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Exit State Corporations?

Exploring the legacy of Putin's "state capitalism"

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Exit State Corporations? Exploring the legacy of Putin's "state capitalism"

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Abstract

This paper reviews the content and rationale behind the renewed popularity of the Russian non-profit organization form known as State Corporations. The rationale is found highly elusive. All entities operate in different spheres and have little in common apart from their legal status. Close personal relations between the general director of the most prominent state corporation, Rostekhnologii, and Putin have led to allegations about high level corruption and asset theft. President Medvedev has initiated a critical review of the state corporations, but existing corporations are not likely to be dismantled with the same speed as they were established.

Key Words

State corporations, Russia, economic reform, Putin, Medvedev

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1 Introduction

One of the hallmarks of Vladimir Putin’s presidency (2000–08) was the systematic recentralization of power in order to bring the state back into Russian politics and society (see e.g. Sakwa 2004, Pravda 2005). Putin championed a strong executive vertical with a concentration of power in the Presidential Administration, but the centralization drive was by no means limited to the executive alone: the Kremlin gradually extended its control over the legislative branch, media, and Russia’s struggling civil society. Putin also came to advocate the return of the state as an active and influential player in the economic sphere, particularly in his second term. Legislation was introduced to prevent foreign interests gaining control over companies operating in what was defined as Russia’s “strategic sectors” (Liuhto 2008), and the state either bought up – or acquired control over indirectly with the help of “state friendly” companies – several of Russia’s most profitable businesses. Overall, during the Putin presidency Russian economy was transformed from a Yeltsinesque “robber capitalism” to a Putin-style “state capitalism” (see e.g. Rutland 2009). An integral part of this transformation was the introduction of a new type of state companies known as “state corporations”.

The rationale behind establishing the state corporations has, however, remained highly elusive. The apparent lack of accountability of the state corporations, as well as the speed with which state assets were transferred to these entities have led to allegations about state corporations being a vehicle for high level corruption and asset theft. The aim of this working paper is twofold. First, we discuss what characterizes this innovation in Russian economic reform: How are the state corporations organized, how do they operate, and what makes them stand apart from other types of business activity the state is involved in? Second, we explore how the state corporations have fared since the change of presidency in 2008. This is done through tracing the discourse on state corporations in Russian media.¹

¹ In order to track the development of the discourse, we have looked at the business daily *Kommersant* and the official gazette, *Rossiiskaia gazeta*. A search on “state corporation” (*goskorporatsiia*) in *Kommersant* between May 2008 and September 2009 gave 382 articles. In *Rossiiskaia gazeta* it is not possible to limit the search to a certain time period. A Google-based search on the newspaper’s pages gave 9,670 hits, of which we went through the top-350 (at this point it seemed we had achieved data saturation).

How is the performance of existing state corporations evaluated, and is this a type of organization that is likely to characterize Russian economy in the future?

2 What is a state corporation, and what is it not?

The concept of “state corporation” refers to a specific form of ownership outlined in the Russian federal law on non-profit organizations (“*O nekommercheskikh...*” 2008). Consequently, the term does not refer to all companies owned by the state, but only to organizations set up along the provisions of this law. Each state corporation is established through the adoption of an individual law that defines, among other things, the organization’s goals, functioning principles, sources of funding, and property. This individualistic approach has opened up for flexible solutions and the status of state corporation has subsequently been assigned to widely different types of entities (see below).

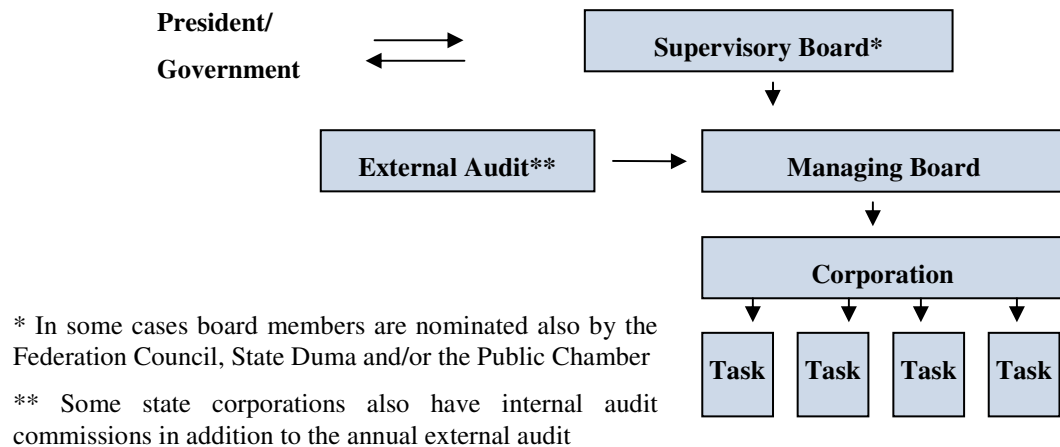
Whereas the Russian government stands as the founder of the state corporation, it has no ownership of the corporation. To the contrary: a defining characteristic of the state corporations is that when federal property is transferred to a state corporation, it automatically becomes the property of the state corporation itself, i.e. it ceases to be federal property. Hence, after having signed over the state property, the ability of Russian authorities to exercise control over these assets is primarily limited to their participation in the corporations’ supervisory boards and the prerogative of the president (or in some cases the government) to appoint these corporations’ CEOs. In addition, once a year the state corporations are to report on certain aspects of their activity to the federal government. Other state organs, including the Federal Audit Chamber, are, however, not entitled to review the operations of the state corporations unless the state organizations agree to this. They are also exempt from the compulsory oversight to which non-profit organizations are subject.

