

Part 5.

REGIONS AND REGIONAL DEVELOPMENT

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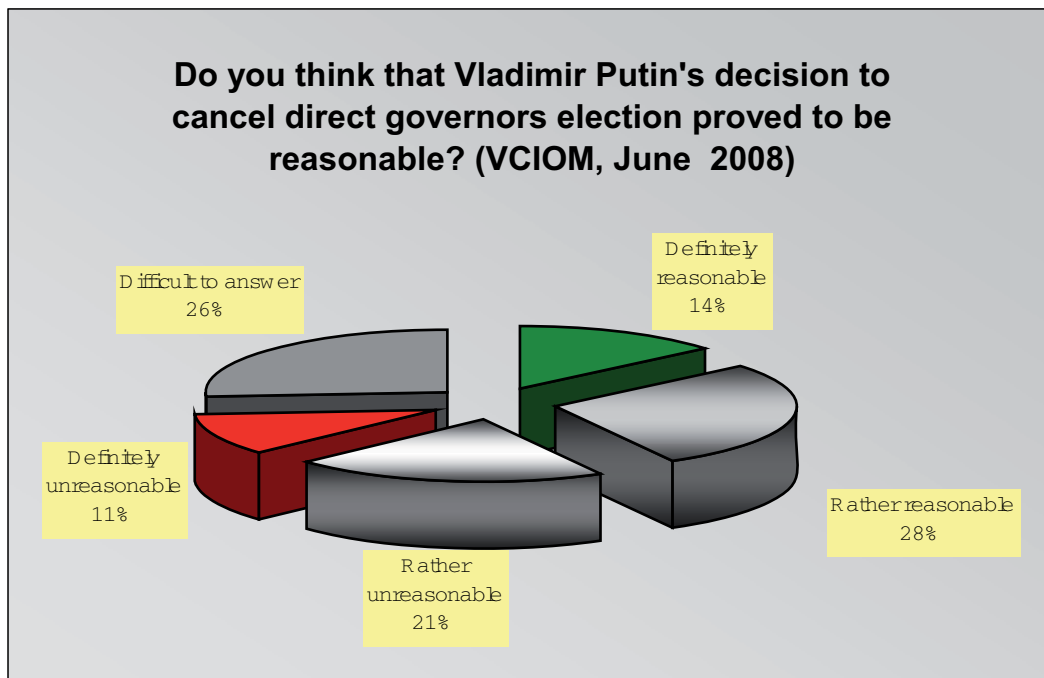
5.1 Dmitri Medvedev and governors' corps: priorities in cadre policy

A specific feature of cadre decision-making in the sphere of regional policy is the non-public character of the process. Since Dmitri Medvedev took the office of the head of the state, the information coverage of this direction of federal policy decreased considerably (compared to the presidency period of Vladimir Putin). *Informal mechanisms* (consultations in the Presidential Administration) *still have the dominant role in cadre issue solution*; however, they mostly affect the federal power level. The role of envoys' has been levelled down: in accordance with the President's amendments to the legislation the right to nominate candidates to be vested with powers of heads of executive power of constituent entities of the Federation was passed to the political party dominating (by election results) the legislative assembly of a certain region. The new norm will ensure political dividends mostly for "United Russia" dominating regional bodies of legislative power (as of 9th February 2009 the exceptions were only the parliaments of the Vladimir region and the Nenets Autonomous District). The "UR" federal leadership can join the cadre selection process; however, so far there are no grounds to assert that "UR" has got an effective opportunity of lobbying appointment of party members to governor positions. The Ministry of Regional Development that lost a great part of its powers and political significance without Dmitri Kozak has practically no influence on cadre policy priorities. *The regional power level is almost not involved in the cadre decision-making process:* Medvedev's initiative to increase the party role deprived the administrations of constituent entities of the Federation of incentives for collaboration with envoys that are no longer considered to be an effective lobbying mechanism, regional party divisions are not directly involved in the process of nominating candidates for the position of the head of the region.

The final cadre decisions are personally made by the President.

In solving cadre issues *the principle of "conservatism"* (political loyalty to the federal power and ability to maintain social stability as the key requirements for governors) often prevail over *the principle of "innovativeness"* (higher management quality).

According to the data as of 9th February 2009, the new procedure of governors authorization involved 78 regions out of 83 (94%). 26 constituent entities are headed by extraterritorial governors – "outsiders", the heads of 4 RF regions have been elected through direct voting.



In 2008, the administration was replaced in 10 regions (the Amur, Arkhangelsk, Irkutsk, Kirov, Ryazan regions, the Stavropol Territory, the Karachayevo-Cherkessian Republic, Ingushetia and Khakassia, the Chukotka Autonomous District). In the absolute majority of cases this process was conditioned by a combination of political and economic factors unfavourable for the resigning governors (with the exception of Chukotka). ***The trend towards sending “outsiders” to regions continued*** – this category may be said to include 6 heads out of the 10 appointed last year. ***The logic of the federal choice was determined by the desire to ensure loyalty and higher administration effectiveness.*** Appointment of “outsiders” lacking steady ties with the regional elite community “technocraticizes” the governor institution, with administrative rather than political characteristics brought to the forefront. Oleg Kozhemyako, Valery Gaevsky, Viktor Zimin and Roman Kopin, new heads of the Amur region, the Stavropol Territory, the Republic of Khakassia and Chukotka Autonomous District are not “outsiders”.

The change of power in the Arkhangelsk, Amur and Ryazan regions took place in a situation of corruption scandals. The image of Nikolay Kiselev, ex-head of the Arkhangelsk region, was badly tarnished, among other things, by the high-profile scandal after a video recording released by the regional centre mayor’s office where “a man resembling the governor” was accepting a bribe

from “a man resembling Vladimir Gudovichev, vice-governor, ex-director of OJSC Severgaz” (the latter soon said that he “recognized himself” in the video recording). The inspection conducted by the General Prosecutor’s Office in Ryazan region revealed facts of unlawful diversion of budget funds for family expenses of Georgy Shpak, ex-head of the region, and rendered the decision to indemnify for the damage in the amount of 7 million rubbles. In the Amur region quite a number of subordinates of the then governor Nikolay Kolesov were dismissed from their office on abuse charges. Later Kolesov himself got involved in a high-profile scandal: in May he initiated moving to a new study in the building of the regional government. Experts assessed the cost of the reconstruction and the new furniture at 100-150 million roubles. The story evoked a response of the federal mass media, which inflicted serious losses on Kolesov’s reputation. Moreover, the ex-governor failed to establish good relations with the local elite community actually did not have any political allies and thus provoked destabilization of the situation.

