

Part 5.

**THE REGIONS  
AND REGIONAL DEVELOPMENT**

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## The framework of regional policy

The key factors that determined the development of the main trends in regional policy throughout this past year were the *preparation for the federal election campaigns* – the parliamentary campaign and the presidential campaign – and also *Dmitri Kozak becoming the Minister of Regional Development*<sup>42</sup>. At the same time as appointing Kozak, the head of state made a decision to increase the authority of his ministry, which significantly increased Kozak's political weight.

At the time when the federal groups of elites strove to secure their interests during the process of choosing the successor, *the priority for the governors in their relations with the federal center became the retention of the status quo and strengthening their own positions*. The regional heads traditionally try to solve this problem by expanding their resource base. However, since they are politically dependent on the Kremlin (they are practically appointed), this is only possible for the governors-super lobbyists (Alexander Tkachev (Krasnodar region), Alexander Khloponin (Krasnoyarsk region), Valentina Matvienko (St. Petersburg) and others).

*The main components of regional policy for 2007* became the, for what is now characteristic of the Vladimir Putin presidency, limitation of the independence of the administration of the constituent entities, which is compensated (with the aim of “buying” their loyalty in the pre-election period) by a “conservative” personnel policy and the development of prospective economic projects. The battle with the threat of the destabilization of the Northern Caucasus remains a priority. Further down the line, initiatives that change the principles of the administration of the territories (“enlarging” the regions) will gain in importance.

<sup>42</sup> The president's order from September 24, 2007  
<http://www.kremlin.ru/text/psmes/2007/09/145331.shtml>

## A change in leadership in the Ministry of Regional Development

Dmitri Kozak replaced Vladimir Yakovlev, who returned to Moscow after being “exiled to the Caucasus” (it began after the Beslan terror attack (North Osetiya) during 1-3 September 2004) for three years. *The informal condition for Kozak returning to the Government was the increase in the political influence of the Ministry of Regional Development*, which previously was considered one of the least prestigious departments. On the initiative of Vladimir Putin, the authority of the “regional” ministry was widened at the expense of MEDT, and partly the Ministry of Finance. From MEDT Kozak received the authority to distribute government funds through the Investfund of the Russian Federation, to approve federal and departmental target programs that have to do with integrated territorial development (a wide array of projects, but first of all, social projects) and also FTPs which answer for the economic development of the constituent entities of the Russian Federation and the municipalities. From the Ministry of Finance, Kozak received the authority to develop and to propose to the government the methods for distributing government support funds for the constituent entities of the Russian Federation and municipalities. The Ministry of Regional Development also gained the function of coordinating the state corporation Housing and Public Utilities Reformation Fund<sup>43</sup>. Overall in the 2008 budget, the FTPs and the Federal target investment programs will distribute over 1 trillion rubles (about 20% of budgetary spending). Dmitri Kozak controls the preparation of the programs and proposes their level of financing. The Ministry of Regional Development has the right to independently develop schemes of the distribution of government support funds to the regions and municipalities. The overall financial flow that goes through the inter-budgetary transfers, the FTPs, and the Investfund totals around 3 trillion rubles. The ability to control these funds determines Dmitri Kozak’s administrative weight and his ability to advance his own initiatives.

Since he became the Minister for Regional Development, Dmitri Kozak has continued his course on strengthening his influence by pushing through his reforms. Here we are talking about the development of a new Regional policy: the effectiveness of managing the territories on the government level during his predecessor wasn’t rated very highly. In particular, the work of the previous leadership of the Ministry of Regional Development was often criticized for the

<sup>43</sup> RIA Novosti // <http://www.rian.ru/politics/government/20070927/81206259.html>

Regional FTPS in the 2008 budget	
Program	Term
Development of the Kaliningrad Region	until 2010
Economic and Social Development of the Far East and Zabaikalya	until 2010
Development of the city of Sochi and its mountain resort	2006-2014
Social-economic Development of the Chechen republic	2008-2011
Southern Russia	2008-2012
Social-economic Development of the Kuril Islands (Sakhalin region)	2007-2015

uncontrollable rise in HPU service rates, the ineffective reformation of the HPU and with problems running the national project Affordable Housing<sup>44</sup>.

***The presentation of the concept of the new minister's regional policy*** (rather, its economic part) was done at a speech Dmitri Kozak made at the investment forum Russia on January 30 2008. His main idea isn't new. A goal was set in 2003 to: level the socio-economic development in the regions so the administrative reform can be better realized. This involves the delineation of authority and providing for the financial independence of the regions. Kozak admitted that the distribution of authority between the federal center and the regions was lopsided. He recommended reducing the number of federal officials and then transferring their functions to the regions in order to increase the effectiveness of the management. It was at that time that the proposal was made to allow the constituent entities to independently choose investment sites, since attracting investment is the only effective way to develop the regions. At the Russia forum, Kozak again pointed out the necessity of delegating economic authority to the regional level. He also proposed an array of tax, customs and other measures to support the underdeveloped constituent entities<sup>45</sup>. However, if authorities do get

<sup>44</sup> See., for example.: Up to your belt in HPU // Rossiiskaya Gazeta. 20 October 2006..

<sup>45</sup> See.: The Russian Ministry of Regional Development promises to give the regions more economic freedoms // [http://gosrf.ru/full\\_1\\_3\\_6\\_1822.htm](http://gosrf.ru/full_1_3_6_1822.htm)

redistributed, then the main issue will be whether the constituent entities' budgets will be big enough. ***The self-dependence of the regions by the level of financial support they get from the center:*** those regions whose budgets are less dependent on the federal center will get more authority.

In connection with this, the president's proposal for economic zoning got some traction. When making a speech to the members of the presidential council on science, technology and education, Vladimir Putin proposed changing (in the future) the borders of the Federal districts and the ***division of Russian territory into Macro-regions***. According to the head of state, it is necessary to develop the concept of the macro-region, thanks to which it will be possible to "determine the most effective ways of developing the regions for the benefit of its citizens", and also "when necessary to correct and optimize the borders of the federal districts"<sup>46</sup>.

***The Ministry of Regional Development is looking into creating 7-10 macro-regions:*** among them could be the Central, the Central-blackearth, Northern, Northwestern, Southern, Volga, Ural, Western Siberia, Easter Siberia, and Fareastern. ***Judging by official statements, as of yet, this doesn't involve changing the borders of the federal districts.*** At the current stage, the discussion is going on within the framework of an industry approach, which was used in the Soviet period. The Fareast and Siberia might be oriented towards raw-materials, the Volga and Urals towards industry, the Southern and Central blackearth regions to agricultural industry and so on. However, the limitation to one or two priority sectors is hardly effective when looking into the long-term. It is assumed that the ***"specialization" of the macro-regions will be determined on the federal level, but the role of the governors will rise when determining the priorities of investment policy.*** Nevertheless, it can be forecasted that the interests of the state corporations (when taking into account their lobbying abilities) will remain highest of all.

Finally, ***Kozak promised to give a billion rubles a year to every constituent entity to launch an integrated investment project***<sup>47</sup>. For the majority of regions, this sum doesn't give them the chance to fundamentally solve their accumulated problems. However, this measure is first of all, directed at stimulating the regional administration to attract investment. Moreover, by giving the heads of the constituent entities a "carrot" in the form of a guaranteed (under the condition that the investment project is sound and well planned) billion, this ***concentrates all the***

<sup>46</sup> See.: Putin thinks it is necessary to develop the concept of the "macro-region" // <http://www.gzt.ru/politics/2007/11/30/184547.html>

<sup>47</sup> The Russian Ministry of Regional Development promises to give the regions more economic freedoms // [http://gosrf.ru/full\\_1\\_3\\_6\\_1822.htm](http://gosrf.ru/full_1_3_6_1822.htm)

***“regional” financial flows in Kozak’s department and also increases the list of potential contenders for targeted financial support from the center.***

Taking into account Kozak’s designated priorities, one can forecast that the major financial flows will, to a much larger extent than previously, be directed at solving regional economic problems and not at strategic federal projects. At that, the current instruments of realizing investment policy in the regions have not lost their relevance. At the end of the meeting, Dmitri Kozak proposed to change the way that investment projects who are laying claim to money from the Investfund (IF) are scrutinized. According to the Minister’s plan, the IF will spend more money in 2008 than it has ever spent before (at the beginning of the year, the IF had 175 billion rubles in uncommitted funds). In the future, the projects will be examined twice a year as opposed to continuously, and not in the order that they were received but by priority. This parameter will be evaluated by a new set of criteria that is being put together by the minister: the projects can be compared to each other from the point of view of riskiness, congruence with industry priorities, and contribution to GDP growth. Another criterion (besides having a minimum value of 5 billion rubles) will be the scope of government co-financing. The share under discussion is 5-20% from the Investfund for each project. It isn’t ruled out that the regional share in the fund will increase, which will noticeably lengthen the list of contenders for the subsidies.

***The flip side of Kozak’s proposed regime of giving economic favors to the regional heads is, to all appearances, the increase in control over the distribution of the financial flows*** (this concerns federal subsidies and local earnings) and gubernatorial functions as a whole. The previously approved statistical system that assesses the performance of the governors (43 main criteria) will be updated as the governors provide information on the work they have done. It isn’t ruled out that the minister’s old idea of establishing penalties for not effectively using resources will be discussed on the cabinet level. As far as dividing the country into macro-regions is concerned, economically the idea may be justified, however its realization within the framework of the current administrative territorial structure (federal districts) raises some questions. Since Kozak’s concept of economic decentralization doesn’t provide for a political reorganization, realizing this measure to its fullest extent will probably be impossible.

## **The Kremlin's personnel policy in the regions: stability is a priority**

*By 2007, three years had passed since gubernatorial elections were abolished and the* system of presidential appointments (with the approval of the local legislative assembly) was established. As a reminder, the change in the relationship between the Kremlin and regional elites was part of the overall course of strengthening the “vertical chain of command”, which the president presented as one of the indispensable measures in the fight against terrorism.<sup>48</sup> However, the elections that were already planned still went through. The last gubernatorial elections were held in January of 2005 in the Nenetsk autonomous district. Moreover, after the terrorist attacks in the North Osetiya town of Beslan (1-3 of September, 2004) an initiative was put into effect that replaced the proportional-majority system with a completely proportional system of elections to the parliament (this “in a natural way” strengthened the federal parties and decreased the political influence of the heads of the constituent entities) and the founding of the Public Chamber. Besides changing the way that governors came to office, by the initiative of the head of state, *the authority of the president to dismiss governors early was significantly increased*. Governors can be dismissed if the president loses his confidence in them or if they are not fulfilling their job responsibilities, simply with the president signing an order<sup>49</sup>.

As of February 10, 2008 there were over 80 constituent heads appointed. Furthermore, in 2005, Sergey Sobyannin requested the president to confirm his confidence in him, and successfully went through the procedure, but in the same year in connection with him becoming the head of the presidential administration, a new governor for the Tumen region was appointed – Vladimir Yakushev (the former mayor of Tumen). Leonid Korotkov, who was appointed governor of the Amur region in 2005, lost the confidence of the president and in 2007 he was replaced by Nikolai Kolesov. Kostantin Titov, who was also appointed in 2005, voluntarily left his post and Vladimir Artyakov was appointed to take his place. The Koryakskii autonomous region (AR) and the Evenkiiskii AR, the appointed heads of which were Oleg Kozhemyako and Boris Zolotarev, were liquidated after a referendum on them unifying with the Kamchatka region and the Krasnoyarsk region correspondingly. Igor Slunyayev was made governor of the Kostroma

<sup>48</sup> See.: Ivanov V. Putin's Federalism. M., 2007. Chapter 4.

