucasus (primarily in Kabardino-Balkaria and Karachay-Cherkessia) the national movements raised the question of changing the boundaries between ethnic subjects (in particular, the separation of Balkaria and Karachay) and on the ethnic principles of forming the government[1]. In Dagestan the leaders of national movements also paid much attention to the problem of ethnic representation "at the top", but were more interested in the distribution of the disputed land on the plain.

By the mid-2000s, the activity of the national movements had obviously declined in all regions of the North Caucasus. This can partly be explained by the aging of the "agenda" of these movements. The question of changing the boundaries of the regions have not been discussed recently (the last "surge" of discussions took place during the very contentious elections of the President of the KCR in 1999). Ethnic representation of the North Caucasus republics in the government had, in general, stabilised by the middle of the second post-Soviet decade, as a result of specific informal agreements.

A subsequent revival of national movements in the North-West Caucasus occurred in the second half of the 2000s and as a result of specific reasons for each region. So, in the KCR the ethnic community leaders were involved in lobbying for the interests of certain parties in opposition to the regional elite. In the Kabardino-Balkaria Republic (KBR), the resurgence of national movements was connected with the problems which had occurred in the region due to the implementation of the “Federal Law On Local Administration”, while the relationship of the national movements to the part of the local elite opposed to the Republican government was also quickly revealed.

The ethnic community structures which asserted themselves in the political life of Dagestan in 2012 are quite clearly divided into *two groups*.

The first group consists of structures desirous of a partnership dialogue with the federal and regional authorities, and of attracting the attention of the federal media. One result of such activities is the acquisition of prominent publicity for the national organisations and the legalisation of the national movements in the eyes of the authorities (the latter may occur without the unconditional support of the national movements by the authorities). Organisations in this group pay less attention to the struggle for power and property at a municipal level, land conflicts, etc.

The second group includes ethnic organisations and movements, which, to the contrary, are focused on protecting the interests of their ethnic groups in the most "local" fields, such as

[1] See I.L.Babich. Sootnoshenie politicheskoy, religioznoy i etnicheskoy identichnosti v sovremennom kabardino-balkarskom obshestve // M.Olkott, A.Malashenko (sost.). Faktor etnokonfessionalnoy samobitnosti v postsovetskom obshestve. M.:Karnegi Tsentr. 1998. P. 140–165 (I.L. Babich. The ratio of the political, religious and ethnic identity in the modern Kabardino-Balkar society // M. Alcott, A. Malashenko (ed.). Factor of ethnic and religious identity in the post-Soviet society. M.: Carnegie Center. 1998. P. 140-165).

land tenure, local government, etc. These organisations are usually tough opposition for the Republican authorities but have no appreciable access to the federal media.

In 2012, the most prominent organisation of the first group was the *Federal Lezgin National and Cultural Autonomy (FLNCA)*[1]. Last year, this organisation put forward some objectives which go beyond the Dagestani interior problems. The FLNCA has paid most attention to the status of Lezgins as a divided nation, after the collapse of the USSR[2], partly living in the territory of Russia (mainly in areas of southern Dagestan) and partly in the northern part of Azerbaijan. The problems of the Azerbaijani Lezgins, particularly those enclaves in Azerbaijan where Lezgins live, who are Russian citizens (Kharkh-Uba and Uryan-Uba), were the main point of discussion at the recent IV FLNCA Congress held on 9 November 2012 in Moscow[3]. Criticising the Republican government for the unsatisfactory economic situation in the Lezgin regions of Dagestan, and the federal authorities for the poor protection of the interests of Lezgins in Azerbaijan, the FLNCA nevertheless demonstrated its desire to cooperate both with the Kremlin and the official Makhachkala. For example, in response to a call made by the Presidential Administration, during the November Congress, FLNCA leaders expressed their willingness to intensify their work with the Lezghin diaspora across Russia.

The Avar National and Cultural Autonomy (NCA) [4] also showed certain activity in the federal public arena in 2012. Unlike the FLNCA with the Lezgin, where the community leaders and entrepreneurs living in Moscow constitute its backbone, the Avar NCA is mainly constituted of Avar intellectuals living in Dagestan. In part they moved in the "fairway" of the FLNCA in 2012. For example, in May 2012 the two organisations held a joint conference in Moscow[5] on the problem of the division of the Caucasian peoples (Avars live in the northern part of Azerbaijan along with the Lezgins). The activities of the Avar NCA cannot but reflect the fact that there are influential municipal Avar administrators in Dagestan, having political ambitions at a Republican level and not always finding a common language with the regional government. In this regard, there was the situation with the failed “Congress of Lezgin and Avar Peoples” planned for October 2012 in the Dagestani town of Khasavyurt, with its head, Saidpasha Umakhanov, being the most prominent representative of the "Avar Club" of municipal heads. He has repeatedly criticised the current government of the region, and at least since the mid-2000s has been considered a potential candidate for the highest office in Dagestan. Information on the preparation of the Congress appeared in the federal media on 24 September 2012 but two days later was denied by the Khasavyurt Mayor’s Office[6]. According to our information, the Congress was actually prepared by activists of the Avar NCA, but it has been delayed due to disagreements between the organisers. Whether Umakhanov's team was

[1] Incorporated in 1999 by the National and Cultural Autonomies of Siberian Lezgins, in 2007–2008 it merged with the Dagestani, Moscow and several other National and Cultural Autonomies of Lezgins.

[2] For additional information see: M.E.Alekseev, K.I.Kazenin, M.Suleimanov. Dagestanskie narody Azerbaidzhana: politika, istoriya, kultura. M.:Evropa. 2006 (M.E. Alekseyev, K.I. Kazenin, M. Suleymanov. Dagestani peoples of Azerbaijan: politics, history, culture. M.: Europe. 2006).

[3] Uchastniki syezda FLNKA raskritikovali dogovor Rossii I Azerbaidzhana o gosgranitse // Kavkazskiy uzel, 11 noyabrya 2012 (Members of the FLNCA Congress criticized the treaty on the state border between Russia and Azerbaijan // Caucasian Node, November 11, 2012) (http://www.kavkaz-uzel.ru/articles/215543/).

[4] Registered at local level, it is currently being registered at the federal level.

[5] V Moskve obsudili problem dagestantsev, prozhivaiushih v Azerbaidzhane (The problems of Dagestan people living in Azerbaijan were discussed in Moscow) // IA REGNUM, May 18, 2012 (http://regnum.ru/news/1542825.html).

[6] Syezd lezgin I avartsev ne budet prokhodit v Khasavyurte (Congress of Lezgin and Avar Peoples will be held in Khasavyurt) // IA REX, September 26, 2012. (http://www.iarex.ru/news/29496.html).

involved or not, this situation confirms that the logic of development of the Avar national movement inevitably raises the question of its interaction with the Avar political "heavy-weights".