As a result of the reshuffle, the Arkhangelsk and Ryazan regions are headed by “outsiders”. In the former case the choice of the candidate looks ambiguous not least due to the problem of “cadre deficit: the subsidized Arkhangelsk region is not attractive for career promotion; therefore, there was nobody at the federal level willing to take up the governor post. The region was headed by the former Yakutsk’s mayor *Ilya Mikhalechuk* (he had resigned from the mayor’s office as a result of a conflict with the head of Yakutia Vyacheslav Shtyrov and criminal proceedings against officials of the mayor’s office). The administration of the Ryazan region was headed by the then State Duma deputy *Oleg Kiselev*. In the Amur region, a depressed region with its fragmented and conflicting elite, nomination of *Oleg Kozhemyako*, the well-known ex-governor of the Koryak Autonomous District, appeared to be much sought for. In all these cases the priority directions of the governors’ work were social-economic problems solution.

Similar to the Amur region, a significant negative factor which predetermined the change of power in the Irkutsk region and the Stavropol Territory was *the governors’ inability to ensure political stability*.

Ex-head of the Stavropol Territory Alexander Chernogorov expelled from the “United Russia” after the elections of 11th March 2007 that were unsuccessful for the party (the “UR” lost to the “Fair Russia”) later on came into a severe conflict with the administration of the regional centre headed by a Fair Russia supporter Dmitri Kuzmin. Besides, Chernogorov failed to resolve problems in the security

sphere: the territory showed a steadily growing crime rate and aggravating interethnic antagonism. New governor **Valery Gaevsky** whose nomination was promoted by Dmitri Kozak, the then Minister of Regional Development, was known as a professional manager and had already worked in the Stavropol government, i.e. he is no “outsider”. The choice of this candidate fully meets the interests both of the Centre that is interested in higher management quality and tougher control over financial flows and the regional elite expecting new projects of regional economic development. The balance of political forces in the region has now changed dramatically in favour of the “UR”.

The political “landscape” of the Irkutsk region is characterized by the split elites and tough competition among special interest groups: this region interests many business players of federal significance (“Gazprom”, “Rosoboronexport”, “Norilsk Nickel”, UC Rusal, “Ilim Pulp”, the Russian Railroads, “Interros”) that lacked constructive cooperation on the part of ex-governor Alexander Tishanin whose accession the post was lobbied by Vladimir Yakunin (RRR). The New governor **Igor Esipovsky**, a protégé of general director of “Rostekhnologii” (Russian Technologies) Corporation Sergei Chemezov, demonstrated his desire to reach an intra-elite compromise while preparing for elections to the regional legislative assembly (the elections took place on 12th October 2008). At the present stage, there are no special interest groups in the region that are in obvious opposition to the new governor. The key political task of Esipovsky as the head of the Irkutsk region will be to maintain stability. In this direction one can expect the “compromise course” continuation. It will be harder to solve the immediate economic problems of the region, which are mostly export-oriented and facing difficulties related to the declining demand for the products of the key industries due to the economic crisis.

The change of power in the Kirov region and Khakassia was primarily motivated by the need for higher effectiveness of regional management. There was also an objective need for cadre decisions: Nikolay Shaklein and Aleksei Lebed had been in power for a long time representing a small group of regional leaders elected by direct voting. Khakassia has quite a considerable resource potential for development (its economy is based on hydroelectric power engineering and aluminium production). The Kirov region is a typical depressed region with a steady trend towards depopulation (due to aging of its population and migration outflow) and recessionary phenomena in economy.

The issue of power in Khakassia was solved in the course of competition of several special interest groups. A great part of the local elite were interested in the

change of power and favoured Viktor Zimin's nomination for the position of the head of the republic. He is the head of the local division of the "United Russia" who had worked in the directorate for facilities under construction of the Abakan division of Krasnoyarsk railroad before being elected the State Duma deputy. ***The cadre decision was motivated by the Center's desire to ensure political stability.*** The United Russia's representative could be considered a compromise figure while the proposal to extend Lebed's term of office was most likely to provoke the intra-elite split and the figure of Boris Zolotarev was associated with the unpopular project of the unification of Khakassia and the Krasnoyarsk Territory. The appointment of Zimin will strengthen the "UR" positions, it may be considered a lobbyist victory of President of OJSC "Russian Railroads" Vladimir Yakunin who has set off the loss of another regional "asset", the Irkutsk region that is also included in the monopoly's sphere of interests.

The cadre issue in the Kirov region was solved in the absence of either contenders openly declaring their power ambitions (it is hardly surprising given the deplorable social-economic position of the region) or an official list of candidates to be produced by the President's envoys according to the established procedure. ***The decision to nominate the ex-leader of "Union of Right Forces" Nikita Belykh was an unpleasant surprise for the local elite.*** However, the agreement between representatives of the Presidential Administration and the URF's politician had already been achieved at the federal level: cessation of the party activities of Belykh became the condition for his career continuation in the system of regional executive power. This cadre decision demonstrated the possibility of constructive cooperation between the federal power and system liberal opposition (Belykh has experience of working as a vice-governor of the Perm region); however, the URF's members should not expect any political dividends.

"Conservative" cadre policy has been traditionally pursued by the Centre regarding the North Caucasian republics: for several years the priority has been supporting loyal regional regimes. In 2008, the "urgent" cadre issues were settled in Karachay-Cherkessia (KChR) and Ingushetia: revealingly, the expected change of power took place, in one case, only after expiration of the powers of the ineffective leader and, in the other case, only when the situation in the republic became actually uncontrollable.

By the time of expiration of Mustafa Batdyev's powers as the KChR's President (September 2008) most elite groups of the republic were interested in the change of power. He also enjoyed little support from the population. On 5

August, at the suggestion of Dmitri Medvedev, deputies of the People's Assembly (the parliament) gave the powers of the KChR's President to Boris Ebzeev, a professional lawyer and a former judge of the RF Constitutional Court. To maintain stability at the federal level a compromise decision was made to appoint an "outsider": a representative of the dominant ethnic group (the Karachay) who did not occupy any top positions in regional power structures and was not affiliated with the special interest groups that dominated in Batdyev's time.