<sup>49</sup> See.: Ivanov V. A year after the gubernatorial reform  
<http://www.vz.ru/columns/2007/9/13/108905.html>



region after Victor Shershunov, who never sought the president's confidence, died in a traffic accident. The heads of the Yaroslavl and Smolensk regions Anatolii Lisitsin and Victor Maslov voluntarily left their gubernatorial posts after unsuccessfully carrying out the United Russia electoral campaigns. They were replaced by Sergey Vakhrukov and Sergey Antuvev. Lisitsin became head of the United Russia party list while Maslov became head of the United Russia campaign headquarters. However, United Russia was able to get only 53% and 53.9%, so the rotation of personnel became a necessary condition to secure a more favorable lay of the land for the presidential elections.

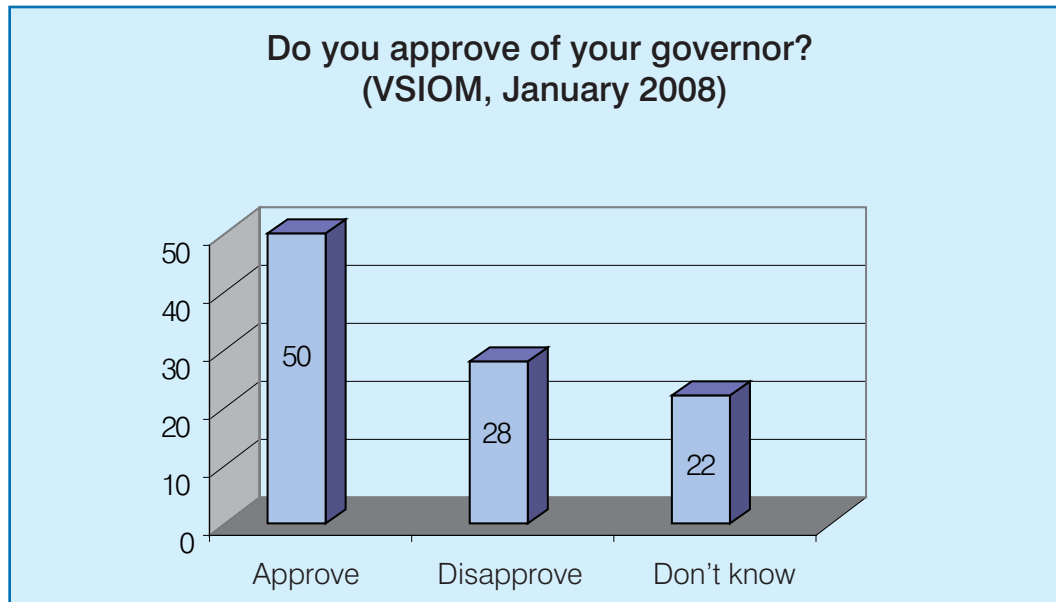
***The appointed governors now rule in 75 out of the 84 regions*** (as of February 10). The governor personnel pool changes rather slowly. 41 current heads successfully went through the confidence procedure while 11 were reappointed when their terms ended. The only one who failed the confidence procedure was the governor of the Sakhalin region Ivan Malakhov who resigned from his post in August of 2007. Besides not being able to consolidate the administrative resource and not being able to demonstrate his ability to effectively manage the “problem” northern region, the catalyst for his dismissal was his conflict with the top management of the main economic player in the region – Rosneft. Previously, 3 governors were dismissed, the head of the Koryaksk AR, Vladimir Loginov (2005), the head of the Nenetsk AO, Aleksey Baranov (2006), and the head of the Amur region, Leonid Korotkov (2007). In every one of these cases, confidence was lost after there was an accumulation of a “critical mass” of political errors.

***There was a change in power in 24 of the regions that are in existence today.*** They include (in alphabetical order): The Amur, Ivanovsk, Irkutsk, Kaliningrad, Kostroma, Nizhigorod, Novgorod, Sakhalin, Samara, Saratov, Smolensk, Tula, Tumen, and Yaroslavl, regions; also the republics of Adigeia, Altai, Buryatiya, Dagestan, Kabardino-Balkariya, North Osetiya, Tiva, Chechnya, Алтай territory, and Nenetskii AR.

As of February 10, 16 constituent entities of the Russian Federation were not headed by locals but by “Vikings”<sup>50</sup>. This conditional category includes the heads of: Saratov, Tula, Nizhigorod, Irkutsk, Kaliningrad, Ivanovsk, Amur, Novgorod, Sakhalin, Samara and Kostroma regions (listed in the order that they were

<sup>50</sup> This term began to be widely used in the expert community. See., for example: Migalkin S. Vikings want to hit the regions // <http://www.stratagama.org/publications.php?nws=ip17n3701132937>; Kinev A. Gubernatorial engineering // [http://www.ng.ru/ng\\_politics/2007-10-02/11\\_ingenering.html](http://www.ng.ru/ng_politics/2007-10-02/11_ingenering.html); и др.





appointed); the republics of Altai and Buryatiya, the Altai and Kamchatka territories, and the Nenetsk AR. Each choice is determined by, first of all, the inclination to secure the loyalty of the region (in the event that the current head doesn't meet this criteria). Secondly, *by appointing "Vikings" who don't have solid connections with the regional elites, the gubernatorial institution turns into a technocratic one*, and not political, but managerial characteristics move to the foreground.

After the successful parliamentary campaign, United Russia's influence will likely increase when it comes to picking the governors. The first examples of this tendency are the appointments to the Yaroslavl and Smolensk regions. In the first case, the head of the region became the deputy envoy plenipotentiary of the president in the Ural federal region, Sergey Vakhrukov, who was formally nominated by the envoy plenipotentiary of the president in the Central federal region. He is famous for his administrative connections with the head of the presidential administration Sergey Sobyenin, and he differs from the other mentioned candidates in that he has work experience in the region. From 1991, Vakhrukov worked in the administration of the Yaroslavl region; in 1996 he left the post of deputy governor to become speaker of the regional parliament and then he became the deputy envoy plenipotentiary of the president to the Ural federal region. Sergey Antuvev, the head of the regional branch of United Russia, became the governor of the Smolensk region. He also previously had worked in the region

(in the regional parliament and administration in managerial posts), and from 2003 he was a deputy in the national parliament (in the committee dealing with the CIS). These personnel moves were determined, first of all, by the necessity to prepare for the presidential campaign. In the Yaroslavl region, it is probable that there will be a gradual replacement of Lisitsin's team with people who are loyal to the new governor. In the Smolensk region, the new governor probably won't conduct any "purges" (previously, in contrast to Vakhrukov, he never positioned himself with the opposition, and he constructively worked with the administration of Victor Maslov).

The demonstrative dismissals of regional leaders are meant to have a "mobilizing" effect on the other governors on the eve of the presidential campaign. Overall, *in the pre-election period, the priority in solving personnel issues is maintaining stability*. The fact that Ravil Geniatulin (previously occupied the post of governor of the Chita region) was named governor of the Zabaikal territory, and the extension of the authority of the governor of the Magadan region, Nikolai Dudov clearly shows this<sup>51</sup>.

Geniatulin doesn't belong to the category of "strong" regional leaders and he doesn't have any noticeable administrative accomplishments: the region "under his command" has for a long time been among those who lag behind in socio-economic development<sup>52</sup>. But when taking into account his loyalty to the Kremlin and his political priorities, the extension of his career, in many respects is more the federal interest, than changing the regional leadership. The more "independent" head of the administration of the ABAR, Bair Djamsuev, who in the beginning resisted the idea of uniting the regions but nevertheless carried out the referendum successfully, can count on a job in the federal government. Just like in Chita, the poor socio-economic situation in the Magadan region wasn't a sticking point in the reappointment of Nikolai Dudov. To all appearances, in this case the key factor in making the personnel decision was Dudov's political loyalty, his easy going nature and also the "unattractiveness" of this problematic region for federal officials.

It is not ruled out that after the presidential campaign, a new round of gubernatorial rotations will begin. A potential dismissal threatens two categories of regional head:

<sup>51</sup> См.: <http://www.rg.ru/2008/01/29/reg-bajkal/geniatulin-anons.html>; <http://www.prime-tass.ru/news/show.asp?id=754294&ct=news>

<sup>52</sup> See.: The Investment climate in Russia's regions // [http://www.raexpert.ru/rankingtable/?table\\_folder=/region\\_climat/2007/tab1/](http://www.raexpert.ru/rankingtable/?table_folder=/region_climat/2007/tab1/); Investment risks in Russia's regions // [http://www.raexpert.ru/rankingtable/?table\\_folder=/region\\_climat/2007/tab2/](http://www.raexpert.ru/rankingtable/?table_folder=/region_climat/2007/tab2/)

1) the remaining publicly elected governors who didn't go through the confirmation process: Nikolai Shaklein (Kirov region), Nikolai Kiselev (Arkhangelsk region), Nikolai Vinogradov (Vladimir region), Nikolai Maksuta (Volgograd region), Aleksey Lebed (Khakasiya), Georgii Shpak (Ryazan region) and others.;

2) politically weak, ineffective governors who weren't on the United Russia party list during the preparation for parliamentary elections: Alexander Chernogorov (Stavropol territory), Pavel Ipatov (Saratov region), Murat Zyazikov (Ingushetia), Vladimir Torlopov (Komi) and others.

In every case the dismissal may be connected with, on the one hand a combination of strategic miscalculations and reverses by the governor, and on the other, with the interests of large economic players who want to increase their influence in the decision making process. ***The unpredictability of the decisions made on the federal level remains the key attribute of personnel policy.*** This increases the degree to which regional political processes can be managed.

Another aspect of regional personnel policy over the past year has been the partial rotation of the envoy plenipotentiaries of the president to the federal regions.

At the end of September, beginning of October, 2007, Vladimir Putin signed an order that released Dmitri Kozak and Kamil Iskhakov from their posts as envoy plenipotentiaries of the president to the Southern and Far-east federal regions<sup>53</sup>. Kozak became the Minister of Regional Development and Iskhakov became his deputy. These personnel decisions started the discussion in the expert community ***about the prospects for the institution of envoy plenipotentiary (whether or not it will continue to exist) since as time has gone by the effectiveness of the position has become questionable***<sup>54</sup>. Developments in 2007 have confirmed the fact that reforming this institution is in the interests of the federal center. No one is yet talking about getting rid of this institution. Those personnel moves were made in accordance with this logic.