The *second group* of ethnic organisations primarily serve on land issues. Their work is mainly focused on the support of local communities who have land claims. In 2012, increased activity in this field in Dagestan showed, in particular, the Cohesion Union of Public Associations protecting the interests of the peoples of the plains (primarily Kumyks and Nogai). The ideology of this organisation is based primarily on their criticism of the current status of the transhumance land (on this status, see Section 6.7.1). The Activists of Cohesion argue that the land, with a total area close to 1 million hectares in the Dagestani plain was unfairly taken from the plain regions and the majority of it is not used for its legitimate agricultural purposes, being the source of rent for small groups of officials from the mountainous regions of Dagestan. Opponents of Cohesion, mainly represented in public by the heads of several villages located in the transhumance lands, indicate that the mountain peoples of Dagestan had put a lot of work into the development of these lands during the last Soviet decades, and therefore have no less rights than the plain "autochthons". Along with Cohesion, the public interests of the latter group are protected by ethnic NGOs - Nogai Birlik and Kumyk Tenglik[1].

In 2012, there were at least two notable actions on land issues by the Dagestani plain peoples. Interestingly, in both cases, the transhumance land was not the immediate object of the conflict. In the spring of 2012 residents of three Kumyk settlements in the suburbs of Makhachkala (Alburikent, Kyakhulay and Tarki) started a protest action. They camped on the land to the north of Makhachkala, which, until 1944, had belonged to these villages but has now been sold to private individuals for development[2]. In 1944, the residents of these three villages were resettled on the land left vacant after the deportation of the Chechens; upon the return of the Chechens in 1957, the residents of the villages returned to their homes, but the land to the north of Makhachkala has not been returned to the villages. In the vicinity of the disputed land there is also the territory, which in early 1990 was allocated for the resettlement of residents of the Novolaksk region of Dagestan, where the Chechens claimed their right to the land near the Dagestan-Chechen border.

The camp created in spring 2012 lasted for 2 months, and residents of the settlements later conducted several meetings in the same area. The immediate issue in this case was about 200 hectares of land, which is not going to be used for agricultural purposes either by the current owners or by the villagers. However, representatives of the NGOs, denouncing the existing system of land relations in the Dagestan plain, in general supported the protests and participated in the negotiations between the organisers and the Republican authorities (as of the end of 2012, these negotiations had seen no particular results).

A kind of response to the Kumyk actions was the Congress of Lak people held in Makhachkala on 28 September 2012. This Congress, attended mainly by opposition community leaders, demanded the unconditional implementation of the decision to grant the land to the immigrants (people of the Novolaksk Region) and harshly criticised the regional authorities

[1] For additional information on debates on the transhumance lands see: K.Kazenin. Elementi Kavkaza: zemlya, vlast i ideologiya v severokavkazskikh respublikah . M.: REGNUM. 2011. P. 47–50. (K. Kazenin. The elements of the Caucasus: land, power and ideology in the North Caucasus Republics. M.: REGNUM. 2011. P. 47–50).

[2] V Makhachkale trebuyut kompensatsii za stalinskie pereseleniya (Makhachkala seeks compensation for the resettlement in the Stalin era) // IA REGNUM, May 5, 2012. (http://regnum.ru/news/1526698.html).

for the delay in this matter[1]. Due to the proximity of the relevant land, the claims of Lak and Kumyk community members are inevitably interdependent and conflictual to some degree.

Another example of the mass action of plainsmen on land issues took place in the Kizlyar Region where, in the summer of 2012, the Nogai people living in Novokrestyanovskye village came into conflict with a company which had taken on the lease of part of the land adjacent to the village. On 21 June the residents came to a ploughed field on the outskirts of the village and stopped the working machinery owned by LLC Dag.agrokomplex[2]. The reason for this protest action was the illegal (in their view) decision of the district administration to assign, by way of tender, the right to lease the land around the village to the external investor, while there was already a lack of land appropriate for the needs of the villagers. Note that according to our observations, in legal terms the situation in Novokrestyanovskoye, is typical of lowland Dagestan and may be repeated many times during the allocation of land for major agricultural projects: on the basis of the documents issued in 1990 residents of the village consider themselves to be the owners of shares in the former collective or state farm land, but due no survey having been carried out and ownership not being properly registered, the residents can not substantiate their claims to the land. A Kizlyar district administration official explains the problems as follows: "When these certificates were issued, it was assumed that the recipients of the certificates would organise farm holdings, be farming on a professional basis and paying taxes to the district budget. But almost none of the villagers registered their rights to the land, established farm holdings or paid land taxes".

The Novokrestyanovskoye conflict was partially resolved by direct negotiations between representatives of the villagers and the agricultural firm. Republican NGOs did not participate in it. However, it is important to consider that the Nogai NGOs showed their ability to become actively involved in land conflicts in 2011, when, with their support, residents of the Nogaisky district forced the investors to terminate construction of a sugar beet plant linked to proposed cultivation on the major part of the croplands[3].

In 2012, also, the KBR public activity related to land issues was mainly manifested at a municipal level, but regional ethnic organisations also participated in it. This activity was mainly related to the allocation of land for future resort construction. In January 2012, residents of three villages in the Cherek District of the KBR formed a working group of 12 people for public control over the implementation of a tourist cluster project. As previously reported, Resorts of the North Caucasus JSC (RNC JSC) planned to build a resort in this area with 170 kilometres of ski slopes[4] and capable of simultaneously accommodating 15,000 tourists. According to the company, some resort facilities will be located in the area of the Khulam-Bezengi Gorge. A part of the land in the valley is owned by the agricultural FSUE, but Bezengi villagers say that the land originally belonged to them and insist that any agreement on the allocation of land for the tourist cluster must be entered into with the village, and that the village representatives must control the project at all stages of its implementation.

[1] V Dagestane obsuzhdayut situatsiyu vokrug Novolakskogo rayona (Dagestan discusses the situation with the Novolaksky district) // IA REGNUM, October 2, 2012. (http://regnum.ru/news/1576855.html).
[2] Aslanbek Adiev. Poluchat li «nemestnie» dustup k zemle na Severnom Kavkaze? (Aslanbek Adiev. Will the "non-locals" have access to land in the North Caucasus?) // IA REGNUM, July 27, 2012 (http://regnum.ru/news/1554910.html).
[3] V Tarumovskom rayone Dagestana realizuetsya proekt vozvedeniya sakharnogo zavoda // Kavkazskiy uzel (The construction project of a sugar factory is implemented in Tarumovsky district of Dagestan // Caucasian Node), January 20, 2012 (http://www.kavkaz-uzel.ru/articles/199601/).
[4] Nezavisimaya gazeta (Nezavisimaya Gazeta), No.174, 29.08.2012.