Another characteristic feature of the state corporations is that they are not subject to the law on bankruptcy. Moreover, being legally defined as non-profit

This systematic review is to some extent supplemented by individual articles from other news media, in particular the business daily *Vedomosti*.

organizations, state corporations are not supposed to generate a surplus for the state. Instead they are meant to operate as a closed circuit system: if they generate a surplus, it is supposed to be channeled back into the organization. The state corporations should not be confused with the two other main types of state ownership in Russian business, state unitary enterprises (*federalnye gosudarstvennye unitarnye predpriatiia*, FGUPs) or state-owned holdings in the form of joint stock companies (*otkrytye aktsionerneye obshchestva*, OAOs), both of which are regular profit-generating organizations and in which the state maintains ownership of assets.

Figure 2.1 State corporation set-up



3 The history of state corporations under Putin

To some extent one may speak of a reinvention, rather than an introduction of the concept of state corporations during Putin’s presidency, as the first state corporation was set up already in the late Yeltsin era. Through changes adopted in the law on non-profit organizations in July 1999 (“*O nekommercheskikh...*” 2008), the concept of state corporations was introduced as a legal term. Later that same year, the first state corporation, the Agency for Restructuring of Credit Institutions, was established. This turned out to be a one off, however, and the

agency was dissolved in early 2004 to be partially replaced by a new state corporation, the Insurance Deposit Agency (established in December 2003).

The heyday of Russian state corporations, however, commenced during the last year of Putin's presidency. After the introduction of new amendments to the law non-profit organizations in May 2007, no less than six state corporations were established in the course of the next seven months (see table 1).

Table 3.1 Russian State Corporations

Name	When established
Agency for Restructuring of Credit Organizations (ARKO)	July 1999 (liquidated in 2004)
Insurance Deposit Agency (ASV)	Dec. 2003–
Bank for Development and Foreign Economic Affairs (Vneshekonombank, VEB)	May 2007–
Russian Corporation of Nanotechnologies (Rosnano)	July 2007–
Housing and Municipal Services Restructuring Fund (ZhKKh)	July 2007–
State Corporation on Construction of Olympic Venues and Development of Sochi as Mountain Climatic Resort (Olimpstroi)	October 2007–
State Atomic Energy Corporation (Rosatom)	November 2007–
State Corporation for Development, Production and Export of Hightech Industrial Goods (Rostekhnologii)	December 2007–

This revival – or reinvention – of the state corporations came in the wake of other, large scale consolidation efforts by the state within the aviation and shipbuilding industries. These consolidations had, however, taken the form of regular state-controlled holdings (joint stock companies). Although both the state-controlled holdings and the state corporations were building blocks in Putin's drive towards state capitalism, the opportunities that arose with the introduction of the new organizational form nevertheless seemed to cause a certain euphoria.

In a matter of months, huge state assets were "privatized" through transfers to the state corporations. In addition, the state showered money over the state corporations: it has been estimated that almost 13 % of federal expenses in 2007 were made up of direct transfers to the state corporations (Zaostrovsev 2008). This equals 2.3 % of GDP (in comparison, the military budget was estimated to make up 2.5 % of GDP) (*ibid.*). Given the generous funding and the special status,

the idea of setting up new state corporations caught on in ever more sectors: in fisheries, house building, road construction, the machine-building industry, pharmaceuticals, etc. Was this, then, to become the new face of Russian style state capitalism?