***The intelligence officer, Grigorii Rapota became the envoy plenipotentiary of the president to the southern federal district.*** From 2001 he was the general secretary of EvrAzEs<sup>55</sup>. Previously his work didn't traverse regional politics;

<sup>53</sup> See .: Kozak and Iskhakov as a team // <http://www.rg.ru/2007/10/04/ishakov.html>

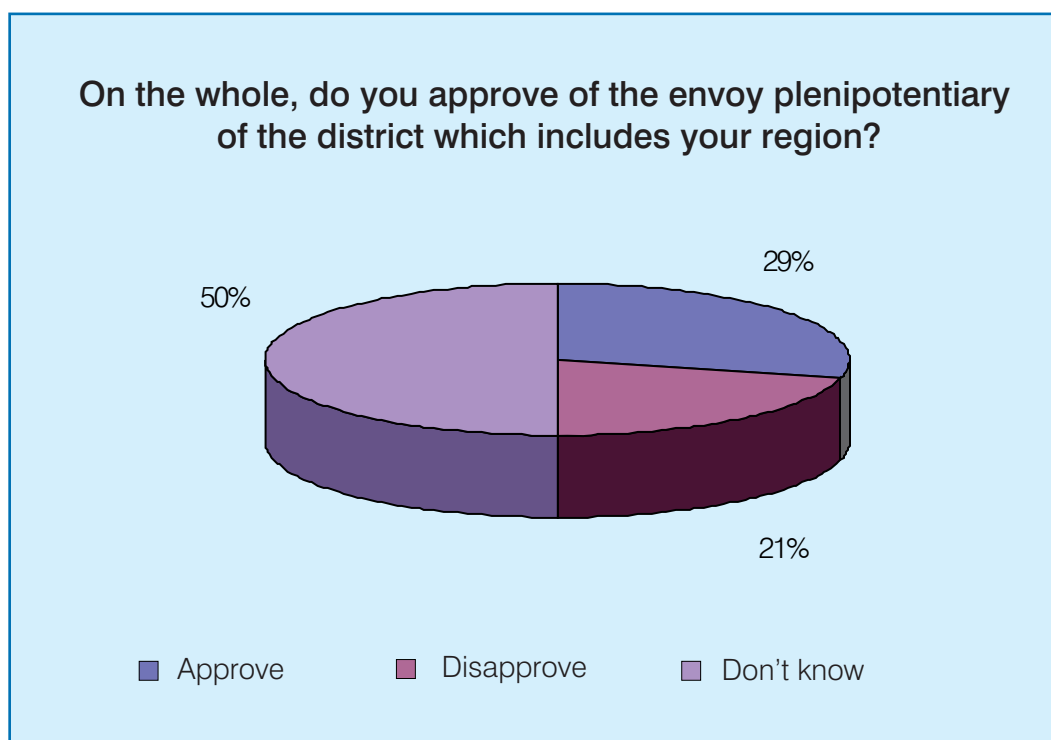
<sup>54</sup> See.: Popov A. The basic necessities // <http://www.expert.ru/articles/2007/12/25/polpredsudba/>; Rizen G. Presented and appointed // <http://www.rosbalt.ru/2007/10/16/422891.html>; Sharandin IO. A new center for making decisions // <http://www.regions.ru/news/fedsovet/2101512/> и др.

<sup>55</sup> G.A Rapota's personal page // <http://www.viperson.ru/main.php>

<b>Всенародно избранные главы регионов РФ (As of February 10, 2008)</b>	
<b>Governor</b>	<b>Region</b>
Alexander Djilkin	Astrakhan region
Nikolai Kiselev	Arkhangelsk region
Nikolai Maksuta	Volgograd region
Vladimir Kulakov	Voronezh region
Mustafa Batdiev	Republic of Karachaeva-Cherkesia
Nikolai Shaklein	Kirov region
Oleg Bogolomov	Kurgan region
Leonid Markelov	Republic of Marii El
Mikhail Kuznetsov	Pskov region
Georgii Shpak	Ryazan region
Alexander Volkov	Republic of Udmurtiya
Aleksey Lebed	Republic of Khakasiya

however this appointment is understandable when taking into account the new political context. The problems that the envoy plenipotentiary of the president to the southern federal district faces today are a lot different from those that he faced in 2004 when the post of “federal controller” was occupied by Dmitri Kozak. After the terrorist attack in Beslan, tensions between Osetians and Ingush rose significantly. Against the background of a crisis in the local administration, inter-elite conflict rose in Dagestan and Karachaevo-Chaerkesia and the situation in Chechnya remained strained. So the main function of the envoy plenipotentiary was to play the role of a “fireman” who was capable of quickly responding to the appearance of conflicts and not letting them escalate into armed clashes. Today, other priorities stand in front of the federal center.

First of all, an inter-elite balance in the North Caucasus republics on the whole has been reached (the least balanced situation is in Ingushetia and Dagestan). However the system of checks and balances that demarcates the interests of different clans must be maintained in working order. It is completely within the powers of the new envoy plenipotentiary to solve this problem: Grigorii Rapota has a lot of experience doing coordination type work, and what is of no small importance he isn’t integrated into the traditional local system of patron-client relations.



Secondly, the problem of fighting terrorism hasn't lost its relevance. In this context the president's personnel decision looks quite logical: Rapota held pretty high posts in the security services (between 1994 and 1998 he was the deputy secretary of the Foreign Intelligence Service; he curated the problem of the proliferation of the weapons of mass destruction and problems dealing with the military-industrial complex).

Thirdly, steadfast attention needs to be paid to the problem of securing Russia's foreign economic interests in the Caspian region. Taking into account the strategic nature of the region, this will probably be the priority for the envoy plenipotentiary. The main conflict of interest is connected with the battle for opening up the significant resource potential of the Caspian shelf<sup>56</sup>. Caspian energy is the only realistic equivalent alternative to Russian oil and gas for Europe. However the real data on Caspian energy reserves is secret and they may be significantly smaller than the published figures. In this situation, the countries of Central Asia are interested in the rise in price of their energy resources, and Russia

<sup>56</sup> For in depth information about this see.: Simonov K. Energy superpower. M., 2006. C. 254–269.

will strive to retain control over the transport of oil and gas to Europe through its territory.

Oleg Safonov, who previously was the deputy Minister of Internal Affairs, became the envoy plenipotentiary of the president to the Far East region. Taking into account his biography and his administrative connections, Oleg Safonov can be considered among the “Petersburg *siloviki*”. Between 1982 and 1991 he worked in the KGB; between 1991 and 1994 he was a member of the committee on foreign dealings in the St. Petersburg city-hall. In 2002 he was the manager of personnel at Goskompibolovstva. In 2003, Safonov was appointed the deputy envoy plenipotentiary to the southern federal district to Victor Kazantsev (it can’t be ruled out that this appointment happened due to his friendly relations with the president’s assistant Victor Ivanov). However, it would be difficult to describe his work in the security services as successful<sup>57</sup>.

***Oleg Safonov’s main priority as envoy plenipotentiary to the Far East federal region (FFR) will be the fight against crime:*** this especially concerns illegal fishing in the Far East region, and also the prospective of a gambling zone being created in the Primoryi territory. The most problematic region in the FFR in this context is the Primoryi territory: 8 officials from the administration of Sergey Darikin, and also the mayor of Vladivostok and a few of his subordinates are being criminally investigated for corruption, misusing their authority, and exceeding their authority. It isn’t surprising that the envoy plenipotentiary of the president declared the “decriminalization of the region” to be the paramount goal<sup>58</sup>.

Another paramount objective is the fight against government corruption in the constituent entities of the region, which is directly connected with the realization of the Federal Target Programs in the FFR which are supposed to increase the volume of distributed funds to the region by several times. Control over the distribution of these funds will become the key job of the federal appointee. The chronic budget deficits in the FFR regions are, to a large extent, caused by funds being used not for the purpose that they were designated for, and also the lack of effective mechanisms of federal control over regional economic processes. Solving this problem will become the main task for Safonov.

***So, at present, no one is talking about getting rid of the envoy plenipotentiaries. However, the prospects of this post being reformed are quite***

<sup>57</sup> See., for example: Farizova S. Igorev A. The envoy plenipotentiary of internal affairs // Kommersant. October 31 2007.

<sup>58</sup> See.: The deputy minister of the MVD became the envoy plenipotentiary // <http://www.gzt.ru/politics/2007/10/30/164233.html>

*real*: the scope of authority of the federal appointees may be changed in accordance to the problems of the region that he gets sent to.

### **Federal projects: politics and economics**

The principle condition for realizing federal projects over the past year was the *necessity to maintain stability on the eve of the 2007-2008 election cycle*. This manifested itself during the “enlargement” of the territories and in creating the regional special economic zones.

On January 1, 2008 a new constituent entity sprang up in the Russian Federation. It was formed by the unification of the Irkutsk region with the Ust-Ordinskii Buryatskii AR. After this unification, there are 84 regions left in Russia. Soon there will be even fewer constituent entities: On March 1, the united Zabaikalsk region will appear on the map. This will replace the Chita region and the Aginsk Buryatsk AR. *All the referendums that have so far taken place have been successful. They have all been held in “nesting doll” regions*, the status of which, from both a legal and administrative point of view didn’t make much sense. As a reminder, “nesting doll” regions are territorial formations that fit one into another but at the same time are independent constituent entities of the Russian Federation<sup>59</sup>. Practically all of the “nesting doll” regions have been united with the exception of the Tumen region with Khanti-Mansiisk and Yamalo-Nenetsk AR, and also the Archangelsk region, which formally includes the Nenetsk AR.

*The logic behind “enlarging” the regions at first was to make their administration more effective.* The political and economic point behind these changes was to even out the social-economic development of these territories in order for the administrative reform (the so called Dmitri Kozak reform which began in 2003<sup>60</sup>) to go more smoothly. The point was to demarcate the authority and secure the self-sufficiency of the regions.

*The 2007 Chita unification from an economic point of view doesn’t fit in with the rest of the unifications.* Previously, a subsidized region(s) would unify with a rich “mother” region (or territory). *But the “mother” Chita region has been traditionally considered a poor territory, and moreover, over the past few years*

<sup>59</sup> See.: Popov A. Russia without “nesting dolls” // Finance. 2006. № 16. April 24 - May 7.

<sup>60</sup> See.: Ivanov V. Putin’s federalism (Centralization reforms in Russia in 2000–2007 гг.). M., 2007. Гл. 2.



**The results of the regions “enlarging”: 2003-2007**

Date	Constituent entity	Plans to have/results of the referendum
12.07.2003	Perm region and the Komi-Permyatskii AR	84 % in the region, 89.7% in the AR voted for unification. On December 1, 2005 Russia gained a new constituent entity – The Perm territory.
04.17.2005	Krasnoyarsk territory, Evenkiiskii and Dolgano-Nenetskii AR	92.4 % in the territory, 69.95 % in Taimir, and 79.87 % in Evenkii voted for unification. The unified territory has been in existence January 1, 2007.
10.23.2005	Kamchatka region and the Koryakskii AR	84.99 % in the region and 89.04% in the AR voted for unification. The Kamchatskii territory was founded on July 1, 2007.
04.16.2006	Irkutsk region and the Ust-Ordinskii Buryatskii AR	89.77% in the region and 97.74% in the AR voted for unification. The new constituent entity (Irkutsk region) appeared on the map of the Russian Federation on January 1 2008.
03.11.2007	Chita region and Aginskii Buryatskii AR	90.92% in the region and 94% in the AR voted for unification. The new constituent entity is called the Zabaikalsk Territory and has been in existence since March 1, 2008.

*has been developing a lot less successfully than the AR.* The purchasing power of the population of the AR is about the same as that of their neighbors in the Chita region and Buryatiya, while the figures describing the development of industrial production for the ABAR are significantly higher than those in the Chita region<sup>61</sup>. This effect was provided by the administration of Bair Djamsyuev by attracting investments into the real segments of the economy. It isn't surprising then that the latter, in the beginning, came out against unification; however under pressure from the federal center he had to forgo his interests.

*The unwillingness of part of the elite to give up their political weight has aggravated the “national question” in the process of enlargement.* This may bring about a threatening and destabilizing conflict. This will probably become the

<sup>61</sup> The Novosibirsk regional branch of the government statistics service  
//<http://www.sibstat.gcom.ru/>

determinative factor in the further development of the enlargement process. ***Since the unification of the Altai and the unification of the Archangelsk region with the Nenetsk AR are politically risky, they will be put off till after 2008.*** In the first case, the local business elite from the Altai republic (the fact that not nesting dolls but two independent regions are being unified makes this question more heated) have mobilized the population to defend their “historical rights” as ethnic minorities; in the second case, the business elites from the NAR have done the same thing. The reason for this conflict in both of these cases is the question of control over huge (for them) economic resources. If these elite groups want to keep their political influence, they must retain these economic resources. However, attempts to pressure the Kremlin by mobilizing public opinion are doomed to fail: the efforts of an initiative group in the Nenetsk AR to have a referendum for keeping the status of the AR was unsuccessful<sup>62</sup>.