Later, in November-December 2012, land disputes came to the surface in the Zolsky District of the KBR. On 22 November the Government of the Republic announced the completion of the procedure for defining a special economic zone in the region (SEZs are established in all districts of the KBR where actual or planned resort construction projects are implemented). Almost simultaneously, a number of deputies of rural settlements in the Zolsky District reported to the media that village deputy meetings had "vetoed" the activity of RNC JSC in the district, as the question of which land would be transferred to the tourist cluster had not been resolved. In response, the heads of the same villages said that the residents of the villages were not against the construction of resorts, and that the land issues had not been resolved since RNC JSC had provided no solutions in this regard[1].

The land issues which have caused public reaction in the KBR are currently unresolved. Further discussion will apparently take place against the background of land reform proposed by the President, Arsen Kanokov. Kanokov formulated the essence of the reform at the end of 2012 as follows: "The land is allocated and legally registered to the private ownership of particular groups of villagers, where the management practices are diverse, agricultural land cannot be split up into parcels of less than 10 ha, meaning that effective large and medium businesses will be preserved"[2].

In whatever format the land reform is discussed, we might expect that it will be actively influenced by regional NGOs, primarily the Balkar, as the areas for future resort construction are dominated by Balkars. They also support protests "on the ground". In particular, according to the media, Balkar activists of the public organisation the “Council of Elders of the Balkar People”, together with the former head of Bezengi village, Muradin Rakhayev (in 2010 they pursued the "Hunger strike of the Balkar elders" outside the walls of the Kremlin), have played a significant role in the actions of the inhabitants of the Cherek District. Thus, forces which can transform a local protest in an aspect of regional policy are also present in the KBR. The peculiarity of this Republic is that ethnic community leaders are usually actively involved in political projects aimed against the regional authorities. In addition, according to past experience, the activities of NGOs acting on behalf of the various peoples of the KBR, can lead to a confrontation between them. The region has developed a whole tradition of controversy between the social activists acting on behalf of the Balkars and the social activists acting on behalf of the Kabardins. The former insist on the full transfer of the mountain lands to the Balkar villages whilst the latter recall the controversy of "ethnic borders" in the mountains, and that of the Soviet era and where previous inhabitants of the neighbouring valley could enjoy the mountain land in the vicinity of Elbrus[3]. These contradictions are of direct relevance to the land proposed for construction of the new resort.

[1] Deputati Zolskogo rayona ne zapreshali stroitelstva turklastera (Deputies of the Zolsky District did not prohibit the construction of the tourist cluster) // IA REGNUM, December 4, 2012. (http://regnum.ru/news/1600606.html).

[2] Zemlua dolzhna stat rynochnym instrumentom – glava KBR (The land should be a market instrument - the head of the KBR) // Interfax, October 24, 2012 (http://www.interfax-russia.ru/South/main.asp?id=355348); for the background of the land reform in KBR see: K.Kazenin. «Tikhie» konflikty na Severnom Kavkaze: Adygeia, Kabardino-Balkariya, Karachaevo-Cherkessia (K.Kazenin. "Quiet" conflicts in the North Caucasus: Adygea, Kabardino-Balkaria, Karachay-Cherkessia.). M.: REGNUM. 2009. C. 81–110.

[3] For additional information see: K.I.Kazenin. Kabardino-Balkarskaya Respublika // I.G.Kossikov (sost.). Respubliki Severnogo Kavkaza: etnopoliticheskaya situatsiya I otnosheniya s federalnim tsentrom. M.: Maks-press 2012. (K.I. Kazenin. Kabardino-Balkar Republic // I.G. Kosikov (ed.). Republics of the North Caucasus: ethno-political situation and relations with the federal center. M. Max Press. 2012.). P. 183–212.

Thus, major land allocation for new projects in the Daghestan plains and mountains of the KBR are causing protests amongst the local population and can be catalysts for political upheaval on a larger scale. Republican NGOs speaking from an ethnic point of view have been directly involved in a number of the conflicts mentioned herein. Some of these organisations have victories to their credit in land battles at a municipal level. Thus, the implementation of large investment projects in the North Caucasus is increasing the role of ethnicity in local politics, which, could obviously lead to an overall increase in conflicts in the region.

In addition to supporting the protests of local people on land issues, some of these organisations have participated in the opposition's political projects. For example, representatives of the Solidarity movement were present at the "Congress of Dagestani Peoples" held in Moscow in October 2012[1], organised by a number of ex-officials of Dagestan and critical of the republican authorities. In addition to organisations claiming to be the defenders of entire ethnic groups the Congress also invited the representatives of many public structures (mostly without official registration) engaged in anti-corruption activities, or protecting the interests of residents in conflict with officials and businessmen. An example is the "Anti-Corruption Committee of the Tabasaran District" who presented at the Congress. Such social activist unions are not directly ethnic, but as a rule, they act on behalf of mono-ethnic groups.

Thus, ethnic social structures have formed a kind of a "division of labour": some are actively opposed to the authorities and protect the interests of communities, whilst others legitimise a new high level of national movements in the public arena. Currently, these two processes are almost independent of each other, as there is no visible evidence of cooperation between these structures. But if they begin to interact with each other, this will lead to the formation of ethnic social structures that will combine publicity experience at a federal level and the support of local communities. The opportunities for such structures will inevitably be wider and the "elements" that are required to create them[2] already exist.

6.7.3. Dagestan: the dynamics of intra-confessional relations in Islam

In terms of attempts to decrease the level of conflict in the North Caucasus region, the most visible and dramatic events took place in the Republic of Dagestan. Given the crisis of the forms of settlement[3] used previously, which manifested itself in the reduction of the insti-

[1] Dagestanskaya oppositsiya otpravilas v Moskvu razroznennimi gruppami (Dagestani opposition went to Moscow in separate groups) // IA REGNUM, October 24, 2012 (http://regnum.ru/news/1585835.html).

[2] For additional information on the ethnic factors of contemporary conflicts in the North Caucasus see: I.V.Starodubrovskaya, D.V.Sokolov. Istoki konfliktov na Severnom Kavkaze. M.: Izdatelskiy dom «Delo» (RANKHiGS) (I.V. Starodubrovskaya, D.V. Sokolov. The origin of conflict in the North Caucasus. M.: Delo Publishing House (Russian Presidential Academy of National Economy and Public Administration)). 2013. P.78–128.

[3] In November 2010, the President of RD created the Commission to support of persons who have decided to stop their terrorist and extremist activities in the Republic of Dagestan in adapting to civilian life in the territory of the Republic of Dagestan." The Commission was headed by Deputy Prime Minister of the Republic of Dagestan, Rizvan Kurbanov (now the Deputy of the State Duma of the Russian Federation). The Commission includes the heads of the security forces of the region, a number of ministers, representatives of the civil society and the religious community of Dagestan. 37 persons applied to the Commission during the 1.5 years, 32 claims were satisfied. It reviewed more than 100 claims of citizens related the violation of their rights by the law enforcement agencies, all applicants received legal support (see: Yulia Rybina. V Dagestane boevikov adaptiruyut k miru (Julia Rybina. Dagestani militants are adapting to the peace life). 20.04.2012 07:29. http://kavpolit.com/v-dagestane-boevikov-adaptiruyut-k-miru/). The Commission's activities have received some

tutional role of the Commission in assisting previous terrorists, who have given up their extremist activities in the Republic of Dagestan, to adapt to civilian life, and the public discrepancy in the views of its members on the principles and strategy of this authority, a completely different settlement process began to develop.