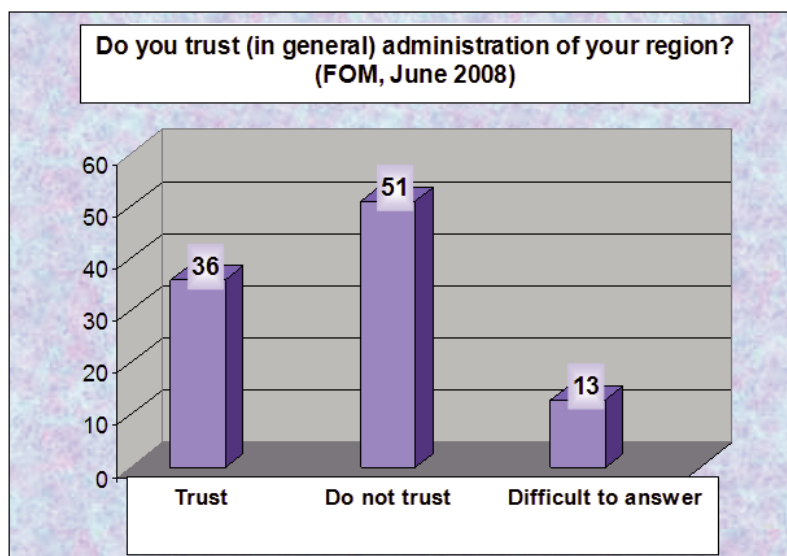
The change of power in Ingushetia became a "long-standing" decision amid the growing extremist activity. A typical characteristic of the situation in 2008 was the growing number of "address" terroristic acts against representatives of law-enforcement bodies controlled by ex-President Murat Zyazikov as well as relatives of the former head of the republic. The last cause of the aggravating criminal situation was the murder of Magomed Evloev, the well-known owner of the oppositional Internet-resource "Ingushetia.Ru", on the 30th of August. The situation was actually getting out of hand of the local authorities, which threatened destabilization in the region, given the "burst" of activity of militants in Dagestan. As a result, the choice was made at the federal level in favour of Yunus-bek-Evkurov, an Ingush who was well-known in the military circles and was not linked with the special interest groups acting in the republic.

Finally, the situation in the Chukotka Autonomous District is worth considering separately. ***On 3rd July, Dmitri Medvedev terminated Roman Abramovich's powers of the head of the district (ChAD) before the end of his term.*** The multi-billionaire openly announced his desire to leave the public post because he thought he has already fulfilled his tasks as far back as autumn 2006; however, in the early 2007 President Vladimir Putin recommended the head of the region to continue his work on economic revival of the depressed territory. Probably, it was agreed that the issue of resignation of the Chukotka governor should be raised again after the 2008 presidential campaign. Abramovich's team generally succeeded in fulfilling the task of pulling Chukotka out of the chronic economic recession, and this line is pursued by Roman Kopin, Abramovich's successor as the head of the region (Kopin has worked in the district administration since 1999, from April till July 2008 he headed the Department of industrial and agricultural policy). Roman Abramovich will also keep supporting the region financially staying in the local power structure: his election the territorial Duma deputy (by the results of the campaign of 12th October) must have been an informal condition for his resignation from the governor's post. Investments into the region are to be attracted by the Millhouse Capital Company

close to the multi-millionaire and having interests in the gold-mining industry. Abramovich will also keep paying income taxes as a physical person to the ChAD's budget.

Thus, *in 2008, the Centre pursued conservative cadre policy*: resignations of governors had mixed "natural-and-forced" character affecting only weak managers. *This trend is expected to continue this year*. The governor corps will be replaced slowly and creation of the President's programme of administrative staff selection is unlikely to affect this process considerably in the foreseeable future.

In early February, it became known that *the first stage of the national programme of administrative staff selection had been completed*. The federal cadre reserve (its creation was supervised by a commission headed by the Kremlin Chief of Staff Sergei Naryshkin and deputy Prime Minister Sergei Sobyenin) includes 1000 people (according to some data, the final list included 1747 candidates). The list is expected to be published in the public media. *100 people made the President's reserve* and its members may be appointed to high government positions in the structure of the state administration in the near future (including top regional positions). The cadres from the President's hundred may become federal ministers, judges, chairpersons and auditors of the Accounts Chamber, members of the Central Election Commission, chief executive officers of state corporations, federal state unitary enterprises as well as members of administrations of joint-stock companies, with 100% of shares being federal property. All potential high-ranking public officers are expected to be provided with an opportunity of extended education and advanced training; however, there are no educational standards or approved general programs in this sphere yet.



By initiating creation of a new system of high-ranking cadres selection *Dmitri Medvedev strives to strengthen his influence on the regional elite community; the more so, the President lacks his own considerable cadre reserve that could be used in selecting a candidate for top regional positions. The governor corps* is still “incorporated” in the power vertical formed after Vladimir Putin’s reform (2004). Governors still treat Putin’s trust as a valuable political resource and certain guarantee of their positions. In this situation introduction of the President’s own criteria of selecting administrative cadres to be appointed to governor positions seems a logical way of strengthening the President’s positions in the dual-centre system of federal relations.

On 16-17th February 2009, *Dmitri Medvedev made a number of cadre reshuffles affecting the governor corps*. The Russian President signed a decree on early termination of the powers of Egor Stroev, governor of the Orlov region, Mikhail Kuznetsov, governor of the Pskov region, as well as Valery Potapenko, governor of the Nenets Autonomous District. The resignations had been expected: none of the governors who resigned “by personal wish” was a strong political leader.

In the recent years *the Orlov region* has been vividly demonstrating the effect of “moral depreciation” of the power of governor Stroev who had been the head of the region since 1993. He failed to consolidate the administrative resource, which resulted in the growing activity of the opposition (in 2006, Alexander Kasyanov, a CPRF candidate, was elected Mayor of Orlov). The image of Stroev’s team was seriously tarnished by a whole number of criminal investigations against regional administrators charged with abuse of power and unlawful diversion of funds.

In *Pskov region* the alignment of political forces during the period of governance of Mikhail Kuznetsov was unstable. The source of the conflict was the contradictions between the head of the region and the mayor of Pskov resulting in activity of the opposition of “Fair Russia” that performed successfully in the regional elections. Besides, the region is still a depressed territory in terms of social and economic development, and amid the crisis and growing protests it is necessary to consolidate the power to ensure social and political stability.

In *the Nenets Autonomous District* with its traditionally large share of protest-minded voters the preconditions for the change of power were related to the fact that governor Potapenko failed to take a dominant position in the local elite community, which is distinguished for its high consolidation and pursuit of political autonomy. This was also largely related to lack of progress in

implementing an important (at the time of Potapenko's accession to governor's office) federal project: *uniting the Nenets AD and the Arkhangelsk region* into one constituent entity of the federation. Like in the Pskov region, "Fair Russia" is interested in the change of power, its key task being dominating the district parliament by the results of the election of the 1st March.

Another region expecting soon the change of power is *the Voronezh region*: the President has introduced into the legislative assembly Aleksei Gordeev's candidature to the governor's post, who is currently the head of the Ministry of Agriculture. There have been recurrent rumours about his possible transfer from the position of the Minister of Agriculture to the position of the head of an agrarian constituent entity of the federation in the recent years (the supposed employment places included the Stavropol Territory and the Ryazan region); however, these forecasts did not come true until recently. The situation changed probably due to *weakening of Gordeev's positions at the federal level of power* and, consequently, due to stepping up of his lobbyist efforts aimed at getting the new position. According to some data, the major reason impelling the Minister to look for new ways of career promotion was the strained relations between the head of the Ministry of Agriculture and Prime Minister Vladimir Putin: the head of the government was dissatisfied with the work of the agrarian department. The key motive for cadre rotation unrelated to informal interactions is connected with increased management effectiveness: the considerable experience of Gordeev in the agro-industrial complex is expected to boost economic development of the black-earth region.