***Discussing the prospects of the unification of other regions in the near future is still relevant*** – lately, these initiatives have been popping up more and more often. In July of 2007, the governor of the “northern capital”, Valentina Matvienko pointed out the economic gains that the city would get if it were to “enlarge” with the Leningrad region<sup>63</sup>, and in December, the deputies of the Moscow city parliament developed a project of unifying with the Moscow region<sup>64</sup>, and in the beginning of 2008, the envoy plenipotentiary of the president to the Northwestern federal region, Ilya Klebanov put forward a “personal initiative” to unify the Novgorod and Pskov regions. “I never hid the fact that, and this is my own personal opinion, that our country is pretty hard to administer – it is weighed down by the number of officials from the regional and federal structures that control everything that happens in the region. Out of those options that we are looking into, and there are a few of them, there is an option to unify Pskov and Novgorod” stated Klebanov to IA “REGNUM”<sup>65</sup>.

***The appearance of these new projects to “enlarge” the regions was the result of officials, who took into account the uncertainty of federal policy during the change in power, to expand their scope of activity and to demonstrate that they feel which way the wind is blowing.*** The prospects of these projects under discussion for now remain uncertain – the only thing that can make them happen

<sup>62</sup> See. About this: <http://www.lenta.ru/news/2008/01/24/nao/>

<sup>63</sup> См.: <http://www.rian.ru/politics/regions/20070706/68507556.html>

<sup>64</sup> See.: <http://www.lenta.ru/news/2007/12/07/unite/>

<sup>65</sup> IA «REGNUM» // <http://www.regnum.ru/news/947313.html>

is the political will of the Kremlin. The specific character of the way decisions are made must be taken into account. Previously, when overcoming inter-elite conflict over administrative resources, the last word was always behind Vladimir Putin. With a new person in the president's seat, this "scheme" may change.

***The creation of special economic zones in the regions is also put off into the future.*** As a reminder, at the end of 2005, an inter-departmental commission chose 6 regional special economic zones (SEZ): 4 technology oriented ones (in Zelenograd, Dubne, St. Petersburg, and Tomsk) and 2 manufacturing ones (in Yelabuga and Lipetsk). Afterwards, 7 more tourist-recreational ones (in the Krasnodar and Stavropol territories, the republic of Buryatiya, Altai and others) and 4 gambling zones (Primorsk and Altai territories, the Kaliningrad region and also on the border of the Rostov region and the Krasnodar territory) were added. All in all, there 15 officially registered special economic zones in the Russian Federation. Besides the ones mentioned, there are also two special zones in the Kaliningrad and Magadan regions<sup>66</sup>. Moreover, Vladimir Putin signed a federal law creating special port zones<sup>67</sup>. Most of the special economic zones are supposed to take effect in the next two to three years.

***Since the regional administrations are dependent on the Kremlin, the SEZ projects will become the grounds for a lobbying war between the governors to attract extra income.*** Funds from the budget to develop the economic zones will be distributed in two ways: contributions to the authorized capital of a specially created OAO SEZ, and also through Federal Target Programs and Federal Target Investment Programs (FTP and FTIP). According to RosSEZ, the authorized capital of OAO will increase to 62.9 billion rubles by the beginning of 2011 (right now it is 11 billion rubles). The amount of funds provided for by the FTIPs in 2007-2010 for the development of the infrastructure of the SEZs is 41 billion 135 million rubles<sup>68</sup>. When taking into account that private investors are supposed to invest significant funds into the SEZ projects that win the competitive tenders, it can be expected that ***in the future, the battle between the regions for getting the status of SEZ will only intensify.***

Currently, there are two officially launched special economic zones of the manufacturing type – ***SEZ Albuga and Lipetsk, which opened in November of***

<sup>66</sup> See.: Russian special economic zones <http://www.rosez.ru/?region=0>

<sup>67</sup> FL (Federal law) "About making changes to the federal law "About special economic zones in the Russian Federation" and individual legislative regulations of the Russian Federation // <http://www.garant.ru/hotlaw/doc/105485.htm>

<sup>68</sup> See.: Gref places his bet on the zones // <http://www.rossoez.ru/news/media/143674/>

**2007 and in January of 2008 in the Tatarstan and Lipetsk regions<sup>69</sup>.** The specialty of the Albuga SEZ is the production of transport vehicles, auto-parts and high-tech products for the petrochemicals industry. The SEZ in Lipetsk is planning on producing construction materials and home appliances and in the future the SEZ is planning on having the machinery manufacturing industry move in. Currently the number of SEZ residents isn't that large, which is mainly due to infrastructure problems.

***The SEZ is advantageous to investors because it allows them to save on local taxes*** (discounts on profit taxes, no land, property, transport, or VAT taxes, no customs duties) ***and at the same time increase production.*** Thus, the corporate residents of SEZ Albuga in Tatarstan will have their profit tax decreased to 13.5% and won't have to pay the transport, property (from the moment of registration) and land (from the moment that rights to the plot are acquired) tax for 5 years. ***Potential corporate residents of the SEZ will find it much easier to work their because of the one window registration process.*** SEZ residents will have the opportunity to solve any migration, customs, government property rights registration, official documentation problems, without leaving the SEZ. The federal administrative center of the SEZ will provide all government services including federal and local. ***However, the main condition for creating high-tech production in the SEZs will be the attraction of foreign investors,*** who work with leading technologies. For now, solving this problem for the Russian SEZs has been difficult – the majority of SEZ residents are Russian business structures. The key factor that will determine the interest of foreign investors is the development of infrastructure – and it has only been developed in Albuga.

***The projects that will create tourist and gambling zones in the regions of the Russian Federation are still going through the approval process.*** As far as the tourist zones are concerned, their development is being hindered by a lack of adequate infrastructure in most of the regions that are making a bid to attract new tourists (the SEZ itself is planning to start infrastructure construction in 2009). The problem with the gambling zones is the necessary comprehensive reform of the gambling industry and the lack of activity among the regional administrations in making the zones attractive for investment.

In January of 2009, the governor of the Krasnodar territory, Alexander Tkachev, and the head of MEDT Elvira Nabyullina signed an agreement that

<sup>69</sup> See.: Russian special economic zones // <http://www.rosez.ru/?region=3>;  
<http://www.rosez.ru/?region=9>

demarcated the borders of the tourist-recreational SEZ in the Kuban<sup>70</sup>. If the project receives enough financing its results could turn out to be quite adventitious. The SEZ will allow the region to effectively use its tourist potential and solve a whole slew of employment problems. Moreover, the head of the government Victor Zubkov signed an order *creating the gambling zone Azov-City on the border of the Krasnodar territory and the Rostov region*<sup>71</sup>. This project is the most promising in comparison to the other regional applications. On the one hand, the Alexander Tkachev administration traditionally takes an active part in helping federal economic initiatives come to fruition since it has established connections for pushing through its own interests. On the other hand, the economic potential of this project looks very promising because of the geographic location of the future zone and the appeal of high returns on investment in the resort region. As far as the gambling SEZ Yantarnaya in the Kaliningrad region is concerned<sup>72</sup>, the priority for realizing the project will be the development of the recreational complex – the gambling sites themselves will take up less than half of the SEZ. The economics of the project is built upon the ability to attract foreign tourists.

*Port zones* can, in the long term, bring some significant benefits; however the amount of investment that is needed in the first stages is pretty large. Tender applications for the creation port SEZs will be taken separately for 5 sea basins – Azov-Black Sea, Arctic, Baltic, Far east, and Caspian<sup>73</sup>.

*The main advantage of port SEZs are the custom duties discounts for its residents:* goods that are brought into the zone will be freed from excise duties and tariffs (including tariffs on equipment), and goods that cross the borders of the PSEZ won't have to pay the VAT. Another distinctive feature of the port zones is their longer life-span (other SEZs have a life-span of 20 years while port zones have a life span of 49 years). *The first PSEZ in Russia will most likely be created in the Eastern port of the Primorsk territory.* The regional administration has already begun filling out the necessary paperwork for the competitive tender.

<sup>70</sup> Interfax // [http://www.interfax.ru/r/B/finances/379.html?menu=35&id\\_issue=11947616](http://www.interfax.ru/r/B/finances/379.html?menu=35&id_issue=11947616)

<sup>71</sup> Gambling business association // <http://vib.adib92.ru/main.mhtml?PubID=6166&Part=19>

<sup>72</sup> Gambling business association // <http://adib92.ru/main.mhtml?Part=1&PubID=795>

<sup>73</sup> РИА «Новости» // <http://www.rian.ru/economy/20080201/98128675.html>

### **Regions in Russia where the gambling industry is banned**

#### **Regions that have completely banned the gambling business on their territory since July 1, 2007.**

1. Krasnoyarsk territory (full ban)
2. Chechen republic (full ban)
3. Belgorod region (full ban)
4. Kurgan region (full ban)
5. Tambov region (full ban)
6. Kaluga region (full ban)
7. Udmur republic (full ban)
8. republic of Mordovia (full ban)
9. republic of Kabardino-Balkaria (full ban)
10. republic of Northern Osetia (full ban)
11. republic of Dagestan (full ban)
12. republic of Adigea (full ban)
13. Irkutsk region (full ban)
14. Orlov region (full ban)
15. republic of Tiva (full ban)
16. republic of Sakha (Yakutiya) (full ban)
17. Bryansk region (full ban)
18. Chukotka AR (full ban)
19. Ivanov region (full ban)
20. Karachaevo-Cherkesk republic (full ban)

#### **Regions that have banned gambling with slot machines from July 1, 2007:**

1. Kursk region (ban on slot machines)
2. Chuvash republic (ban on slot machines)
3. Chelyabinsk region (ban on slot machines)
4. Smolensk region (ban on slot machines)
5. Sakhalin region (ban on slot machines)

6. Altai territory (ban on slot machines, except in the gambling zone)
7. Saratov region (ban on slot machines)
8. Stavropol territory (ban on slot machines) – the law was signed on 01.04.2007!
9. Omsk region (ban on slot machines)
10. Aginsko-Buryatskii AR (ban on slot machines)

**Regions that have passed laws banning the gambling industry that take effect on another date (the law takes effect on the date in the parentheses)**

1. republic of Tatarstan (full ban, with the exception of 2 specially set aside zones)
2. Archangelsk region (full ban from 01.01.08)
3. Lipetsk region (ban on slot machines from 01.01.08)
4. Tomsk region (ban on slot machines from 01.01.08)
5. Novgorod region (full ban from 01.07.08)
6. Voronezh region (ban on slot machines from 01.01.08)
7. St. Petersburg (ban on slot machines from 01.01.08)
8. Leningrad region (ban on slot machines from 01.01.08)
9. Ryazan region (full ban from 01.08.07)
10. Khanti-Mansiisk AR (ban on slot machines from 01.01.08)
11. republic of Bashkortostan (ban on slot machines from 01.01.08)
12. republic of Buryatiya (full ban from 01.01.08)
13. Moscow region (ban on slot machines from 01.01.08)
14. Penza region (ban on slot machines from 01.01.08)
15. Kostroma region (full ban from 01.01.08)
16. Bologda region (full ban from 01.01.08)
17. Yamalo Nentskii AR (ban on slot machines from 01.09.07)
18. republic of Gornii Altai (All gambling sites have to be at least 2 km outside of the city from 01.01.08)

**Regions that talked about putting in a ban but haven't passed a law yet:**

1. Yaroslavl region (the law banning gambling did not pass)
2. Vladimir region (the law banning gambling did not pass)
3. Kirov region (the law banning gambling did not pass)



4. Kamchatka region (the law banning gambling did not pass)
5. Rostov region (the law banning gambling did not pass)
6. Chita region (the law banning gambling did not pass)
7. Novosibirsk region (the law banning gambling did not pass)
8. Tumen region (full ban)
9. Samara region (full ban, except the casinos in the Volga and Krasnoyarsk neighborhoods)
10. republic of Khakasiya (full ban)
11. Kemerov region (full ban)
12. republic of Komi (full ban)
13. Sverdlov region (ban on slot machines from 01.01.08)
14. Kamchatka region (full ban)
15. Amur territory (ban on slot machines)

Source: Association of Russian Gambling Businesses

### High-priority national projects: results in the regions

According to official figures, the money that was distributed through the national projects, and this is about 10% of the total financing for those for particular sectors, during the past year, worked more effectively than the other 90%<sup>74</sup>. ***The subsequent realization of the national projects will continue in the form of government programs.*** One of the main priorities is to increase the effectiveness of use of budgetary funds. The prosecutor's office has created special groups whose main task is to constantly monitor the realization of the national projects/government programs.