One of the principal lines of division in Dagestani society, and in the North Caucasus in general, is the intra-confessional conflict of the Sufi[1] and Salafi (the more common, though incorrect name is the Wahhabi) movements of Islam. The Salafi movement was mainly a form of youth social protest in the region. Its confrontation with the Sufis seems to be one of the greatest sources of the continuing violence in the region. Not so long ago representatives of the "official Islam" in Dagestan said that any person who killed a Wahhabi would go to heaven. Even the external signs of belonging to the Salafi movement (particular form of beard, or short trousers) could be and often were the basis for repression by the security forces. At the same time the most frequent targets of terrorist attacks were, not only representatives of the law enforcement agencies, but also the most prominent Sufi religious leaders (sheikhs).

Against this background, the meeting and joint Friday prayers of moderate (legal) Salafis and the Spiritual Administration of Muslims of Dagestan (DUMD) held on 29 April 2012 at the Central Mosque in Makhachkala seemed a breakthrough in the settlement of the intra-confessional division. The meeting was chaired by Magamedrasul Saaduev, Imam of the Central Mosque. Moderate Salafis were represented by the Ahl-Sunnah Association of Scientists. Ahl-Sunnah combines dozens of religious Salafi leaders who do not accept violence in the struggle for the victory of Islam, and are focused on the dissemination of their ideas about the true faith through peaceful preaching. Representatives of both movements spoke at the meeting, as well as the Mufti of Dagestan. The resolution adopted by the meeting included, as important practical requirements, a ban on Muslims reproaching each other, tracing and informing on Muslims, as well as the prohibition of Dagestanis from travelling abroad to study in Islamic universities.

Following the meeting in the Central Mosque in Makhachkala similar events aimed at intra-confessional consent were held throughout Dagestan. On 11 June 2012, in the Tsumandin Region several events were held involving the Mufti of Dagestan, district activists and local Salafis. Resolutions adopted on the basis of these events were, in general, made in the spirit of the Makhachkala resolution from 29 April, not repeating it but adding several new aspects to the possible ways of settlement, including:

- To consider establishing a fund to assist families affected during intra-confessional conflicts;
- To consider a joint request to the Ministry of Justice for the abolition of the “Law on Wahhabism”;
- To discontinue the practice of prosecuting Muslims for the possession of religious literature, as this should not be a justification for prosecuting a person for extremist activity.

These new trends in intra-confessional relations were discussed in the monthly report by E.T. Gaidar's IEP entitled “The Economic and Political Situation in Russia in June 2012”. In answer to the question as to whether we can assume that the steps taken for the settlement of the intra-confessional conflict could fundamentally change the situation in the Republic and

public recognition, there have been cases when militia men put down their arms and surrendered to the authorities under the guarantee of Rizvan Kurbanov, Chairman of the Commission.

[1] Sufism is a mystical branch of Islam, which implies unquestioning obedience of believers (murides) to Sheikhs having the mystical knowledge. It has developed within the Sufi orders (Tariquas).

put an end to the armed confrontation, the Report stated that "it is too early to draw such conclusions," and suggested that the most likely scenario is the "strengthening of an open division between the Salafis and Sufis regarding the issue of termination of the confrontation" [1]. Unfortunately, life has completely justified this quite pessimistic forecast.

An increase in violence in the country occurred simultaneously with the unfolding of the intra-confessional settlement process. In August 2012 a number of law enforcement officials and religious leaders were killed. On 18 August there was an attack on a Shiite mosque in Khasavyurt, leaving one person dead and several injured. However, the most resonant crime was committed on 28 August - Sheikh Saeed Chirkeisky was killed. He was the most ambitious figure of the contemporary Sufi movement in Dagestan. According to different estimates, he had from a few dozen to several hundred thousand followers (murids), including the DUMD management and some members of the Republican government. He was seen as the centre and symbol of the shadow power structure[2]. The Sheikh died at his home in Chirkei village, bombed by a female suicide bomber (an ethnic Russian) who came to his house in the guise of a pilgrim. The blast killed six other people, and several victims had to be taken to hospital. The Sheikh's funeral gathered more than 100,000 people.

This crime has caused shock in Dagestani society, and not only amongst the religious community. The predictions were particularly disappointing. The local press emphasised that a few days after the tragedy there was not a single expert commentator on the murder who would not have predicted a sharp aggravation of the situation in Dagestan[3]. Journalist Yulia Latynina compared the crime with the hypothetical situation of the murder of the Pope in the middle of a war between Catholics and Protestants, and noted that the consequences of this event greatly increased the chance of catastrophic scenarios for the coming autumn[4]. The catastrophic scenarios failed to materialise. Yet the crime revealed many hidden processes in Dagestani society in general, especially in the religious community, and had a major influence on the future development of the situation.

First of all, mass violence on religious grounds between the murids of Saeed Chirkeisky and the Salafis was avoided, which, in fact, could have instigated an escalation of violence in society in general. In the days following the tragedy both sides showed an enviable wisdom and restraint. A few hours after the death of the Sheikh almost all prominent Muslim leaders in the Republic harshly condemned the murder, regardless of their confessional affiliation[5].

---

[1] Starodubrovskaya I.V. Dagestan: neprosotoy vopros uregulirovaniya //Ezhemesyachniy obzor Instituta ekonomicheskoy politiki imeni E.T.Gaidara «Ekonomiko-politicheskaya situatsiya v Rossii v iyune 2012» (I.V. Starodubrovskaya. Dagestan: complex settlement issue / Monthly Bulletin of the Economic Policy Institute named after E.T. Gaidar. Economic and political situation in Russia in June 2012). P.60. http://www.iep.ru/files/text/trends/Russian_economy_trends_and_perspectives_in_June2012.pdf

[2] Akhmedova M. Zhertva primireniya. Za chto ubili samogo uvazhaemogo cheloveka na Severnom Kavkaze // «Russkiy reporter» №35 (264) 06 sen 2012 (M. Akhmedova. The victim of reconciliation. What killed the most respected man in the North Caucasus? // Russian Reporter, No. 35 (264) September 6, 2012) ./http://expert.ru/russian_reporter/2012/35/zhertva-primireniya/

[3] Agaev M., Magomedov R. Nachalo kontsa?!//Chernovik (M. Agayev, R. Magomedov. Is it the Beginning of the End? // Draft). 31.08.2012. http://old.chernovik.net/news/507/REPUBLIC/2012/08/31/14040

[4] Latynina Yu. Vtoraya faza dzhikhada. Ubiystvo sheikh Saida Afandi –nachalo novogo nastupleniya islamskich radikalov // Novaya Gazeta (J. Latynina. The second phase of Jihad. The assassination of Sheikh Said Afandi - the beginning of a new offensive of Islamic radicals // Novaya Gazeta). 29.08.2012. http://www.novayagazeta.ru/society/54194.html.