4 A brief overview

This section briefly presents the state corporations that were introduced during Putin’s presidency.² Through a comparative approach, we will look at what common traits the existing state corporations share while at the same time highlighting the important and fundamental differences between them in terms of aims and areas of operation. Furthermore, in order to explore the extent to which the state corporations can be said to fill an identifiable niche in Russian economy, we also illustrate how the state corporations differ from regular state-owned holdings.

Deposit Insurance Agency (ASV)

The Deposit Insurance Agency (*Agenstvo po strakhovaniiu vkladov*, ASV) is the only “first generation” state corporation to have survived. It was established in the end of 2003, that is, prior to the 2007 amendments in the relevant legislation on non-profit organizations. ASV manages the resources of the deposit insurance fund and is to pay out compensation to depositors in case a bank collapses (“*O strakhovanii...*” 2003).

In contrast to most of the later state corporations, ASV has seen less “high profile” management. Since the very beginning, the corporation has been headed by Aleksandr Turbanov, who previously was the head of the now defunct Agency for Restructuring of Credit Organizations (the first ever state corporation in Russia). Turbanov is also the only CEO of a state corporation who was not appointed by the president or the government, but rather by the Council of Directors of ASV.

² We thus leave out the no longer existing Agency for Restructuring of Credit Organizations from this analysis.

During the economic boom Russia experienced under President Putin, ASV lived a fairly anonymous existence. The onset of the financial crisis was to change this, as the corporation has had to compensate the losses caused by the collapse of financial institutions.

Vneshekonombank (VEB)

The first of the “new” state corporations from the 2007 wave was the Bank for Development and Foreign Economic Affairs (Vneshekonombank). Unlike ASV, as well as most of the other state corporations that followed, Vneshekonombank is far from a newcomer. It can trace its history all the way back to the 1920s, when it was tasked with handling transactions related to Soviet foreign trade. It was restructured – and renamed Vneshekonombank – during *perestroika*, and, throughout the 1990s, the bank managed the restructuring and repayment of Soviet debts.

In May 2007, Putin signed the federal law that transformed the bank into a state corporation (“*O banke ...*” 2007). The aim of this move was ostensibly to change the focus of the bank from trade and external relations to internal development and to turn the bank into a key instrument in Russian investment policy.³ The importance of the bank is underlined by the fact that Putin himself heads the supervisory board. The CEO is Vladimir Dmitriev, who was also the head of Vneshekonombank before the 2007 restructuring.

Besides acting as a funding institution for economic diversification, the bank manages the part of the Russian pension fund that has not been handed over to private management companies, as well as part of the National Welfare Fund (part of Russia’s sovereign wealth fund). Vneshekonombank is also in the unique position that it serves as a source of funding for other state corporations. For example, in 2008, the bank signed a cooperation agreement on financing of investment projects with Rostekhnologii (Vneshekonombank 2008).

³ In the process of forming the state corporation, the state’s assets in the Russian Bank of Development and Roseksimbank were transferred to Vneshekonombank.

Rosnano

Rosnano (initially known as Rosnanotekh) was on the other hand set up completely from scratch. The necessary legislation was adopted in the spring of 2007 and the goals of the new state corporation was specified as funding the development and implementation of nanotechnologies in Russia through co-financing of R&D projects with commercial potential, but entailing a high degree of risk (“*O Rossiiskoi ...*” 2007).

Nanotechnology has become somewhat of a symbol of the goal to diversify and modernize Russia's heavily natural resource dependent economy, and a lot of political prestige has thus been attached to this project. The state pledged a total investment in the corporation of no less than 130 billion rubles, starting with 30 billion rubles allocated over the state budget in 2007 (Butrin 2007a). The prestige is also reflected in the leadership: The first head of the new corporation was Leonid Melamed, who among other things had been the first deputy chairman of the board of the electricity monopoly RAO EES. In 2008, however, he was replaced by his former boss, Anatolii Chubais, a leading figure within the Russian liberal camp and the mastermind behind the privatization process in the 1990s.

Housing and Municipal Services Restructuring Fund

The Housing and Municipal Services Restructuring Fund (FSR ZhKKh) was set up as a state corporation in the summer of 2007 (“*O fonde...*” 2007) by a one-off transfer of 240 billion rubles. The purpose of the fund is – in cooperation with regional and local authorities – to co-finance renovation of municipal housing (apartment blocks) as well as related infrastructure. The corporation is meant to transfer its funds to home-owner partnerships that are to take over the future management of apartment buildings.