The main tasks of Aleksei Gordeev as the governor of the Voronezh region will involve managing the consequences of the economic crisis and ensuring political stability. It is important to consider that *Gordeev is a typical "outsider" lacking well-established relations with representatives of the regional elite*. The issue of the Minister's own cadre reserve is still open. Whatever the case, the problem of intraelite interaction comes to the forefront, and the success of the administrative measures taken will depend on its effective solution by the future governor.

Effective solution of administrative problems is also relevant for the "lagging" Pskov region that will be headed by a UR representative, Senator Andrei Turchak. However, it is *the factor of political expediency* that proved dominant in making the decision about change of power in this case. Turchak will become the second head of the constituent entity of the federation directly representing the leadership of the "party of power" (after Viktor Zimin who

became the head of Khakassia in January). The change of power is likely to entail changes in the alignment of political forces: one can forecast less intraelite conflicts and stronger positions of “United Russia”. The regional centre administration can change as well: Pskov mayor Mikhail Khoronen who did not get the expected governor post is considering the variants for further political career outside the region.

Egor Stroeve as the governor of the agrarian Orlov region will be replaced by the Deputy Minister of Agriculture Alexander Kozlov who, like Gordeev, is supposed to use his professional experience to solve problems of regional development (the Orlov region is a small agrarian region with a majority of rural population). The major directions of Kozlov’s work in the new office will be forming competent regional administration and preventing decline of the living standards of the population caused by consequences of the economic crisis. Solution of administrative tasks may be hampered by lack of own qualified cadres reserve of the new head of the region. In this context one can forecast more active cooperation of regional authorities with the political forces available in the region, primarily “United Russia”.

In the Nenets AD the change of power will follow the principle of intraregional cadre rotation, which is quite expedient given the specific political situation in the resource-intensive constituent entity of the federation: it would be hard for an outsider to find a common language with the local elite. The district will be headed by Igor Fedorov, former General Director of “Arkhenenergo” and Deputy Governor of the Arkhangelsk region. However, the future governor Igor Fedorov’s experience of work in the administration of the Arkhangelsk region does not provide sufficient grounds to expect a faster uniting process; the more so, according to some information, he is not an advocate of tough compulsory measures. One can forecast gradual redistribution of financial powers, specifically economic integration of the regions while the political decision (a referendum, liquidation of the administrative border and creation of new bodies of power) may be implemented in the long term.

Against expectations, no change of power took place in the Vladimir region. The decision to extend the governor’s term of Nikolay Vinogradov may have been influenced by several factors. Firstly, *amid the economic crisis the change of power in the “troubled” region may have been considered inexpedient in terms of administration.* By the level of its social-economic development, the Vladimir region in the Central federal district is among the “lagging” ones outrunning only the depressed Ivanovo and Bryansk regions. The

region has high unemployment rate, lacks raw material base and its manufacturing sector is developing quite slowly, Secondly, for these reasons *the Vladimir region is of no interest for federal level officials*; the more so, it is the head of the region who will take major responsibility for the situation in the social-economic sphere in a crisis. Thus, there was no alternative to the current governor – no any politician willing to continue his career as the governor. *Thirdly*, in analyzing the cadre decision one should consider that it was “United Russia” that was interested in the change of power in the Vladimir region with a view to strengthening its positions in the region. In the 1990s, the region was a basic link of the so-called “red belt” of Russia forming a steady social base of support for “communist” forces. In this situation *it is possible that the problem was resolved by way of an informal compromise*: in exchange for extension of the governor’s term Vinogradov may have undertaken to ensure sufficient support to “United Russia” for the party to dominate the legislative power body by the results of the elections of 1 March. Finally, it should be considered that in the recent years Nikolay Vinogradov has pursued a compromise strategy in relations with the Centre just formally staying a CPRF member (until early 2008). Such consistency supported by loyalty to federal initiatives could foster the reappointment, the more so as Dmitri Medvedev has repeatedly stressed the willingness of the authorities to cooperate both with “United Russia” members and representatives of other political forces.

One can point out several categories of governors that may be affected by the President’s cadre rotation in 2009.

- *“Elected by direct vote”*. These are governors who were not incorporated in the empowering system adopted in 2004 and did not enjoy Vladimir Putin’s confidence. They were generally not considered successful executives and failed to achieve considerable success in social-economic development of the territory under their jurisdiction. There are 4 governors of the kind in the RF: Oleg Bogomolov (the Kurgan region), Alexander Zhilkin (the Astrakhan region), Leonid Markelov (the Republic of Marij El), Nikolay Maksyuta (the Volhohrad region).

- *“Political heavy weights”*. The Centre is interested in having several influential regional heads replaced, including Mintimer Shaimiev (Tatarstan), Murtaza Rakhimov (Bashkiria), and Yuri Luzhkov (Moscow). However, the process of cadre decision-making in this case is complicated, on the one hand, by the need to consider the interests of national elites “bargaining” with the Centre

and, on the other hand, by the high political costs of reshuffles in the administration of the RF capital city. The lack of a federal cadre reserve is especially relevant in this case.

- **“Aged” governors**. Considering the “under 55” criterion discussed at the federal level this category includes the greater part of regional leaders. Coupled with expiry of the term of office such justification of a resignation seems the most “universal” and is likely to be used quite often. This category includes Egor Stroev removed from the office of the governor of the Orlov region in February.

- **“Inefficient governors”**. These may be said to include, first and foremost, heads of regions with problems in economy, interethnic relations and public security (Sergei Katanandov (Karelia), Kirsan Ilyumzhinov (Kalmykia) etc.). This conventional group includes governors who are not very good at coping with the federal political and economic tasks (Sergei Dar’kin (the Primorie Territory) and Valery Potapenko (the Nenets AD) who has recently resigned from governorship).

GOVERNORS WHOSE TERM EXPIRES IN 2009

Governor	Status	Elected/appointed until	Region
Nikolai Vinogradov	Appointed by V. Putin	March 2009	Vladimir region
Vladimir Kulakov	Won direct elections	March 2009	Voronezh region
Alexander Volkov	Won direct elections	March 2009	Republic Udmurtia
Alexander Karlin	Appointed by V. Putin	August 2009	Altai Territory
Eduard Rossel	Appointed by V. Putin	November 2009	Sverdlov region
Alexander Berdnikov	Appointed by V. Putin	December 2009	Republic Altai
Oleg Bogomolov	Won direct elections	December 2009	Kurgan region
Alexander Zhilkin	Won direct elections	December 2009	Astrakhan region
Mikhail Kuznetsov	Won direct elections	December 2009	Pskov region
Nikolai Maxyuta	Won direct elections	December 2009	Volgograd region
Leonid Markelov	Won direct elections	December 2009	Republic Mari-El
Vladimir Torlopov	Appointed by V. Putin	December 2009	Komi Republic

Source: www.kremlin.ru, www.cikrf.ru

Note: all regional leaders are included whose term expires in 2009 disregarding the aforesaid February cadre decisions by Dmitri Medvedev.