[5] See: Nerealnaya realnost… //Redakciya «Chernovik» (Unreal reality ... // Draft Editorial). 23.08.2012. http://old.chernovik.net/news/506/News/2012/08/23/14012

The Ahl Sunnah Association expressed its condolences to the relatives and friends of the victims and adopted a Statement which, *inter alia*, said: "Despite the fact that we had a number of disagreements with the dead, we have never supported such methods of solving disagreements, and we stated this during the joint meeting with DUMD. All disputes must be settled by scientific debate, we have called for and encouraged it. This is our principled position. The murder did not happen by chance at the time when the dialogue between the different groups of Dagestani Muslims was developing. ... At the same time, the proponents of force against the growing influence of Islam have found their place in a number of authorities. They are trying to derail the peace process in different ways. In this regard, the Ahl Sunnah Scientific Association in Dagestan declares that the murder should not affect the dialogue process developing in the country. We look forward to the continuation and development of this process[1]". The Imam of the Central Mosque in Makhachkala, M. Saaduev, acting on behalf of the Sufis called on them to take a balanced position: "I appeal to the youth. Be tolerant, be wise, do not lose your heads. ... The peace process in Dagestan among believers will not be disrupted in any case. We will not allow this. We have come a long and hard way to the dialogue. We, the Sufis, know that among the Salafis there are moderate people, good people, and there those who are sick, as in any movement, in any religion, of any nationality. One group must not be punished for the actions of others. Any "retaliation" is barred and unacceptable... Do not play us off!"[2]. Even the underground movement offered not to jump to conclusions about the person who committed the crime[3].

The belief that this crime was particularly advantageous to those who were trying to disrupt the intra-confessional dialogue was dominant. The security forces and the "forest" were most frequently accused (although there were also more unusual versions of what had happened: the redistribution of the hajj market, a plot by "third forces"). Let us consider some examples of typical statements by experts and the community leaders of the Republic made in the first days after the tragedy: "This killing may involve Salafi followers from the small group arguing against the convergence of Islam, which took place in Dagestan early this year. The security forces may also be involved, as they would like to destabilise the situation in the Republic. It is possible that this is yet another provocation"; "People who are not benefitting from the association of different Islamic movements in Dagestan may stand behind the murder," "I think that the "forest" stands behind it. They killed the spiritual leader of the opposing side. The killing of enemy leaders is one of the goals in any war. This is another act of the hidden war in Dagestan;" "This is a political murder, a great provocation. ... If not directly,

[1] Mirniy process dolzhen prodolzhatsya. Zayavlenie Associatsii uchenykh Akhlyu-Sunna v Dagestane v svyazi s ubiystvom Saida Chirkeyskogo I ego posledovateley // Kavkazskaya politika (The peace process must continue. Dagestani Ahl-Sunnah Association of Scientists' statement in connection with the murder of Saeed Chirkeisky and his followers // Caucasus Policy). 29.08.2012. http://kavpolit.com/mirnyj-process-dolzhen-prodolzhitsya/

[2] Magomedov A.Luchshe khudo-bedniy mir, chem voyna!/ / Chernovik (A. Magomedov. The poor peace is better than war! // Draft). 7.09.2012. http://old.chernovik.net/news/508/POLITICS/2012/09/07/14057. Note how Abbas Kebedov's words (Salafi representative) resonate with this call: "I call all Dagestani people for restraint and responsibility, do not let brothers kill each other! We vented to each other for somebody's own purposes". (Tambieva M. Podryv tarikata: Kavkazskie eksperty prognoziruyut obostrenie situatsii v Dagestane posle ubiystva sheikh Saida-afandi Chirkeyskogo // Kavkazskaya politika (M. Tambiyeva. Undermining Tariqa: Caucasian experts predict worsening of the situation in Dagestan after the assassination of Sheikh Saeed Afandi Chirkeisky // Caucasus Policy). 29.08.2012. http://kavpolit.com/podryv-tarikata/)

[3] See: Magomedov A. Luchshe khudo-bedniy mir, chem voyna!/ / Chernovik (A. Magomedov. The poor peace is better than war! // Draft)). 7.09.2012. http://old.chernovik.net/news/508/POLITICS/2012/09/07/14057.

then indirectly, the state is responsible for the possible consequences. ... Why did it happen now, when Sufis and Salafis were coming to an understanding, to constructive dialogue?"[1].

The idea of the provocative nature of the crime was extremely widespread. And the statement of one radical Islamist group which appeared, finally claiming responsibility for the killing of the Sheikh, did not convince many people: "both Sufis and Salafis commonly say that this was a provocation that sought to prevent the dialogue amongst Muslims. In the Facebook "Dialogue Venue Group" created by the DUMD representatives, its members, in discussing the news that the rebels have claimed responsibility for the killing of the Sheikh, were in little doubt that it was part of a provocation"[2]. However, following the announcement, the situation began to change rapidly. The subsequent period was characterised by three main processes.

First: Dagestan's official Islamic structures began to shift the responsibility for the death of Saeed Chirkeisky to their recent negotiating partners. The campaign was launched through an article by Patimat Gamzatova (the spouse of the Mufti of Dagestan and CEO of the media holding of the Spiritual Administration of Muslims of Dagestan) entitled the Hudaybiyyah "Peace" Treaty and published on 2 September 2012[3]. The publication caused shock in the Republic's public arena as is shown by several key features.

First, the article provides almost no distinction between the moderate and radical Salafis, the thesis that there is no connection of the moderates with the "forest" was declared a hypocrisy. And everybody is called Wahhabis as in the "best" times. The author writes with random characterisation of her opponents: "Hypocrites, whose hands are stained with blood! Those who do not have the balls to kill are happy just to be part of a movement which includes those who are capable of killing Muslims, of bringing harm to Islam, of splitting the Ummah! And they do not have enough brains even to hide their vulgar fun." The article is full of accusations and insults to moderate Salafis.

Secondly, it is argued that Sheikh Saeed Chirkeisky initially supported the negotiations, and that the DUMD management participated in peacekeeping activities as directed by him. However, two days before his death, he changed his mind and condemned the steps taken to expand the access to the media of his opponents, claiming that the Wahhabis would never change their nature.

Third and finally, the author came to a clear conclusion on the refusal of further negotiations and the termination of the settlement process as being the fault of the opposite party. Describing the position of Saeed Chirkeisky, the author states: "Even coming close to death, he tried to give a chance to the Wahhabis, to hold out the hand of peace. ... But they did not use it! They buried it with the Islamic scholar, Sheikh Saeed-Afandi, in Chirkeisk cemetery".