***The development of the agro-industry (AI) remains the most successful project.*** According to the Ministry of Agriculture, "all targets have been reached"<sup>75</sup>. The planned increase in the number of cattle and birds was 7%, but in reality hit 14.4% (an increase of more than 1 million tons). The leading regions for agricultural development for the past two years were Belgorod – growth of 86%, Lipetsk – 41%, Penza – 39%, Moscow region – 26%, Krasnodar and Stavropol

<sup>74</sup> Время новостей. 2008. 16 января. С. 1.

<sup>75</sup> Департамент экономических программ и анализа  
[http://mcx.ru/dep\\_doc.html?he\\_id=797&doc\\_id=17947](http://mcx.ru/dep_doc.html?he_id=797&doc_id=17947)

territories – 20%. The production of milk increased by 4.5% (an increase of 1 million 300 thousand tons). The leaders were Dagestan and Karachaevo—Cherkesia (more than 30%), Tatarstan and Chuvashiya (more than 13%), Chelyabinsk region (12%), Bashkortostan (8%). The cattle live-stock stabilized at 2005 levels. Producers are actively using investment loan options – in 2005-2007, more than 191 billion rubles were loaned out. The profitability of agro-companies increased from 7% to 15%. A large role in providing loans to the agro-sector is played by Rosselkhozbank, which became the main institution for the development of small businesses in the country-side. 35 regions are conducting pilot programs that give mortgage credits on land. However the Minister of Agriculture, Aleksey Gordeyev is insisting that the loan funds in the government program don't meet the needs of the industry and could create a deficit in credit resources. For this not to happen, Gordeyev proposed to increase the authorized capital of Rosselkhozbank to 8 billion rubles (yearly), to use money from the Investfund, the Development Bank, and others<sup>76</sup>. In this way, the minister, who controls the agro financial flows, will receive the opportunity to strengthen his own positions.

*The realization of the national project Education in 2007* was accompanied by a change in the federal law in connection with the transition to a two level system of higher education (bachelors + masters). The largest part of the project was the **competitive tender for the comprehensive modernization of the regions**. In 2007, 21 regions of Russia won this tender<sup>77</sup>. They include – Astrakhan, Belgorod, Volgograd, Voronezh, Ivanov, Kaliningrad, Moscow, Novgorod, Novosibirsk, Pskov, Samara, Sverdlovsk, Tambov, Tver, Krasnodar and Krasnoyarsk territories, republic of Buryatiya, Mordovia, Northern Osetiya, Chuvashiya and Yakutiya. All in all, the government budget will provide them over the course of three years with 7.5 billion rubles. At the end of 2007, 10 more regions were chosen that will receive support in 2008-2009: Amur, Kaluga, Tomsk, Saratov, the Jewish AR, Altai and Perm territories, the republic of Kalmikiya, Karelia, and Kabardino-Balkariya<sup>78</sup>. The winners took upon themselves the obligation to introduce a new salary system for teachers that will pay extra for quality of teaching and for extracurricular work. Also they must transfer to

<sup>76</sup> In the same place.

<sup>77</sup> Regional programs for modernizing education  
[//http://www.rost.ru/projects/education/11216/aed9.shtml](http://www.rost.ru/projects/education/11216/aed9.shtml)

<sup>78</sup> High-priority national projects / Новости  
[//http://www.rost.ru/news/2008/01/252027\\_12591.shtml](http://www.rost.ru/news/2008/01/252027_12591.shtml)

a school financing system that finances schools based on the number of students attending, to introduce the single government examination (SGE) and also to begin the creation of a state-community education management system (school councils with parent participation). Moreover, three constituent entities of the Russian Federation (Moscow, St. Petersburg, and Tumen regions) that showed significant achievements in their education systems received the status of “winner-consultant”. The plan is for them to take part in the program to aid other regions.

**In 2006-2007, the national project Health developed in three directions:** the development of first aid, the development of preventive care, and the increase in the availability of high-tech medical care. First of all, **achievements** have taken place in the increase in the salaries of primary care workers (over the course of two years by 1.6 times), however in absolute terms, the level of their salaries remains low (this tendency can be observed in all regions). Currently, the salaries of primary care physicians, pediatricians and doctors (general care) is on average 22,600 rubles (per month), doctor specialists of out-patient institutions make on average 15,500 rubles per month. Another important development is the realization of the maternity aid programs and the increase in neonatal screening. According to the Ministry of Health and Social Development, Russia has for the first time reached the level of developed countries in the medical examination of newborns<sup>79</sup>.

The other directions don't look so optimistic. Today, out of those who need it, only one in four Russians receive **high-tech medical care**. The reason for this is the long waiting periods required to get care and the lack of modern medical equipment. At the end of 2007, three federal high-tech medical centers (out of a total of 15 planned) were opened. They are being constructed within the framework of the national project Health and include the center for cardio-vascular surgery in Penza and Astrakhan, the center for traumatology, orthopedics, and prosthetics in Cheboksar (Chuvashiya). It is planned that in 2008 another ten medical centers will open in: Barnaul, Vladivostok, Kaliningrad, Krasnoyarsk, Novosibirsk, Perm, Smolensk, Tumen, Khabarovsk, and Chelyabinsk<sup>80</sup>.

**The most problematic of the national projects is Affordable Housing.** The goal of the national project is by 2010 to increase the share of the population that is able to buy an apartment by 300% (from 10% to 30.5%) and to double the residential construction rate (up to 80 million square meters a year). According to

<sup>79</sup> The results of the national project Health // <http://www.c-society.ru/main.php?ID=348291&ar2=300&ar3=300>

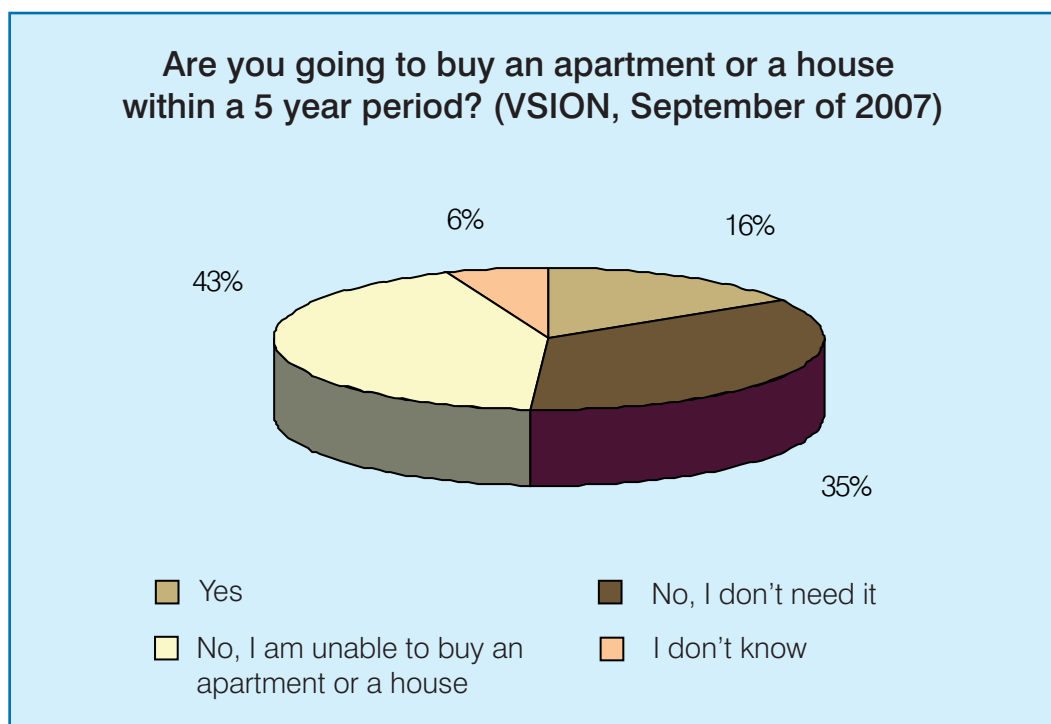
<sup>80</sup> <http://www.dp.ru/novosibirsk/news/medicine/2007/06/05/222374/>

preliminary figures, in 2007 more than 60 million square meters of residential property was built (which is 19.4% more than in 2006) and the volume of construction compared with the previous year increased by 30%. The statistics show that ***the goals of the national project, theoretically, can be reached***. The availability of housing for Russians has noticeably increased<sup>81</sup>. If in 2006, only 17% of people could buy an apartment or house, then in 2007, this figure was 20%. However, ***the figure of new residential space per person remains very low*** – only 43 square meters, ***while housing stock wear and tear on the whole throughout Russia is at 70%***. The reference point that allows one to determine whether the goals of the national project are being met is 1 square meter per person per year of new residential property. Only the regions (the leaders in the construction industry) so far have been able to hit this figure. These traditionally are the stronger, from the economic point of view, regions. Achieving an increase in the living standards of people in the “subsidized” regions is a lot harder.

***The residential construction growth rate in the regions is very spotty***. In 2007, the Siberia and Ural federal districts showed the highest growth rates in residential construction (125.7% and 124.4% compared with 2006). The lowest growth rates were in the Far East and Central districts (113.1% and 113.3%). However, in absolute terms, construction volume in the Urals and Siberia is still pretty low. Thus, the regions of the Ural district built 5.45 million square meters of residential housing, while Siberia built 6.83 million square meters. In comparison to the Russian leaders, these achievements look rather modest. In Moscow, where the residential construction growth rate was only 1%, there were 4.83 million square meters built. The Moscow region, to a large extent using the capacity of the capital construction industry, built 7.59 million square meters. Overall, more than half of the new property was built in 8 constituent entities (out of 84). Besides Moscow and the Moscow region, the Krasnodar territory, St. Petersburg, Tatarstan, Rostov and Tumen regions and Bashkortostan are among the leaders in residential construction volume. The regions that are lagging are: the Murmansk and Magadan regions, Adigeya, and the Jewish AR.

***A distinctive feature of the development of the construction industry in 2007 was the high rate of growth for single family residences***. Around 45% of all the new residential construction was built by the population with their own funds or with loans. The share of individual home construction out of the total in the

<sup>81</sup> Первые итоги реализации ФЦП “Жилище” и нацпроекта “Доступное жилье”  
//<http://www.estateline.ru/news/11378>



republics of Kalmikiya, Khakasiya, Dagestan, Buryatiya, Marii El, Adigeya, Kabardino-Balkariya and Udmurtiya, Krasnodar and Primorsk territories, Penza, Orenburg, Tambov, Leningrad, Tula, Tver, and Vladimir regions was 70%-95%. In Ingushetia, Karachaevo-Cherkesia, and Chechnya, Ust-Ordinsk Buryatsk AR (which became part of the Irkutsk region), this figure is close to 100%.