The launched programme of search for administrative cadres developed by the President's commission provides only a partial solution of the problem of ensuring effective management at various power levels – ***there is a need for a transparent federal system of criteria used in cadre policy (including regions).*** Based on Dmitri Medvedev's words, one can forecast that the significant criteria will be experience of work (management of large groups of workers and budgets, consistent work in the public service and business structures) as well as age (preferably under 55).

In conclusion, we would like to note that ***the change of power at the federal level has not provided new conditions for the governors' opposition.*** Heads of regional administrations are interested in preserving their status, and in the situation of unpredictable cadre decisions taken at the federal level they ***strive to show "dual loyalty"*** to the President and Prime Minister. Changes of the institutional design of the political system initiated by Dmitri Medvedev and reducing the governors' influence allow conclusion that the Centre has kept its status of the dominant player while the strategy of regional leaders' actions is essentially restricted by the federal "rules of the game".

5.2 Territorial management and prospects of reform of the President's envoys institution

In his Address to the Federal Assembly Dmitri Medvedev touched upon a number of general principles of territorial management. The old idea of the ex-head of the Ministry of Regional Development Dmitri Kozak about improving the mechanism of delineation of powers between federal and regional authorities has regained its relevance. First and foremost, this involves property management and disposal: while preparing the Concept of regional policy improvement yet Kozak suggested transferring authorities of federal property management and disposal as well as environmental, technological and sanitary-epidemiological control to regions. Medvedev stressed ***the need to reduce the apparatus of territorial federal bodies of power.*** This is quite a reasoned suggestion: apart from frequent overlapping of the functions the availability of a large bureaucratic apparatus fails to contribute to effective interaction of authorities of various levels, thus complicating coordination and, finally, delaying decision-making. At the present stage ***there is neither an efficient mechanism of coordinating activities of***

federal authorities working in a region with executive power and municipalities *nor a mechanism of responsibility* of territorial bodies for fulfilment of their powers.

Especially relevant in this context is the objectively necessary reform of the *institution of the President's envoys in regional districts*. After forming the new federal government in 2008 Dmitri Medvedev reappointed practically all envoys of Putin's period. The only exception was the Volga Federal District: the envoy's office of Alexander Kononov, who became the Minister of Justice, was taken by Grigory Rapota, who relinquished the seat of the envoy in the Southern Federal District (SFD) for Vladimir Ustinov, former Minister of Justice and procurator general. The transfer to the position of the envoy was rather down-grading for Ustinov. However, this decision should be primarily regarded as a compromise. His major lobbyist must have been a relative of the ex-Minister of Justice Igor Setshin who was appointed deputy Prime Minister.

Other envoys of the President have kept their positions: Ilya Klebanov, Georgiy Poltavchenko, Anatoly Kvashnin, Pyotr Latyshev and Oleg Safonov had previously also represented the head of the state in the Northwest, central, Siberian, Ural and Far Eastern federal districts. At the end of the year a new appointment was made after death of Pyotr Latyshev: an envoy's office was taken by a "Medvedev's man" Nikolay Vinnichenko, a former fellow-student of the President (in the law department of the Leningrad State University) who had headed the Federal Bailiff Service since 2004. This cadre decision was probably made by the President himself who had formerly severely criticized the work of bailiffs. The transfer to the envoy's position was rather down-grading for Vinnichenko (the more so as envoys will be soon deprived of the important function of introducing candidates for governor positions to the Presidential Administration). However, in terms of economic potential the regions of the Ural District are the key ones for the country. This fact was stressed by Medvedev as an indicator of the significance of the new position of Vinnichenko when he introduced the new envoy to the present governors.

The general continuity in decision-making on cadres in this case shows that although envoys have performed the major previously set tasks, *there is yet no definite concept of reforming this institution at the federal level*. Meanwhile *the reform is getting increasingly necessary*.

Envoys have three basic functions. Firstly, they organize control over observance of federal legislative norms as well as implementation of federal programmes. In the legislative part the envoys had fulfilled this function by 2003

(in case of Tatarstan – by 2004). There was an objective need to emend the numerous controversies and inconsistencies in the legislative sphere by the beginning of the federal reform; however, *one should not magnify the role of the President's envoys in this process*. Return of a number of constituent entities into the federal constitutional space was rather a technical procedure as national elites of Tatarstan or Bashkortostan, for example, did not support separatism. The threat of breaking the territorial integrity of Russia was eliminated as far back as the 1990s, and the only problem territory from this point of view was the Chechen Republic. The new federal law establishing the procedure of delineation of powers that provided for a three-year period for bringing agreements in line with the federal legislation was adopted as far back as 1999. This automatically eliminated many important powers of regional authorities (first and foremost, in republics) that contradicted Russian legal rules. Thus, *it was a question only of implementing the already existing constitutional provisions*, which federal authorities had often failed to achieve at the previous stages.

Secondly, envoys coordinate activities of territorial divisions of federal executive authorities. Performance of this function was often ineffective due to cadre problems. Delineation of the spheres of responsibility with the institution of the chief federal inspectors of rather a weak composition and resource provision, however formally responsible for control over the situation in regions, prevented fulfilment of the set political tasks in full volume and, finally, challenged the expediency of work of the President's envoys. The situation was aggravated by conflicts between envoys and regional elites, governors, in particular (a telling example is the tensions in the early 2000s between the late Pyotr Latyshev and Eduard Rossel, head of the Sverdlovsk region who was traditionally keen on independence).

Besides, *a new departmental conflict* emerged not only between the envoys formally incorporated in the structure of the Presidential Administration (PA) and regional government officers but inside the PA as well. This resulted in the desire of the Administration to consolidate their own power vertical and to make the envoys their subordinates: a telling example is the process of choosing candidates for the positions of the heads of regions, the determining role being played by approvals by the Presidential Administration.

Thirdly, the envoys approved candidates for governor offices. This function is partly related to a major direction of the envoys' work: control over the political situation in the region. At first the envoys succeeded in becoming an essential element of the procedure of appointing governors. However, striving to attain

their own political objectives most regional leaders later on followed the strategy of confirming their loyalty to the Centre. Therefore, governors preferred bringing up the issue of trust before the president in an advance manner. This objectively strengthened the role of the Presidential Administration and reduced the political influence of the envoys in regions. Moreover, after the legislative changes initiated by Dmitri Medvedev the envoys will lose fully their “cadre” function: the key role in nominating the head of a certain region will be given to the political party that won the elections to the legislative assembly of the respective constituent entity of the federation. Thus, *the main tasks set for the envoys institution in 2000 has been either fulfilled or stop being relevant at the present stage*. However, the loss of the “cadre” function may be partially compensated by broader powers of the President’s representatives in the sphere of mitigating the consequences of the economic crisis: in particular, the envoys have been vested with the function of controlling the work of regional authorities in the sphere of regulation of the labour market situation.