---

[1] See: Tambieva M. Podryv tarikata: Kavkazskie eksperty prognoziruyut obostrenie situatsii v Dagestane posle ubiystva sheikh Saida-afandi Chirkeyskogo // Kavkazskaya politika (M. Tambiyeva. Undermining Tariqa: Caucasian experts predict worsening of the situation in Dagestan after the assassination of Sheikh Saeed Afandi Chirkeisky // Caucasus Policy)). 29.08.2012. http://kavpolit.com/podryv-tarikata/.

[2] Magomedov A.Khudeybiyskiy dogovor ili Verbluzhya bitva? // Chernovik (A. Magomedov. Hudaybiyyah Treaty or Camel fight? / Draft). 7.09.2012. http://old.chernovik.net/print.php?new=14068. Note that the proof of the militants' involvement in the crime was its inclusion in the general warfare summary of Mujahideen in the Caucasus Emirate for Dagestan Wilayah.

[3] Gamzatova P. «Khudaybiyskiy» «mirniy» dogovor (P. Gamzatova. "Hudaybiyyah" "Peace" Treaty) // Islam.ru. 2.09.2012. http://www.islam.ru/content/analitics/5140. Note that a few days before Novaya Gazeta had published the article by Julia Latynina, "The second phase of Jihad", with the same line: "The murder of Saeed Afandi is a logical consequence of the capitulation to the Salafis by the current management of Dagestan".

The article resulted in many negative reviews in the press, representatives of the Ahl-Sunnah Association refused to comment on it and attempted to downplay its significance. But it is clear that the religious settlement process in the Republic was irreparably damaged.

Second, such a serious difference in the positions of the representatives of the Spiritual Administration on negotiations with the Salafis revealed clear differences and conflicts in the official Muslim structures in Dagestan. The ins and outs of this process became more evident after the publication of the Murid Statement[1] on social networks, which contained harsh accusations against the Imam of the Central Mosque in Makhachkala, Magamedrasul Saaduev. The Imam was accused of incompetence ("It was said that he could not even prepare his own preaching"), of leaning towards the Wahhabis ("he is considered the Wahhabi imam among Wahhabis, and somebody else among the Sufis") and on his reluctance to terminate the dialogue with them, which, according to the authors of the statement, meant hypocritical grief at the death of Saeed Chirkeisky ("a heartbroken imam, without sorrow on his face, when expressing his condolences at the Jamaat mosque, said that: "we will not fight despite everything"). But the essence of the statement becomes clear when the murids come to the main accusations: "The reason that our patience is exhausted is the news that is known to all residents of Makhachkala. Government officials made a secret plan, jointly with the Wahhabis, proposing the removal of the acting mufti from his position and the appointment of Saaduev, who knew about it, agreed and hid that information".

The next day after the murid statement Gamzatova, the author of the sensationalist article, interviewed Saaduev[2]. In this interview Saaduev denied his desire to become the Mufti: "A few months ago a thought crossed my mind - that I would like to become a mufti, etc. This was so irrelevant and pointless that I immediately put a stop to it at its root. ... For myself, I already have enough burden on my shoulders, let Allah give me strength to cope with the work of being the Imam of this mosque with a large number of parishioners". He also had to admit the failure of attempts to negotiate with the Salafis, "But you know how this attempt ended. Only Allah knows what's next" (earlier in the interview it was mentioned that Saaduev had previously tried to engage with his religious opponents).

Obviously, the murder of Saeed Chirkeisky intensified the power struggle between the different factions within the Spiritual Administration and has been used to hinder any kind of competition with the management of the Mufti Administration[3]. Once, it was reported that DUMD supporters were willing to admit the Mufti as the successor of Saeed Chirkeisky with the status of a Sheikh.

Third: the death of Said Chirkeisky further increased the tensions in the Salafi camp. The expressions of condolence by a number of prominent members of the moderate Salafi on the death of the Sheikh, their willingness to participate in his funeral and statements on their complete rejection of the methods of terror[4] thoroughly exacerbated the relationship between

[1] Murid Statement. Published on facebook.com (http://www.facebook.com/profile.php?id= 100004415792614) and livejournal.com (http://baikonur113.livejournal.com/122280.html).

[2] See: Gamzatova P. Vse tochki nad «i» (P. Gamzatova. All the "i"s). Ac-sunna.rf – Islamic education site.20/09/2012/ http://as-sunna.ru/index.php/stati/221--lir

[3] It should be noted that in the course of the study various Islamic wings positively assessed Saaduev arguing that he was a prominent religious leader of the different movements and could significantly advance the intra-confessional dialogue in the country.

[4] Thus, in response to Patimat Gamzatova's characteristic of the suicide bomber - "inhuman parishioner of the Kotrov mosque"- Imam of the Salafi Mosque in Kotrov Street in Makhachkala said only that he had not seen a girl accused of murdering the Sheikh in the mosque, but also that "criminals have no religion" (Fatullaev: dialog

the moderate and radical parts of the movement. The statement of the radical group, which claimed responsibility for the killing of the Sheikh, also contained an appeal to the moderate Salafis, who, according to the radicals, "openly transgressed the borders": "We separately want to appeal to the so-called Ahl-Sunnah wal Jamaa Association of Scientists. We do it openly because they have also made these statements in public. You are ignorant! How can you judge? Mushrik, who seduced hundreds of thousands of Dagestani, is a brother Muslim to you and his murder is a provocation through the intrigues of our enemies"[1]. After Gamzatova's article was published, comments and threats against her appeared on the website of the radical Salafis, together with even more severe charges against the moderate wing of the movement. Stressing that the radicals did not have any regard for the intra-confessional dialogue ("spontaneous actions of these people") and categorically stood against its further development (which is regarded as a betrayal of Jihad by the radicals), the authors actually sided with the hypocrisy accusations of the moderate wing: "In this appeal we also want Muslims to open their eyes to the behaviour of the so-called Ahl-Sunnah Association of Scientists. Many of them are unscrupulous people occasionally showing signs of hypocrisy, and Patimat was not the only one who noticed it in them. Besides the fact that some of them openly expressed their grief over the killing of this Mushrik in their statement, they decided to go to Chirkey, to offer their condolences. The only thing that will stop them is a ban of the host"[2]. This was followed by a list of eight names who wanted to bid their final farewells to the Sheikh**.**

Such aggravation of the confrontation revealed the instability of the positions of a number of moderate Salafis, who began to deny their previously defended position, and said that views and actions they did not commit were falsely attributed to them and they recanted them. The Ahl-Sunnah Association of Scientists prepared one of the most influential religious leaders of the Salafi movement - Abu Umar, who had been harshly criticised by the "forest" [3]. According to the available information, the crisis led to the withdrawal of a significant part of the educational activities of the peaceful Salafis.