In contrast to the aforementioned state corporations, the fund is set up as a temporary undertaking meant to operate for four years and to be dismantled by 1 January 2012. The limited timeframe, as well as the gaping hole in Russian infrastructure this fund is meant to patch up, may possibly explain why this state corporation is headed by a less prominent politician/public official than most other state corporations. Kostantin Tstitsin is a former senator representing Kalmykia and a member of the executive committee of United Russia (the

supervisory board is, by contrast, headed by the high-profile Deputy Prime Minister Dmitrii Kozak).

Olimpstroi

Moving on to the State Corporation on Construction of Olympic Venues and Development of Sochi as Mountain Climatic Resort, more commonly known as Olimpstroï, this was established in November 2007 to develop the necessary facilities for the Sochi 2014 Winter Olympics (“*O gosudarstvennoi korporatsii po stroitel'stvu...*” 2007). Olimpstroï represents yet another variation over the theme of state corporations in that it was based on an existing FGUP (the Directorate of Sochi Development, established in 2006); it has a clearly defined goal; and a deadline for when the project has to be completed.

Olimpstroï has also proven to be the most turbulent of the state corporations management-wise. Initially, the responsibility to develop the Olympic facilities was given to the former head of the state oil pipeline monopoly Transneft, Semion Vainshtok. After 7 months, and a lot of criticism for how the preparations proceeded locally, the mayor of Sochi, Viktor Kolodiazhnyi, was put in charge for the state corporation, ostensibly to anchor the project locally. His tenure lasted for a little more than a year before a new former CEO was recruited, this time the former director of Baltika, Taimuraz Bolloev. This high turnover might be related with the fact that Olimpstroï has more clearly defined and tangible goals than most other state corporations and hence its progress is easier to evaluate and criticize. It also reports more frequently on its progress. Whereas the norm is once a year, Olimpstroï is to deliver quarterly reports directly to the president.

Rostekhnologii

Despite the fact that Rostekhnologii was one of the last state corporations to be signed into existence, this corporation has nevertheless been seen as a groundbreaker for the 2007 reinvention of the concept of state corporations.⁴ According to the legislation introducing Rostekhnologii, the new state corporation should assist in the development, production and exports of Russian high-tech

⁴ It has been claimed that Sergei Chemezov, the future CEO of Rostekhnologii, “single-handedly tailored the state corporation legislation to suit his personal goals” (Stack 2009).

industrial products, hereunder within the military-industrial complex ("*O Gosudarstvennoi korporatsii 'Rostekhnologii'*" 2007). Rostekhnologii was also made responsible for the implementation of Russia's military-technological cooperation with foreign states (*ibid.*).

The importance of the military export component was underlined by the fact that Sergei Chemezov, the former head of the Russian state arms exporter Rosoboroneksport, was appointed CEO of the new state corporation. In the summer of 2008, in connection with the transfer of state-owned stakes in more than 400 companies (mostly former state unitary enterprises or partly privatized joint stock companies) to the new state corporation, Chemezov further emphasized the military-industrial character of Rostekhnologii by stating that the newly acquired companies were to be reorganized in some 30 holdings out of which 24 would have a military-industrial profile (Vandenko 2008).

Although Rostekhnologii was seemingly set up primarily to coordinate the activities of defense sector exporters and their suppliers, the new corporation rapidly began to take control over significant amounts of state assets in other sectors as well. Although the majority of the original companies Rostekhnologii obtained in 2008 were defense-related (approximately 80 per cent), the state corporation is currently involved in everything from air companies (Evkimovski & Mironenko 2008) to car production and pharmacology. The corporation also has substantial interests in Russia's chemical industry, metallurgy and aviation industry.

Rosatom

Finally, Rosatom represents the last state corporation to be established during Putin's presidency. The corporation was signed into existence in December 2007 ("*O gosudarstvennoi korporatsii po atomnoi...*" 2007). However, somewhat similarly to the case of Vneshekonombank, this was primarily an example of assigning a new name (or rather a new status) to an existing entity. Rosatom is based on the Federal Agency on Atomic Energy (Rosatom), which was previously known as the Ministry of Atomic Energy, and, before 1992, as the Ministry of Nuclear Engineering and Industry of the USSR. The continuity is also highlighted by the fact that Rosatom is headed by former Prime Minister Sergei Kirienko,

who had been the head of Rosatom's previous incarnation, the federal agency, since 2005.

For all practical purposes, Rosatom fills the same functions as its state agency predecessor. These include the production of nuclear energy, nuclear weapons, research and development and the operation of nuclear and radiation safety agencies. Hence Rosatom is in fact charged with regulating and supervising itself. It also handles Russia's international cooperation within peaceful exploitation of nuclear energy and the non-proliferation regime.