Moreover within the framework of the program to provide housing for military personnel and their families, 15+15, over 18,500 apartments were built over two years in 5 constituent entities: in Moscow and St. Petersburg, and also in the Moscow, Leningrad and Kaliningrad regions<sup>82</sup>.

***One of the main problems in the realization of the “housing” national project remains control over the proper spending of funds.*** However, increasing the effectiveness of the program while keeping the current financing scheme (the regions receive an equal amount of money regardless of the housing needs of the region) is unlikely to happen.

An important aspect of the work that began under the leadership of Dmitri Medvedev in 2008 will become ***optimizing the legislation***. The government

<sup>82</sup> The first results of the FTP Housing and the national project Affordable Housing  
<http://www.estateline.ru/news/11378>

already approved changes to the Federal Target Program – Housing, which increased the age of the participants of the program to provide housing for young families, till 35<sup>83</sup>. Regulations have been prepared about using funds to build roads with the aim of residential construction, and also about changes to the FTP Housing where it talks about public infrastructure.

### **HPU reform: the current situation and the future**

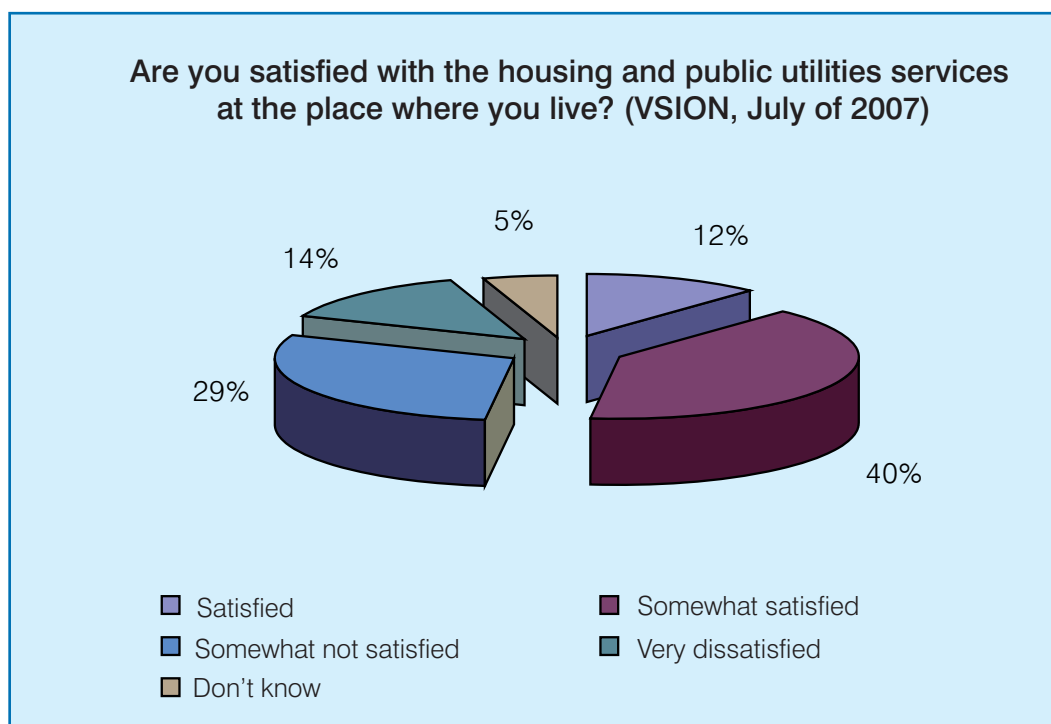
The government approved *HPU reform plan*<sup>84</sup> calls for the modernization of the entire housing and public utilities system of the country. The condition of this system today doesn't bring forth much optimism. According to the Ministry of Regional Development, on average throughout Russia, the deterioration of boiler rooms is 55%, water pipes – 67%, sewage and heating networks – 70%, electricity networks – 60%, water pumping stations – 65%, sewage pumping stations – 57%, water purifying facilities – 55%, and sewage – 57%. In individual municipalities HPU deterioration rates reach 70-80% and are increasing by 2%-3% per year. Around 30% of HPU equipment and facilities have already exceeded their life span, which creates a high potential for accidents.

*One of the main obstacles of effective reform is the monopolistic character of HPU services* (HPUS). The economic relations in this sphere are the same as they were in the soviet period – companies are subsidized through the budget. HPUS management is centralized, there is practically no competition and the customer doesn't have the power to influence the quantity or quality of the services he receives. The consistent rise in HPUS prices without any positive changes in the quality of services is fraught with a rise in social tension. It is assumed that the transfer of HPU to market principles which would end the government monopoly, attract private business and create competition is one of the key benchmarks by which to judge the effectiveness of the reform program overall.

In order to provide the investment support necessary for the HPU sector reform, in the summer of last year a *state corporation Fund for the reform of housing and public utilities was formed*. The Ministry of Regional Development will coordinate the activities of this state corporation.

<sup>83</sup> How the high-priority national project Affordable and Comfortable Housing for Russia's Citizens is going // [http://www.rost.ru/projects/habitation/hab7/hab\\_totals1\\_06.shtml](http://www.rost.ru/projects/habitation/hab7/hab_totals1_06.shtml)

<sup>84</sup> See.: the information center for HPU reforms // <http://www.gkh-reforma.ru/>



Vladimir Putin came out with the initiative to create the *state corporation* on April 26, 2007 in his yearly address to the Federal Assembly<sup>85</sup>. This proposal was supposed to put an end to the inter-department *discussion on the source of financing for HPU investment*. According to the housing code which was put together by Vladimir Yakovlev's department, all expenses for general overhauls of residential properties must be completely paid for by the owner of the residency. This posture met the active resistance of regional and municipal authorities, which is quite natural – a significant portion of the housing stock is owned by the regional and municipal authorities. The harshest criticism of this proposal came from Moscow mayor Yuri Luzhkov (in accordance with the traditionally “social” priorities of the capital city government). Thus, in 2008, the total rise in tariffs for HPU services in Moscow will no be higher than 18.5%. At the current stage, Moscow residents are paying 64% of HPUS costs – the rest is paid for by the city government.

The Ministry of Regional Development's response which was supposed to lower the level of discontent among governors and the heads of municipalities

<sup>85</sup> The presidents speech to the Federal Assembly from April 26, 2007  
<http://www.garant.ru/prime/20070428/91028.htm>



became the “advancement” of the project to privatize apartments and create the Property Owners Associations (POA). As a result, the general overhaul costs were supposed to be partly transferred to the population. These initiatives were reflected in the document called “Complex of measures for the reformation of the housing and public utility sector of the Russian Federation for 2007-2008”<sup>86</sup>. However reality showed that the process of privatization and the creation of POAs is very slow, and the deadlines have been postponed several times.

The head of the Ministry of Finance, Aleksey Kudrin, whose priorities do not provide for the investment of significant financial funds into low-profit projects, took a hard line on the HPU reform program presented by the Ministry of Regional Development. ***However, real estate prices in large cities became the major factor that predetermined the need for interference from the federal center.*** According to the statistics from autumn of 2006, the peak in the rise in housing prices in Moscow and in many regional centers was noted; subsequently, their decrease was insignificant thus threatening the realization (within the planned period) of the national project Affordable Housing. As a result, the leadership of the Ministry of Regional Development was held responsible for the possibility of missing deadlines for the Affordable Housing project and for the negative side-effects of HPU reforms. On the federal level, work has begun on the legislative backing of the president’s and the government’s initiatives of taking the socially important industry out of crisis. The foundation of this became the law “About the fund for the assistance for reforming the HPU system”, which passed in July of 2007<sup>87</sup>.

According to law, the fund for the assistance for reforming the HPU system is formed using funds (federal and local) and property – a property contribution from the Russian Federation in the size of 240 billion rubles, and also income the fund receives from interest on cash. The supervisory board of the Fund includes 17 representatives: 6 from the president, 5 from the government, 4 from the Federal Assembly (2 from parliament and 2 from the Federation Council) and 2 from the Public Chamber. The limited term of the fund ends on January 1, 2012. The government plans on spending a total of 240 billion rubles, including 95 billion rubles for relocating citizens from dilapidated housing and 145 billion rubles for general overhaul.

***The law contains*** 14 conditions that the region must meet in order to get money from the fund. One the hardest conditions that must be met is the complete

<sup>86</sup> [http://www.minregion.ru/OpenFile.ashx/O\\_komplekse\\_meropriyatiy.ppt](http://www.minregion.ru/OpenFile.ashx/O_komplekse_meropriyatiy.ppt)

<sup>87</sup> Rossiiskaya gazeta. 2007. 27 июля.

absence of any HPU debt. The different types of general overhauls are also regulated (repair of in-house electricity, gas, heating, water, sewage, elevator systems etc.).

The final version of the law ***softened some of the conditions to get subsidies from the fund to do housing repair work***. The share of HPU companies that work in the municipality that must be commercial by January 1, 2009, in order to get government support was lowered from 50% to 25%, and the share of apartments that must be run by property owner associations (POA) was lowered from 10% to 5%. The process of increasing the number of HPUS firms and the creation of POAs has been extended. The share of commercial companies must be 80% in every municipality and the share of apartments with POAs must hit 10% by 2010 and 20% by January 1, 2011. In this way, the number of municipalities that can get aid from the fund will increase. It is important to note that the fund will give aid to not less than two municipalities in each region, in which the population is not less than 20% from the total population in the region.

Finally, the law ***determines the way in which money from the fund is distributed among the regions***. The limit for the region is calculated as the product of the total amount of funds multiplied by the ratio of the housing stock in the region to the total housing stock in the country. The total support a region gets cannot be less than 500 million rubles or more than 8 billion rubles. The way this money can be spent is clearly spelled out in the regulations: 60% of the money must go to general overhauls and 40% for resettling people from dilapidated housing. The share of co-financing of the projects from the fund by regional budgets is determined by how much the local budget in each constituent entity provides for its citizens – it can't be less than 20% or more than 50% from the total costs of the repairs. The share of co-financing of repairs and resettling from the citizens cannot be more than 5% from the total. Moreover, a new article in the law appeared about the allocation of money that isn't in use from the fund.

However, in the beginning of 2008, it became known that the plan of the Ministry of Regional Development (which is the curator of the HPU state corporation) had changed somewhat. If previously the plan called for giving financial support to the regions and municipalities, then now it looks like it is going to be a one-time payout. The deputy minister for regional development, Sergey Kruglik during his discussion with journalists on January 31, stated that doing general overhauls “is the main job of the regions and municipalities”<sup>88</sup>. If

<sup>88</sup> Vremya Novostei. February 1, 2008. C. 3.

you think about it, this is absolutely natural – a significant portion of the housing stock is owned by the regions and the municipalities. At that, out of all the regions in the country where the rise in budget revenues hit 50%, there wasn't any increase in the expenditures on the renovation of housing stock. Meanwhile, the funds that the president put aside in the special fund will only be enough to cover 5-7% of the total investments needed to fix the decaying HPU system.