Thus, our analysis shows that the killing of Saeed Chirkeisky has exacerbated the already existing problems and has created new contradictions in the religious environment of the Republic of Dagestan. The result is that the "balance of power" has undergone significant changes, the crisis has affected all the major inter-confessional trends: both of the official Islamic structures and of the opposition flank. In these conditions we have to be extremely careful with predictions: there is little chance of a simple return to the old "linear" confrontation, as the changes which have occurred in both "camps" during the last year are far too serious. At the same time, an active renewal of the dialogue cannot be expected.

It is likely that quite a serious transformation could occur within the Salafi movement. On the one hand, it has distanced itself from active participation in political activities (the Ahl-Sunnah Association), although the grassroots clearly need to express their social protest in some way. On the other hand, the strong commitment to preserve the results of the intra-confessional dialogue and its continuation, stated immediately after the death of the Sheikh,

mezhdu sufiyami i salafitami v Dagestane neizbezhen // Kavkazskiy uzel (Fatullayev: The dialogue between Sufis and Salafis in Dagestan is inevitable // Caucasian Node). 12/09/2012, http://www.kavkaz-uzel.ru/articles/212501/?print=true).

[1]Website www.guraba.info, 01/09/2012.

[2] Na voine kak na voine… Mudzhakhedi Dagestanskogo fronta (Business is Business ... Mujahideen of the Dagestan Front). 10.09.2012. http://guraba.info/component/content/article/1402-2012-09-10-18-22-12.html

[3] Note that this is not the first time that a leading member has left the Association. Abbas Kebedov left it earlier due to disagreements on the issue of participation in political advocacy activities.

failed; a number of leaders in this matter fell for the blackmails of the "forest." The most negative scenario would provide for an increased attractiveness of armed methods of struggle for the youth in an environment where the legal wing of the movement does not protest and is not able to defend a consolidated categorical rejection of terrorist methods. Another alternative is the emergence of new "players" within the religious movements, who could fill the vacuum that arose after the murder of Saeed Chirkeisky (the re-commencement of Hizb ut-Tahrir activities in these conditions seems quite likely). Finally, there is a possibility that the religious opposition movement may diminish, and the believing youth, disappointed with the existing leaders will turn towards a "quiet life".

6.8. Changes in the Legislation on the Activities of Non-Profit Organizations 2012[1]

In the sphere of activities of non-profit organizations (NPO), a new institute of legal regulation was established, and a new term – "foreign agent" introduced into the legislation by Federal Law No. 121-FZ of July 20, 2012 on Amendment of Individual Statutory Acts of the Russian Federation as Regards Regulation of Activities of Non-Profit Organization which Fulfills Functions of a Foreign Agent (hereinafter – the Law) – started to be used with reference to the above institute[2]. The status of a "foreign agent" is assigned to Russian NPO which are involved in political activities and have foreign sources of financing.

In the above Federal law, deemed as NPO performing the functions of a foreign agent are Russian NPO which receive *funds and other property from foreign states and their state authorities, international and foreign organizations, foreign nationals, stateless persons or persons appointed by them and (or) Russian legal entities which receive funds and other property from the above sources*[3] *(except for open-end joint-stock companies with state participation and their subsidiaries) and participate in political activities, including those in the interests of foreign sources carried out in the territory of the Russian Federation*[4].

[1] The review was prepared with assistance of the KonsultantPlus legal system.

[2] A foreign agent (a foreign representative, as well) is a person (an individual or legal entity) which represents the interests of the trustor abroad. In legislations of a number of countries, identified as foreign agents are persons and entities engaging in internal political activities on instructions of a foreign state (such instructions are normally defined as funding from abroad); limitations are imposed on activities of such foreign agents. The above term covers a wide range of meanings, however, due to the fact that a foreign agent means also a spy the above word-combination has rather negative connotation both in Russian and English. The word combination – foreign representative – does not have such a connotation. See Wikipedia – a free encyclopedia, http://ru.wikipedia.org/wiki/%C8%ED%EE%F1%F2%F0%E0%ED%ED%FB%E9_%E0%E3%E5%ED%F2

[3] It is to be noted that in accordance with the Law on Non-Profit Organizations (Article 26 (1))the sources of formation of property of NPO in monetary and other forms are the following: regular and non-recurrent payments from founders (participants and members); voluntary property contributions and donations; proceeds from sale of goods and fulfillment of jobs and services; dividends (income and interest) received on equities, bonds, other securities and deposits; income received from property of NPO and other payments permitted by the law.

[4] As it can be seen, it is a rather broad definition. Unlike the US Foreign Agents Registration Act, FARA – which was taken as the basis – where deemed as a foreign agent is a person which is "fully or to a great extent operated, controlled, financed and subsidized from abroad, the Russian law lacks a key requirement to the effect that an entity participating in political activities (primarily, by means of lobbying) *on instructions, at request or under supervision* of a foreign entity can be considered as a foreign agent. It is to be specified that from the point of view of the Russian civil legislation the agent is a person which acts (for remuneration) on behalf of another person, that is, there is no difference between NPO operating on (direct or indirect) instructions of foreign entities

The following two qualifying characteristics stem from the definition of a foreign agent: they are acceptance of funds (property) from foreign sources (directly or indirectly via other persons) and participation in political activities (as it is established by the Law). So, to recognize an entity as a foreign agent both the characteristics need be in place.

Interestingly, the definition deals with acceptance of funds and other property and does not include, in all probability, jobs, services and intangible assets (for example, assignment of copyrights and provision of software products) which under the Civil Code and the Tax Code of the Russian Federation are of a different legal nature.

A NPO, except for a political party[1], is recognized as participating in political activities in the territory of the Russian Federation if irrespectively of the goals and purposes specified in its founding documents it *participates (including by way of financing) in organization and holding of political actions* in order to have an impact on decision-making by state authorities to secure a change in the state policy and *form the public opinion* for the specified purposes.

According to the above Law, political activities do not include activities in the sphere of science, culture, art, healthcare, preventive measures and health protection of people, social support and protection of people, maternity and childhood protection, social support of the disabled persons, promotion of healthy life style, physical culture and sports, protection of flora and fauna, charitable activities, as well as activities which facilitate charitable cause and voluntary work.

The above definitions and criteria are ambiguous in general and lack any detailed regulation which factor is a serious disadvantage for all the participants in the process:

- A vague definition of "political activities" results in any interpretation of the term, for example, a NPO carrying out activities related to legal support and aid may fall within the scope of the Law[2] as, in essence, participation in a meeting, picket or other action can be interpreted as participation in political activities or exercising of influence on the public opinion[3];
- Inclusion in the scope of the entities of the Law not only NPO registered by legal entities and receiving foreign funding, but also newly established NPO which are just planning their activities and, consequently, have already to plan their participation or nonparticipation in political activities and receipt of foreign grants or other funding.

NPO participating in political activities and receiving monetary assistance and (or) other property from foreign sources ("foreign agents") will be under special supervision.