5.3. Reform of local self-government: achievements, problems and prospects of changes

Since the beginning of 2009, Russia has been implementing a reform that involved a lot of discussions and extended elaboration: changes in the sphere of local self-government. We are referring to the entry into effect of the Federal Law N131 “On General Principles of Organization of Local Self-Government in the RF”. It is true that *the norms are effective with some essential reservations*: by the results of the session of the presidium of the council for local self-government development under the RF President of 18 December in Lipetsk the decision was made to introduce amendments with a view to postponement of solution of the most complicated territorial and property issues. From the beginning of the year the Law N131 covers 81 constituent entities of the federation: 63 regions effected stagewise changes during the transition period and in 18 constituent entities the reform started after the New Year. Special conditions are stipulated for Chechnya and Ingushetia: in the republics where the problem of administrative-territorial division has not yet been solved (due to land disputes) the new system of local self-government agencies will start working from 1th January 2010.

The main tasks of the municipal reform include the following areas of changes. Firstly, this is bridging the legal vacuum in the actions of local self-government agencies (before 2003 when the reform started, the available model of local power fully conformed to the principles of the RF Constitution only in 13 regions). Secondly, this is formation of an adequate system of local self-government. Thirdly, cessation of the process of municipal structure degradation (one third of villages in Russia ceased to exist over the period of actual lack of local self-government). Finally, the reform provides for turning the system of local self-government agencies into a mechanism of the country modernization through the growing role of the civil society, introduction of the system of public control over the administrative apparatus, etc.

The major achievements of the LSG reform at the present stage are related to establishing new borders and the growing number of municipal entities (from 11.5 in 2004 to 24 thousand in 2008) as well as formation of local authorities. Besides, there have been formulated criteria of granting a settlement the status of a municipal entity and the reform of inter-budget relations has been carried out. Considerable progress has been made in completing the task of *levelling of municipalities' incomes* by providing budget transfers that was set in the process of elaboration of the LSG reform concept: according to the Ministry of Finance most municipalities have budget surplus. However, *on the federal scale the conditions of LSG existence (including financial ones) vary greatly, which hinders the reform.*

As a result of the change *local self-government is vested with essential powers*, including the “complete cycle” of providing work of public utilities, transport and communication as well as a number of health care facilities, institutions of primary and secondary education, etc. Municipal structures are to fulfil these functions with their own budgetary funds: through their tax revenues. The latter include the individual income tax, individual property tax, land and agricultural taxes, land rent and municipal property rental income as well as revenues from the activities of municipal unitary enterprises that may be established by local authorities for commercial activities.

At the present stage the constituent entities of the federation have different degree of preparedness for completion of the “transition” period. Regional authorities are often not interested in solving municipal problems, in particular, in rendering financial support to local authorities (the most widely spread variant lobbied by the Ministry of Finance is by transferring some part of the profit tax to them). As a result, the powers of LSG agencies lack material support. *The key*

problems in this sphere are lack of means for supporting small business, insufficient resources for financing powers in the security sphere as well as co-financing of capital repairs; minimization of non-tax sources of local budgets funding. In this connection ***new amendments are likely to be made to the legislation***: the possibility of redistribution of some part of tax revenues in favour of municipal authorities is being currently discussed.

We would like to note that ***the partial postponement of the local self-government reform approved at the end of 2008 is quite expedient***. There are objective reasons for extending the period of demarcation and description of the borders of municipal entities (until 1st January 2011) and the period of solving property problems (until 1st January 2012): such work takes considerable financial resources and long time; so far almost no such work has been carried out. ***In most cases the property relations at the municipal level are unregulated***, and by the beginning of 2009 local authorities were objectively unable to meet the statutory requirement of, for example, limited ownership of 3 years. In accordance with the previously adopted norms, local self-government agencies were only entitled to own the property necessary for fulfilment of their powers from January 2009 they are not allowed to have any other property.

In 2009, the process of the local self-government reform will be adjusted in accordance with implementation of the initiatives stated by Dmitri Medvedev in the Address to the Federal Assembly. The President vested representative LSG agencies (local soviets of deputies) with additional powers in the sphere of control over local administrations (including mayors, heads of municipal areas and city districts). The President referred to the need “for more effective control and, if required, for dismissal of heads of municipalities from office” through efforts of local assemblies. ***The draft law “On Amendments to the Law on General Principles of Organization of Local Self-Government”*** has already been introduced for consideration by the Duma deputies.

The new norms ***provide for the possibility to dismiss a local executive from office in cases clearly indicative of his administrative inefficiency***. This is the question of the use of financial resources: dismissed can be the mayor whose decisions and actions (or inactions) resulted in a situation when fiscal debentures exceed 30% of the municipality’s own revenues or 40% of allocations from the federal and regional budgets. Other grounds for dismissal include unlawful diversion of the federal budget funds transferred for exercising certain state powers if this is established by the court, and the failure of the mayor (head of the administration) to fulfil his office duties for more than three months. The decision

about the dismissal is deemed adopted if it was supported by two thirds of the deputy corps during voting at the session of a representative local self-government agency. The legislation formerly provided for the possibility of dismissing LSG heads from the office by governors in case of proved unlawful acts.

Establishment of the new procedure of replacing heads of municipal power is primarily designed to increase the quality of work of local authorities and, therefore, it will become truly worthwhile provided an adequate LSG reform that will substantially extend the terms of reference of municipalities, as has been noted above. As one cannot currently speak about the preparedness of LSG agencies for full-scale transformations, ***the amendments may primarily have political consequences***. This involves expansion of the “corridor of opportunities” for administrative pressure on mayors. On the one hand, this a point of interest for regional heads striving to get levers of informal influence on the process of disposing municipal budget funds; this trend is likely to continue as the role of LSG agencies increases as a result of the reform. On the other hand, regional divisions of “United Russia” are strengthening their influence at the municipal power level and strive to control the situation at the local level by creating deputy factions in municipal assemblies and promoting (not always successfully so far) party candidates to the positions of heads of administrations and mayors. Another important direction of party work is creation of various LSG organizations under the aegis of “United Russia” (the All-Russia Council of Local Self-Government, Mayors’ Clubs, etc.). Finally, federal authorities striving to make budget expenditure more “transparent” will also benefit.

In the process of establishing stricter control over local power ***one should expect wider introduction of the city-managers institution***. The law on the general principles of LSG organization provides for ***two variants of organizing the city management system*** implying division of the offices of the mayor (administrative function) and the head of the administration (administrative, economic functions). According to one variant, the head of local self-government is the chairman of the city legislative assembly is elected by the deputies and combines administrative and economic functions. The second variant stipulates the following scheme: the elected head of the city heads the city Duma and performs representative functions mostly, while economic issues are in the competence of a hired city-manager (taking the office on a competition basis).