The demand which is being made to the potential recipients of the subsidies to introduce 100% HPUS payments and new tariffs for the upkeep of housing for the majority of regions is hard to fulfill, at least in the short term. Thus the representatives of Moscow city hall have stated on multiple occasions that they felt that it is "unfair, and impractical" to demand that citizens pay a fee for the upkeep of housing which is equal to 5% from the cost of the general overhaul of the joint property. Moreover, *the Moscow administration isn't ready to speed up the transfer to the proposed "de-governmentalization of HPUS companies"*. By January 1, 2010, according to the previously mentioned law №185 "About the fund for the reform of the housing and public utilities system", the share of the city cannot be more than 25% in half of the companies which are in the HPUS market and by 2011, these companies which are in the market for providing electric, gas, and heating services must be 80% of the total. Statements from capital city officials, first of all, that government participation in the HPU sector is a guarantee of stability, are motivated by the distinctive way the HPU system functions in Moscow. This is the close relationship between HPUS companies and the administrative structures of the city which leads to the formation of a monopoly. The economic relations in this sphere are the same as they were in the soviet period – companies are subsidized through the budget. HPUS management is centralized, there is practically no competition and the customer doesn't have the power to influence the quantity or quality of the services he receives. The transfer of HPU to market principles which would end the government monopoly, attract private business and create competition is one of the key benchmarks by which to judge the effectiveness of the reform program overall.

Moreover, for a whole number of subsidized regions a serious problem is the cancellation of cross subsidies and the establishment of 100% HPUS payments for citizens, which threatens to turn into a significant fall in the standard of living of the population. *The most widespread reason for the federal center's refusal to co-finance general overhaul programs in the regions is the slow pace of the creation of property owner associations*. Out of 75 constituent entities of the Russian Federation who applied for subsidies from the HPU fund, 39% couldn't

surmount the 5% bar for the number of POAs. Only 35 Russian regions meet the conditions that are required to receive money (the amount of which will range from 500 million rubles for places like Chechnya and Ingushetia, to 8 billion rubles for cities like Moscow, St. Petersburg and Kaliningrad) from the fund.

The first regions who meet the conditions stipulated in the law about reforming the HPU system (this will most likely include the Chelyabinsk, Belgorod, Kaliningrad and Archangelsk regions) will receive federal support already in February of 2008. The other regions will begin to receive funds as soon as they meet all the conditions. At that, the program doesn't envisage any ways to pressure the regional governments to speed up these changes. This means that the state corporation will most likely not become the "engine of reform". Its life span most likely won't end in 2012. In the future, the HPU reform fund may become one of the so-called development institutions that will attract funds from the market and make loans to the population to conduct general overhauls under the guarantee of future HPUS payments.

### **The results of the parliamentary elections in the regions**

Notwithstanding the cancellation of the voter-turnout threshold (if voter turnout is lower than a certain percentage then the election is considered invalid) and the cancellation of the single-mandate portion of the voting system in which candidates were chosen who were known to the common voter of the neighborhood, ***in the vast majority of regions there was an increase in the election turnout.*** In 2007, the turnout was 63.7% against 55.6% in 2003. This became the consequence of, first of all, the maximum exertion of the administrative resource. This effect was the largest in the North Caucasus Republics and in constituent entities with a strong "top-down chain of command". Thus, the turnout in Ingushetia was 98% – which was also United Russia's result. In Kabardino-Balkaria and Karachaevo-Cherkessia, the voter turnout was 97% and 94%. At that, in a few neighborhoods in Ingushetia and Karachaevo-Cherkessia there was 100% turnout and United Russia received 100% of the vote. Chechnya set an original record: there was a turn out of more than 99% and United Russia received 99.27% of the vote (KPRF was in second place with 0.15%). Moreover, a high turnout was observed in regions with a powerful administrative top-down structure: Kemerovo region (76.84%), Chukotka (78%), the republic of Tatarstan (around 80%) and Mordovia (93.4%).

***The increase in the administrative regulation of the election process was a distinctive feature of the campaign.*** The key role in the campaign in the vast majority of constituent entities of the Russian Federation was played by the governors and the municipal heads that were loyal to them. This partly contributed to the better results that the “ruling party” got than in 2003. Thus in the Nizhigorod region there was almost a doubling of the result – from 31.96% (2003) to more than 60%; in Moscow – from 34.43% to 54%.

One of the most important consequences of the prevalence of the administrative resource over other methods of election campaigning was the ***“leveling” of the constituent entities in their electoral preferences.*** The traditional division according to the principle a pro-government north and an oppositional is becoming the thing of the past and the so-called red belt regions (just like the other regions) are now dominated by United Russia.

However, in the majority of constituent entities one can clearly see ***a new line of division – one between the cities and the provincial centers,*** where there is a larger share of the protest and opposition vote, and the ***countryside***, which en masse supported the “ruling party”. Cities with the highest protest vote included Voronezh (United Russia received only 48%, while the highest result in the region was in the Pavlovsk electoral district with 64.31%), Omsk and Samara (in the cities the result was 51% while in the regions, the results were 66.5% and 54.6%). It was very indicative that in Samara and Toliatti, KPRF got 20% of the vote, while in the countryside the support for KPRF was much smaller. In Saratov and Smolensk, United Russia got 54% (they got the same result in the Smolensk region, but in the Balashovsk and Balakovsk electoral districts of the Saratov region their result was much higher – 68.3% and 70.3%), in Yaroslavl – 53% (in the region a little bit higher), in Yekaterinburg – 55.7% (in the region around 62%).

***The “ruling party” achieved record support in the North Caucasuses.*** Here, United Russia’s results also increased in comparison to 2003. Chechnya – 99.4% (was 80.9%), Ingushetia – 98.7% (was 57%), Kabardino-Balkaria – 96.1% (74.7%), Karachaevo-Cherkessia – 94% (49.6%), Adigiya – 70.97%. In second place after the North Caucasuses republics (in the regions of the southern federal district) was the Rostov region with 71.9%. Previously, United Russia had a better showing in the Krasnodar territory, where this time United Russia was still successful but received less than the national average – 61.6% against 64%. In the Volga federal district, it is interesting to note the “evolution” of Bashkiriya – 83% voted for United Russia in 2007, while in 2003, 38.9% voted for United Russia. United Russia also received more than 80% of the vote in Tiva, Mordovia, Aginsk-Buryatsk AR, and in Tatarstan.

*Russia 2007. Report on Transformation*

Region	Head of the Region	United Russia's December 2, 2007 Result in %
The highest results for United Russia		
republic of Chechnya	Ramzan Kadirov	99.4
Ingushetia	Murat Zazikov	98.7
Kabardino-Balkaria	Arsen Kanokov	96.1
Mordovia	Nikolai Merkushkin	93.4
Karachaevo-Cherkesia	Mustafa Batdiev	92.9
Dagestan	Mukhu Aliev	89.2
republic of Tiva	Sholban Kara-ool	89
Aginsk-Buryatsk AR	Bair Zhamsyev	83.2
Bashkortostan	Murtaza Rakhimov	83.1
Tatarstan	Mintimer Shaimiev	81
The lowest results for United Russia		
Nenetsk AR	Valerii Potapenko	48.8
St. Petersburg	Valentina Matvienko	50.3
Yaroslavl region	Anatolii Lisitsin	53.2
Smolensk region	Victor Maslov	53.9
Moscow	Yuri Luzhkov	54.1
Altai territory	Alexander Karlin	54.7
Primorsk territory	Sergey Darkin	54.8
Murmansk region	Yuri Yevdokimiv	55.1
Magadan region	Nikolai Dudov	55.2
Kirov region	Nikolai Shaklein	55.4

The “ruling party” wasn’t able to achieve its aims in full measure in Karelia, the Altai and Primorsk territories, and in the Archangelsk, Vladimir, Kostroma, Pskov, Irkutsk, Kaliningrad, Kirov, Magadan, Samara, and Moscow regions. In these regions, United Russia received 55% to 57% of the vote. ***The results in the federal cities were not really successful:*** in Moscow, United Russia received 54%, while in St. Petersburg they received 51%. In the latter case, the fact that the governor, Valentina Matvienko wasn’t that involved in the campaign and also the effective campaigning of the electorate by the local representatives of Fair Russia had a negative effect on United Russia. The success of the SRs in the northern capital (15% of the vote) can be attributed to a successful pick of candidates: Oksana Dmitrieva and Yurii Boldirev are people in St. Petersburg who are famous and pretty popular.



**KPRF and LDPR appealed to their core electorate**, while the SRs counted on “their own” supporters and also on the wavering supporters of other parties such as United Russia and KPRF.

The “Zuganovites” (communists), as in years past, had good showings in the Krasnodar territory and in the Volgograd region getting 14.51% and 15.7%. Furthermore, just like in the previous election cycle, their main support remains in the big cities: Voronezh (almost 22%), Omsk (17.7%), Novosibirsk (16.21%) and Moscow (14.4%). KPRF got 20% of the vote in Samara and Toliatti.

**The main regions that support LDPR traditionally are the Far north and the Far east where the protest mood runs high.** These preferences practically haven’t changed over the past 4 years and it is quite natural that the most successful regions for the “liberal-democrats” were Magadan and Chita (15% each). Discontented Voronezh gave 12.4% of their vote to LDPR.

**Fair Russia had successes in** Karelia (11.3%), the Leningrad (12.7%) and Nizhigorod (12%) regions, Yakutiya (13.2%), the Stavropol territory (13.5%) and around 15% in St. Petersburg. Against the background of the outflow of personnel in connection with the reorientation of the regional elites in support of the “ruling party”, it was natural that **the SR’s main successes were in connection with the charismatic leaders on their party lists**. Thus, in St. Petersburg, the voters voted for Oksana Dmitrieva, while in Astrakhan a record 20% came out in support of Oleg Shein. The results of the elections in the Stavropol territory were to large extent a reaction to the scandalous exclusion from the list of the mayor of Stavropol, the popular (As opposed to governor Chernogorov) politician, Dmitri Kuzmin (the mayor had a pending criminal case). And in the Nizhigorod region, of no small importance was the “entertainment” part of the campaign – free Edit Piekhi concerts. She is beloved among a significant portion of the SR electorate – pensioners.

**The parliamentary electoral results in the regions could contribute to personnel changes in a whole number of constituent entities in the Russian Federation.** Here we are talking about those where the planned results for United Russia were not achieved because of the weakness or unpopularity of the local leadership who weren’t able to consolidate the administrative resource and mobilize the electorate. So, it is quite possible that in 2008, the governors of the Kirov and Magadan regions, Nikolai Shaklein, and Nikolai Dudov will leave their posts (especially since they don’t have the confidence of the president) after their terms run out. The head of the Archangelsk region, Nikolai Kiselev might not get the answer he was looking for when he asked the president to confirm his



confidence back in August 2007 (he hasn't received the answer yet). Nikolai Vinogradov's (Vladimir region) position doesn't look too stable. Neither does Vladimir Kulakov's (Voronezh region) or Alexander Chernogorov's (Stavropol territory). A number of regional heads decided to fall on the sword and leave their posts willingly: Anatolii Lisitsin (Yaroslavl region) became a deputy of the parliament, while Victor Maslov (Smolensk region) transferred to the Federation Council. The main motive in both cases was the inclination to avoid being sacked after the unsuccessful carrying out of the election campaign – Lisitsin's and Maslov's regions were in the bottom 10 as far as results for United Russia are concerned (53.2% and 53.9%) and the "bosses upstairs" came to the conclusion that the heads of these regions didn't work hard enough.