---

and NPO receiving funding from foreign entities for implementation of their own charter purposes without any instructions from foreign entities.

[1] The Law is not applied to political parties, state corporations and state-owned companies, including other NPO established by them, state and municipal entities, including state-financed and religious organizations, employers associations and chambers of commerce and industry. It is to be noted that profit-making organizations and individual entrepreneurs participating in political activities and receiving property from foreign sources are not subject to regulation under the above Law.

[2] Taking into account the fact that the term – "political activities" – is a broad definition and in it such language as "impact on formation of the public opinion" is used, many experts and public figures believe that a situation may arise where any protest against illegal decision made by the authorities, for example, in case of violation of human rights will be interpreted as a political activity. Or a charity NPO which receives a shipment of medicines from the Red Cross to help the homeless and then participates in the meeting in support of a candidate who promised to support the homeless may be recognized as a foreign agent, as well.

[3] In particular, Article 3 (1) of Federal Law No. 38-FZ of March 13, 2006 on Advertisement reads that the impact on the public opinion is an action which arouses the public interest and forms a definite perception.

NPO performing functions of a foreign agent will be obligated, in particular:

- Submit applications for being entered into the register[1] of NPO which perform functions of a foreign agent;
- See to it that materials they publish and promulgate via the mass media or the Internet have the reference to the fact that they were published and promulgated by NPO which performs the functions of a foreign agent;
- Submit on an annual basis the audited financial statements to the relevant authority, once in six months – a report on their activities and the personnel of the governing bodies and once every three months – the documents on the goals for which the funds and other property were utilized;
- Place in the Internet once in six months the information on its activities.

For evasion of fulfillment of obligations imposed on a NPO which carries out functions of a foreign agent, administrative and criminal responsibility is provided for. For example, the relevant authority in charge of supervision over activities of foreign agents-NPO is in a position to suspend that NPO's activities for the period of up to six months if the NPO has violated the Law's requirements, including that to be registered in a special register[2]. It is worth mentioning the most serious sanction for a criminal offence[3] – an imprisonment for the term of up to two years.

Operations related to receipt by NPO of cash funds and (or) other property from foreign sources are subject to mandatory control if the sum of the transaction is equal or exceeds Rb 200,000 or the foreign currency equivalent of Rb 200,000. Such an amendment was introduced in Federal Law No. 115-FZ of August 7, 2001 on Prevention of Legalization (Money Laundering) of Incomes Received by Criminal Means and by Way of Financing of Terrorism as regards establishment of mandatory control over some operations of non-profit organizations[4].

---

[1] It is to be noted that exit from that register has not been provided for by the legislation. The register is approved by Order No.223 of November 30, 2012 of the Ministry of Justice of the Russian Federation on the Procedure for Keeping the Register on Non-Profit Organizations Carrying Out Functions of a Foreign Agent. According to the Law and the above Order, in statutory acts there is no such option as refusal to NPO to be entered into the register, while the application itself is of notifying nature. It can be supposed that taking into account the submission procedure the documents can be returned to the NPO if they were executed incorrectly, otherwise, the Ministry of Justice of the Russian Federation is obligated to consider them.

[2] Logically, if NPO does not submit an application for being entered in the register of NPO which carry out functions of a foreign agent, it means that the NPO in question does not regard itself as such and, consequently, a disputable situation can be resolved only in a court of law.

[3] Article 239 of the Criminal Code of the Russian Federation:

«2. Establishment of a non-profit organization (including a non-profit organization which carries out functions of a foreign agent) or a structural unit of a foreign non-profit nongovernment organization whose activities are related to prompting people to give up their civic duties and commit wrongful acts or other illegal acts, likewise management of such an organization or structural unit is punishable by a penalty in the amount of up to Rb 200,000 or the wage amount or other income of the convict for the period of up to 18 months or custodial restraint for the term of up to three years or compulsory labor for up to three years or imprisonment for the same term.

3. Participation in activities of a non-profit organization specified in part 2 of the Article in question, likewise promulgation of actions stated above are punishable by a fine in the amount of up to Rb 120,000 or the wage amount or other income of the convict for the period of a year, or custodial restraint for the term of up to two years or compulsory labor for up to two years or imprisonment for the same term».

[4] Likewise such an obligation is imposed on banks which render services to NPO whose accounts cash funds from foreign nationals and foreign legal entities are credited to. If the amount of each operation in foreign cur-

So, NPO receiving funds from any foreign legal entity or individual, for example, donations, membership fees and payments for services[1] can be regarded as recipients of property from foreign sources. It is to be noted that the approved Law (Law No. 121-FZ) can be applied both to representatives of the countries of the former USSR and stateless persons, and it does not matter whether individuals reside in Russia or not.

The issue of receipt of anonymous donations will be particularly acute. It is to be noted that donations of the donor – a Russian legal entity which receives funds from foreign sources - are also considered the funds (property) received from foreign sources and, consequently, are subject to the norms of the Law. At the same time, the donor is not obligated to provide the beneficiary of funds with the information about its sources of funding.

There is a situation where for the purpose of application of the norms of the Law in question NPO is obligated to determine the citizenship of an individual (which cannot be done in reality when anonymous donations are received) and inquire into the procedure for formation of the property of Russian individuals and legal entities.

Due to novelty of the legislation, it is premature to speak about advantages of some or other norms. Meanwhile, it can be stated that the novations are going to enlarge considerably supervising authorities of the state and there is a concern that the Law increases an administrative burden on NPO as it requires keeping of an additional record (already in the existing separate bookkeeping) of foreign financing separately from the Russian one; carrying out of the annual audit and more frequent submission of the information and reports on their activities and utilization of property and funds. More importantly, as the forms of new reporting[2] have not been approved so far, it is not yet clear how complex and burdensome they are going to be. The possibility of unscheduled checks of such NPO may exceed the limit of the established norm of checks, that is, once in three years.

rency exceeds the equivalent of Rb 200,000, starting from November 21, 2012 the bank has to notify the Rosfinmonitoring of each such operation within three business days from the day such an operation was transacted.

[1] It is not yet clear how the Government of the Russian Federation is going to interpret the term - "cash funds and other property" – in application of the norms of the Law in question; probably services will be withdrawn from the above term. On the contrary, for example, establishments of higher education which receive fees from foreign students may fall within that status if recognized as ones engaging in political activities.

[2] In all appearances, in 2013 NPO will report as per the former regime – until April 15 in accordance with the approved forms. Approved by Order No. 72 of the Ministry of Justice of the Russian Federation are new forms of reports on activities of NPO, personnel of its governing bodies as well as spending of funds and utilization of other property, including that which was received from international foreign organizations, foreign nationals and stateless persons, as well as a new form of reporting on the volumes of cash funds and other property received by a public association from international and foreign organizations, foreign nationals and stateless persons, goals and purposes for which those funds are going to be spent and utilized and the actual spending and utilization of funds and property.