The legislative changes aimed at ensuring information “transparency” of the work of local authorities and stricter public control over their work are likely to be supplemented by introduction of ***a system of assessment of the work of heads***

of municipalities. These criteria are supposed to cover all spheres of work of local authorities: from the level and dynamics of education and healthcare development, provision with housing to development of small and medium-sized business. The conclusions are expected to be based on statistical data, like in assessment of the governors' work.

5.4. Trends and prospects of economic development of Russian regions

For several years already *the major priorities of the federal economic policy* have been centralized tax policy and target financing of regional development (through federal target programs), and these priorities will be still relevant in 2009. However, while the major tasks of the Centre (concentration of resources) in the fiscal sphere have been successfully fulfilled, there is a whole range of problems with regard to target financing of regional projects. They are related to ineffective application of the funds of federal programs (untimely presentation of the necessary documentation by constituent entities of the RF, over-bureaucratized process of decision-making) as well as lack of a fully effective mechanism of control over the use of funding in regions.

A major direction of economic policy of the Centre is overcoming the consequences of the economic crisis. The most disadvantaged position is that of industrially oriented regions with dominating industries, such as metallurgy, mechanical engineering, chemical industry, etc. The consequences of the crisis in the construction industry will mostly influence the situation in large cities. The risk zone includes the Vologda, Lipetsk, Samara, Sverdlovsk, Chelyabinsk regions, Tatarstan, Bashkiria, the Krasnoyarsk and Perm territories, etc. One can also predict reduction of the "corridor of opportunities" for development of depressed industrial regions (the Pskov, Ivanovo, Penza and other regions) as well as regions with certain industries dominating the structure of economy that have not yet been promised state financial support (for example, industries dependent on the state of forestry industry of Karelia and the Arkhangelsk region). *The agrarian sector is less vulnerable;* however, its share in the gross regional product (GRP) is generally low. This indicator is 20-32% only in constituent entities of the Southern Federal District and the Republic of Altai while being 17-20% in agrarian "Russian" regions (the Krasnodar, Stavropol and Altai territories,

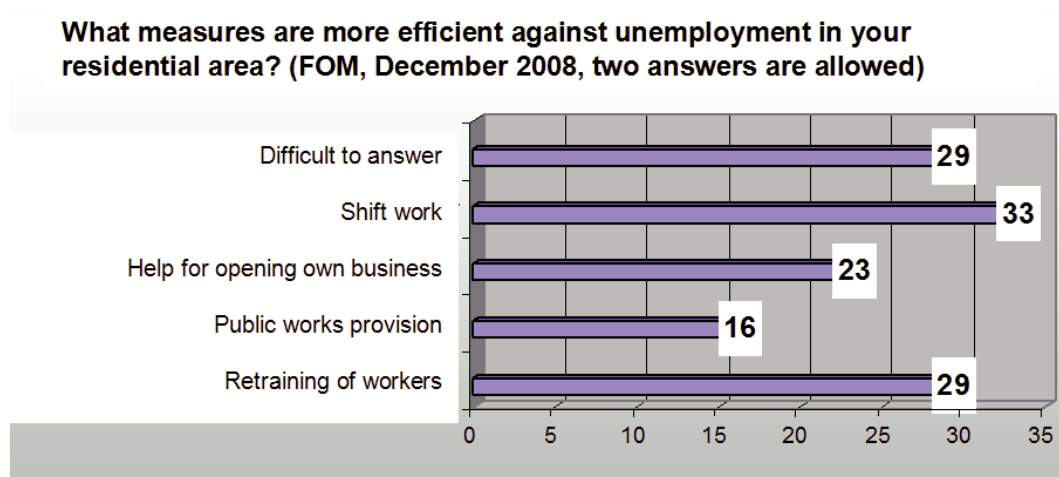
the Orlov region). Thus, *it is the “strong” regional economies integrated in international relations and global market that will turn out to be the most affected ones*: the main negative factors for them will be curtailing of enterprise crediting programs, drop of raw materials prices (a telling example is the situation in metallurgy) and possible reduction of budgeted investments. *On the contrary, traditionally “weak” subsidized regions will develop without a slump in the situation of the crisis*: the high share of federal subsidies will ensure local budget filling. Demonstrative in this context is the statement by the Minister of Finance Aleksei Kudrin who called regional administrations for conservative planning of expenditures noting that next year the Centre’s assistance would only involve provision of the work of the budget system and fiscal commitments, including social ones.

The priority task in the context of social policy is regulation of the situation in the employment sphere. According to official data, the number of the unemployed in the RF (76 million of economically active population) is 6.6% (about 5 million people). This is not much; however, the trends of the labour market development provide grounds for unfavourable forecasts. Over the three last months of 2008 the number of the registered unemployed increased by 20%, before the end of the year this indicator is expected to grow by another 25%. One should also consider the growing hidden unemployment (many industrial enterprises have placed their employees on the so-called administrative leaves due to the downswing), and this trend will continue at least in the first quarter of the current year. It should be pointed out that *the regional situation in the employment sphere differs substantially*: in the industrial regions of Ural and Siberia the critical unemployment threshold of 15% may be already exceeded in the short term.

The prospect of the sharp jobs reduction is relevant, first and foremost, for regions with monopile economy (metallurgy-oriented) that suffered *the worst production slump in the RF* by the end of 2008: these are the Lipetsk, Chelyabinsk and Vologda regions. The situation also proved unsound for the Perm territory (sharp unemployment rise), the Moscow, Samara, Yaroslavl regions, Tatarstan (these regions have accumulated a large volume of debentures), the Ulyanovsk, Nizhny Novgorod and Kaliningrad regions (reduction of budget revenues due to the declining demand for mechanical engineering products).

Striving to prevent the threat of destabilization the Centre is taking complex measures, including mobilization of the “force” resource and granting subsidies to regions for implementation of special programmes in the employment sphere.

The total volume of the federal assistance is 43 billion roubles: these funds are to ensure implementation of such measures as professional retraining of employees that may lose and have already lost their job; organization of public works that are paid out of the budget at low tariffs and allow creation of many jobs that do not require high qualification (for example, road construction or territory development); rendering assistance to citizens in opening their own business; organization of job sharing, that is temporary relocation of citizens to areas with available jobs with reimbursed costs of travelling and accommodation. ***These measures, however, may produce only a limited positive effect.*** For example, apart from financial costs development of individual entrepreneurship involves overcoming numerous administrative barriers, and no perceptible progress has been yet achieved in overcoming this side-effect in most regions. Job sharing will not resolve the employment problem in the most crisis-stricken monoindustrial regions (especially metallurgical and coal ones) with a historically low migration level where “profile” professions pass from generation to generation. By the decision of the government the unemployment allowance has been increased to 4900 roubles