### **The presidential elections: the regional elite are solving the "problem of 2008"**

The appearance of a favorite for the status of "successor" in the person of the first deputy premier, Dmitri Medvedev was a surprise to the regional elite. Nevertheless, the governors and mayors hurried to announce that they supported the "president's choice" and in this way again demonstrated their loyalty to the Kremlin. This is quite natural: *the key goal for the governors during the "transition" period is to retain their power.*

Previously, the main mechanism for doing this was to get the confidence of the president. Vladimir Putin's significant political weight, which he will most likely retain after he leaves his post in the form of being a "national leader", was looked upon by the governors as their best guarantee of keeping their positions in the medium term. This is what accounts for the wave of resignations (with the expectation that they will be re-nominated) in the spring. The heads of politically stable and relatively economically prosperous constituent entities successfully met this objective (Alexander Tkachev (Krasnodar territory), Boris Gromov (Moscow region), Evgenii Savchenko (Belgorod region), Victor Tolokoskii (Novosibirsk region), Leonid Polezhaev (Omsk region), Vyacheslav Pozgalev (Bologda region) and others).

For a number of powerful Putin-allied regional leaders, supporting the "successor" might become the security for the realization of their significant political ambitions: thus, Yuri Luzhkov already stated his intention to try to secure the unification of Moscow and the Moscow region into a "super-region". Valentina

Matvienko wants to do the same thing in the “northern capital”. It is quite possible that the logic behind these moves is determined by the calculation that in the first part of his presidency the new head of state won’t view regional politics as a priority and this will give the influential governors a certain freedom of maneuver.

The successors of the “weaker” governors who were practically appointed this year by the president, also feel pretty confident (Sergey Mitin (Novgorod region), Nikolai Kolesov (Amur region), Vyacheslav Nagovitsin (republic of Buryatiya), Alexander Khoroshavin (Sakhalin region) and others). For them, the main ***goal in the medium term will be to “maintain their hold on power” – this strategy will determine the relationship of the new appointees with the federal center.***

The position of those regional heads who don’t have the president’s confidence (Nikolai Shaklein (Kirov region), Mustafa Batdiev (Karachaevo-Cherkesia), Nikolai Maksuta (Volgograd region), Georgii Shpak (Ryazan region), and others) is less stable. ***For the remaining elected governors, their statements in support of Medvedev were their last shot at trying to attain a successful political future.*** In this sense, it is indicative that one of the first governors to make a statement about the “deserving, in all aspects, successor” was the governor of the Archangelsk region Nikolai Kiselev<sup>89</sup>, who has already been waiting for a few months for information from the presidential administration on whether or not he has the president’s confidence.

The actual management of the preparation for the presidential election, irrespective of who had what post in the election campaign headquarters of Dmitri Medvedev (they are mainly headed by the governors or their deputies), in the majority of cases, is with the heads of the regions. From the point of view of political technology, the governors’ main task during the presidential campaign will look pretty traditional: ***to use the administrative resource as effectively as possible to mobilize the pro-government electorate.*** During the transition of power on the federal level, the demand for the administrative resource increases, and it can’t be ruled out that the successful accomplishment of these tasks will become an important factor in these governors’ future.

<sup>89</sup> <http://spb.rbc.ru/freenews/20071210190313.shtml?print>

## The situation in the North Caucasus

*The battle with threat of the destabilization of the situation in the North Caucasus remains one of the key priorities in regional policy.* These security threats are of a systemic nature – terrorist acts against the population (blowing up passenger buses and taxis in the Stavropol territory, Dagestan, North Osetiya, and Kabardino-Balkaria), and the periodic worsening of the situation in Dagestan against the background of a drawn-out political crises in Ingushetia speak to this fact.

*In 2007, according to official accounts, federal forces were pretty effective in their operations in the North Caucasus.* Throughout the year reports periodically surfaced in the media that the presence of federal troops in the region was being reduced, which was the result of the accomplishment of stated goals. Statistics showed that the number of terrorist attacks had fallen by more than 2.5 times: in 2006 there were 112 terror attacks, while in 2007 there were 40 terror attacks. Interfax quoted the head of the National Antiterrorism Committee, Hikolai Patrushev as saying that “On the whole, all of the objectives that the committee had before it in 2007 were accomplished”<sup>90</sup>. One of the stories that received wide coverage in the media was the successful special operation that involved the *liquidation* on September 18 in Dagestan of the “*amir*” of the *Dagestani mujahadeen, Rappani Khalilov*. Khalilov was accused of organizing terrorist attacks in Byunaksk in 1999 and in Kaspiisk in 2002 (during the Victory day parade), and also a number of attacks and sabotage activity (all in all around 60 incidents). After the death of Shamil Basayev, he came forward as one of the leaders of the North Caucasus terrorist underground, taking the number two spot in the secret hierarchy (according to FSB accounts), after the president of the self-proclaimed republic of Ichkeria, Doku Umarov (the last claimant to the role of leader of the extremist groups in the whole southern federal district)<sup>91</sup>.

At the same time, the problem of targeted attacks by small mobile groups of militants in the North Caucasus hasn't been solved yet. In Ingushetia, under threat are, first of all, members of the president's (Murat Zyazikov) entourage and also the Russian speaking part of the population; in Dagestan – members of the security services, organs of the legislative branch, and the Muslim Religious Boards; in

<sup>90</sup> <http://www.kavkaz-uzel.ru/newstext/news/id/1203439.html>

<sup>91</sup> См.: Маркедонов С. Раппани Халилов и структуры повседневности  
[//http://www.politcom.ru/article.php?id=5106](http://www.politcom.ru/article.php?id=5106)

Kabardino-Balkaria and Karachaevo-Cherkesia – members of the local security forces. In connection with the rise of extremist activity in the pre-election period (beginning in July of 2007), federal forces were fortified not only in numbers but also materially. Currently the formation of two mechanized infantry mountain brigades with a total number of about 4,500 troops is practically complete. Their military training used the experience of mountain battles in Afghanistan and Chechnya and also the best practices of foreign governments. These brigades are deployed in Karachaevo-Cherkesia (village of Zelenchuksk) and in Dagestan (village of Botlikh). Shortly before the conclusion of the parliamentary campaign, the deputy general prosecutor for the southern federal district, Ivan Sidoruk, publicly admitted that, despite of all the effort, they haven't been able to "block not one of the terrorist financing channels". According to the general prosecutor's office, the overall budget of the different terrorist organizations that are active in the North Caucasus region is around \$1.5 million. These funds will assumingly be spent on terrorist attacks<sup>92</sup>.

During the period of the "reformatting" of any political system, there is a weakening of the administrative mechanisms and security becomes more vulnerable. This is the logic behind the current spike of extremist activity in southern Russia. Forces who are interested in the destabilization of the system are seeking to use this favorable moment – including to widen their personal resource base (according to data provided by the security services, this resource base is many times smaller than it was in the 90s).

***Ingushetia remained the least secure region in the Caucasus throughout the past year.*** The pick up of extremist activity is happening against the background of a deepening political crisis. During the past year, kidnappings became a regular occurrence in Ingushetia just like attacks on troop check points and members of the police. It is revealing that these crimes have even affected the president's family – in March, his uncle, Urus Khan Zyazikov was kidnapped (he was released in August, according to official accounts without a ransom being paid). The low level of trust the population has for president Murat Zyazikov and the security forces under his control seriously hampers the work of the local *siloviki* in fulfilling their objectives.

The key factor that stands behind the Ingush administration's defeat in the fight with extremists is the ineffective administrative resource of the head of the republic, the result of which is that coercive methods of solving the situation

<sup>92</sup> См.: Шавлохова М., Бальбуров Д. На теракты перед выборами выделено \$1,5 млн  
<http://www.gzt.ru/incident/2007/11/19/220030.html>

become much less effective. A comparison with the situation in the neighboring republics confirms this. In contrast to, for example, Ramzan Kadirov, who came to power in Chechnya as the result of a victory in the political wrangling not only on the federal level, but also with the representatives of the local interest groups, from the point of view of the Ingush family clans, Murat Zyazikov remains an appointee from the federal center. This view is strengthened by his work on federally approved programs – one of the largest ones was the return of the Russian-speaking population<sup>93</sup>, which in the beginning of the 1990s en masse left the republic because of the intensifying inter-ethnic conflict. Against the background of the still unsolved problem of the Prigorodnii district, which is perceived by a significant part of Ingush society as a clear infringement upon the interests of the population which, historically has been living on this land, the “Russian question” has aggravated the current antagonism. This is confirmed by entire series of “demonstrative” terrorist attacks against members of Russian-speaking families living in the republic.

***Under the conditions of a political crisis, the Ingush opposition has become very active.*** Muhammad Yevloev, who runs the opposition (to president Zyazikov) website Ingushetia. ru organized the campaign “*I didn’t vote*”<sup>94</sup>, in which, according to the organizers, 54% of the electorate of the republic took part. Moreover, according to Yevloev, 88112 statements from eligible Ingush voters, which stated that they didn’t take part in the parliamentary elections on December 2, 2007 were gathered and sent to Moscow. The number of gathered signatures represents more than half of the eligible voters in Ingushetia. The Ingush leadership stated that 98% of eligible voters took part in the election.

The strengthening of the federal presence in the region is interpreted as a positive sign by the leadership of the republic and also by the society and human rights groups. The typical rhetoric from all sides in the conflict includes the public support of Vladimir Putin’s course and the condemnation of terrorist attacks. However, when it comes to the methods for “bringing law and order” this unity quickly dissipates. Local society is inclined to blame the president for not being able to keep the situation under control and prevent excesses (this applies to detentions and the treatment of terrorism suspects) and they blame the *siloviki* for the unwarranted use of force. At the same time, clear-cut evaluations of the situation can hardly be objective – rocks and Molotov cocktails have become the

<sup>93</sup> См.: <http://www.rosbalt.ru/2007/08/07/404575.html>

<sup>94</sup> See., for example.: <http://www.gzt.ru/politics/2008/01/16/150826.html>

customary reaction of demonstrators in Ingushetia (and other republics of the North Caucasus) confronted by security forces.

***The discontented sides in this crisis have been calling on Vladimir Putin to play the role of arbitrator.*** Thus, a deputy of the local Ingush parliament, Bamatgirey Mankiev and a group of his colleagues have sent a letter to the president which states that during federal inspections, president Murat Zyazikov doesn't reveal the true figures about the situation in the republic<sup>95</sup>. This last point is important to the local population – ***one of the stimulating factors in the rise of opposition activity has been the articles which appear in the local press after the visit of federal officials which paint an optimistic picture of the social-economic achievements in the republic*** (in particular, in the sphere of residential construction).

The political crisis in Ingushetia seriously complicates the security situation. The situation is aggravated by the inadequate effectiveness of the management of the local organs of power. The objective data points to successes by the security forces; however the effort of the specially created commissions (let alone the organs of local government) that operate under the regional administration of the southern federal district has been purely symbolic. Nevertheless, developments won't lead to the start of a military campaign, like the counterterrorist operation in Chechnya. This is connected to the fact that the ***set of conflicts in the North Caucasus today, seriously differs from those which were in place at the end of the 1990s***. The firm approach to the battle against extremism and the beginning of the second Chechen campaign in 1999 became the starting point for the headlong rise in the popularity of Vladimir Putin. Subsequently, successes in pacifying Chechnya (holding parliamentary and presidential elections, the acceptance of a constitution and finally the end to combat) were associated directly with him. Today's life in the republic from the social-economic point of view is cardinally different from the time during the war. However this success (in particular, the support for the regime of a special political relationship with Kadirov) is, in the long-term, fraught with political costs for the Kremlin. It is worth noting that the political course of the heads of the North Caucasus is built on informal agreements achieved with the direct participation of the current head of state. Still, ***the Kremlin isn't ready to change the model for administrating the region in the near future***. Coercive methods of maintaining control over the situation at the same time as supporting regimes with which you can come to an agreement with will remain a priority.

<sup>95</sup> See.: <http://www.islamnews.ru/news-print-8242.html>