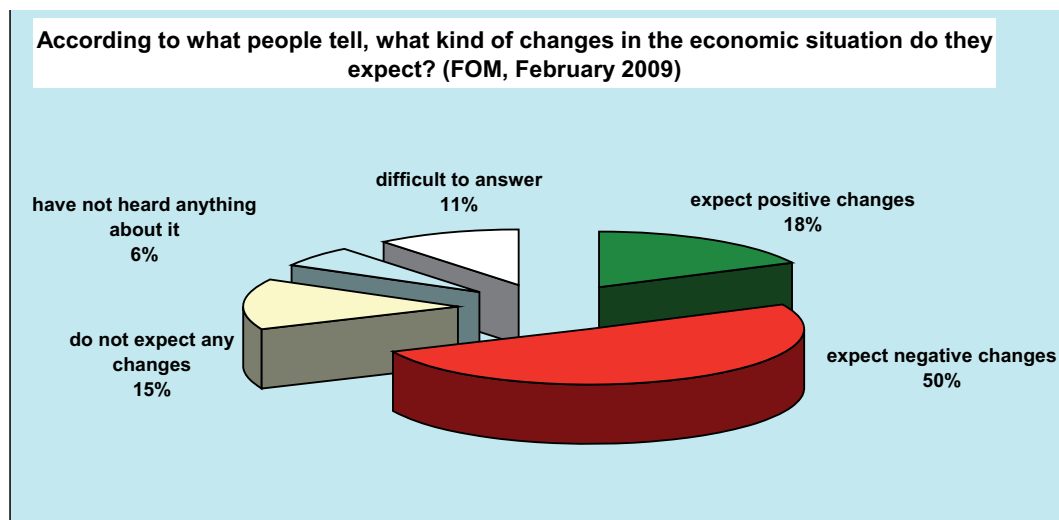
At the present stage ***the most urgent task of the Centre is to stimulate regional administrations into independent activity in fighting unemployment.*** First and foremost, this is the question of political will and effective administration: the greater part of financial expenditures (95%) are compensated by federal subsidies; only 5% of expenditures for programme implementation are expected to be paid for out of the budget of every constituent entity of the RF. So far ***regional officials have been fulfilling the tasks set within the framework of***

federal priorities not effectively enough: by 15th January the administrations of every constituent entity of the federation were to forward their programmes of easing the tension on the labour market to the Ministry of Health and Social Development. However, by 1st February this was done by 66 regions only. Most Republics of the North Caucasus, the Kaliningrad region, autonomous districts, some regions of the Far East, Moscow were among the “laggards” who failed to consider budget adjustment issues and to identify their own priorities in fighting unemployment. However, the majority of the submitted plans need finalization and ***the government has approved three programmes only.*** The budget of the programme of the Krasnoyarsk territory is 702 million roubles (667 million roubles from the federal budget), that of the Yaroslavl region is 536.4 million roubles (509.6 million roubles.), the Kirov region – 684.224 million roubles (650 million roubles from the federal budget).

The anti-recessionary measures taken at the federal level are mostly related to reduction of budget expenses; however, apart from supporting “problem” industries and securing social commitments the federal Centre will have to render constituent entities additional assistance to compensate their shortfall in income. The measures envisage an increase in 2009 of the volume of budget credits for regions to be allocated for eliminating cash deficiency from 20 billion roubles to 40 billion roubles. Any region will be able to receive the loan if its consolidated budget expenses (excluding capital expenses and expenses for production maintenance) in the loan month exceed revenues with account for tax privileges and all donations and subsidies allocated to cover the deficit. The loan is granted at one fourth of the CB’s refinancing rate for a period not more than a fiscal year. With the cheap loans (at the annual rate from 3% to 6%) the authorities of constituent entities are supposed to cover the regional budget deficit. In addition to that, the Minister of Finance Aleksei Kudrin promised to allocate about 1 trillion roubles from the Reserve Fund to fill in the shortfall in income of regional budgets (this phenomenon will be related both with the mass reduction of enterprises’ profits and the less tax burden on business).

The priority current expenses are supposed to be ensured by providing subsidies and donations to balance the budgets. However, the methods used by the Ministry of Finance to identify the territories that need assistance the most and to establish the volumes of financial support are still unknown. Therefore, ***the process of decision-making is absolutely “nontransparent”.*** In this connection there will be growing significance of the possibilities of regional heads for effective lobbyist activities at the federal level.

With regard to investment support of regions, the federal participation in 2009 is not stipulated. Meanwhile, regional budgets generally have no possibilities for taking independent anti-recessionary measures related to capital attraction. It should be pointed out that the 2008 budgets of the RF constituent entities mostly had surplus. However, *in the absolute majority of cases regional authorities were not concerned about forming reserves.* It is hard to count on non-budgetary sources of funds at this stage: the prospects of consequences of the crisis are not quite clear and in case an unfavourable scenario is implemented they may be challenging. In this case cash-consuming projects of investment attraction can be “frozen”.



The crisis creates a serious threat of aggravation of the social-economic situation in Russian regions. In 2009, taking into account the consequences of the economic crisis, the constituent entities of the federation will face the hard-to-predict reduction of the taxable base (due to the decreasing foreign and domestic demand), a lower level of tax collection and volume of carried forward cash balances in their budgets as well as growing expenditure commitments due to the drop of the income level of the population.

In this context it should be noted that economic differentiation of territories is still a key problem both in terms of implementation of the modernization scenario of the RF development and fulfilment of urgent political tasks. Ten largest regions of the country account for over 57% of the aggregate GRP, the contribution of the other 73 regions into the economic development of the country is much less. One can speak only about some relative reduction of the

disproportions meaning stagnation of export-oriented economies of industrial regions and relatively stable development of subsidized territories.

The main reason for large-scale differentiation is over-concentration of income sources at the federal level as well as substantial increase of the share of “mobile” tax revenues (primarily, profit tax) in regional budgets. One should not expect any principal changes in the sphere of inter-budgetary relations along the line of “Centre – regions” in the foreseeable future. The potential of effectiveness of the policy towards “levelling” of the territories by the level of social-economic development is limited as this actually implies the policy of redistribution of available resources rather than adding new ones. Redistribution as investments in people (rather than in regions) is mostly relevant for underdeveloped territories. On the whole, one of the most relevant tasks of economic policy of the Centre is attraction of investments in regional development, including encouraging regions to independent investment activity.

Development of Russian territories in the long term will determine the competition of the regions for human and investment resources. The winners will be the territories that will appear more attractive for people and business while the state will just stimulate investments. However, it is *the priorities of creating long-term political (rather than economic) concepts of regional development* that prevail at the federal level. This does not promote adequate assessment of the available “corridor of opportunities”. A typical example is the large-scale (700 billion roubles) programme of development of the regions of the Far East and Trans-Baikal until 2013. Given the steady trend of depopulation and internal migration to some large, in terms of the region, localities, the undeveloped transport (for the Far Eastern Federal District) and social (on the greater part of the territory) infrastructure one can hardly expect implementation of large-scale plans of development of the Far Eastern territories and relocation of migrants from the central part of the country to that region. Political arguments also prevail in development of other federal target programmes, which does not allow expecting any significant return in the sphere of regional economic development.