5 Why state corporations?

As should be clear from the presentation above, the state corporations by no means represent a homogenous group of enterprises. Some of the new state corporations formed in 2007 were new undertakings started from scratch in order to stimulate certain sectors of the economy (Rosnano and ZhKKh) while others were well-established agencies/companies that were simply assigned a new status (Rosatom and Vneshekonombank). Olimpstroï, being a successor of a recently formed FUGP, falls somewhere in-between these two abovementioned categories, whereas Rostekhnologii represents a category in itself through its large-scale consolidation of state assets. In some cases, state corporations have been formed through signing over state-owned assets; in others, the corporation's basis for operation is created more or less exclusively by transfers over the state budget.

As regards fields of activity, some state corporations are directly engaged in business themselves while others primarily support business development (Vneshekonombank even funds other state corporations). But there are also state corporations that appear to have more in common with state agencies than with business corporations (cf the role of ZhKKh, and to some extent Rosnano, as funding agencies). The timeframes in which they operate also evidence a degree of variation. Whereas most state corporations have an open-ended mandate, ZhKKh has less than five years to distribute its funds, and Olimpstroï has to get the necessary infrastructure in Sochi in place before 2014 Winter Olympics.

On the whole, besides the official status they have been assigned, it is difficult to identify a common denominator uniting the different state corporations. It is,

however, not only *within* the group it is difficult to recognize a clear pattern; it is also challenging to see why the government in some cases resolved to assign this particular status to an enterprise/fund/agency instead and in other cases opted to reorganize state assets according to “regular” legislation, i.e. in the form of joint stock companies. Some corporations have been established as state corporations, that is, as non-commercial actors, even if they are heavily involved in Russia’s most profitable businesses, whereas other corporations, sometimes operating in the same or a similar sphere of the economy, have been turned into state-owned holdings. The main formal differences between these two forms of ownership are highlighted in table 2.

Figure 5.1 State corporations and state-owned holdings

State corporations	State has ceded property rights. Corporations control shares in companies. Not subject to bankruptcy regulations. Profit to be reinvested into organization.	Government appoints supervisory board. Unclear definition of expected results. No external goal-completion evaluation (depending on the government’s trust).
State-owned holdings	Holdings are owned by the state. Holdings control shares in companies. Profit is property of the owners.	Owner (government) appoints board. Profit maximization objective. No external evaluation if not dependent on capital from market.
	Property & profit	Management & control

Looking at the defense sector, for instance, one could compare the establishment of Rostekhnologii with that of the United Aircraft Corporation and the United Shipbuilding Corporation. The two latter are state-owned corporations that were established shortly before the state corporations became the Kremlin’s new favorite,⁵ and like Rostekhnologii, they both have deep roots in the defense

⁵ The United Aircraft Corporation was established through a presidential decree in February 2006 and the United Shipbuilding Corporation in March 2007.

industry.⁶ All three companies were created by consolidating state enterprises. Moreover, just as was the case with Rostekhnologii, the need for more efficient management of state assets was highlighted when the two latter corporations were formed. It is obvious that coordinating the multitude of state-owned companies has represented a challenge for Russian authorities, and part of the rationale for establishing the three companies was probably the wish to tidy up the many inefficient, non-profitable state enterprises that were left on the state's hands after the wave of privatizations in the 1990s.⁷ But why the difference in organizational set-up between Rostekhnologii and the two others?

It is hard to point to obvious reasons why Rostekhnologii was not organized along the same model that had been applied to the United Aircraft Corporation and the United Shipbuilding Corporation. The main differences between Rostekhnologii and the two others are size and concentration. Whereas the two state-owned holdings are focused on clearly defined sectors, a characteristic they also share with the rest of the business-oriented state corporations, Rostekhnologii seems to defy sector borders. To the contrary, the company has demonstrated an enormous appetite when it comes to expanding into some of the most profitable sectors of the Russian economy.⁸ Unlike the two holdings, Rostekhnologii has also been a far more aggressive actor in the private market. None of these characteristics can, however, fully explain the Kremlin's shift from one ownership model to another.

Also Rosnano and the Russian Venture Company (*Rossiiskaia venchurnaia kompaniia*) have fairly similar goals. Whereas Rosnano is meant to stimulate the emergence of a new sector of the economy (nanotechnology), the Russian Venture Company is to assist the development of a new market (a venture capital market). The Russian Venture Company was established by the government in 2006, and although there was a strong political presence in its board, it was nevertheless organized as a joint stock company. The main difference in the mode of operation of the two companies is probably that Rosnano evaluates and co-funds projects

⁶ While the United Shipbuilding Corporation primarily encompasses former state unitary enterprises (FUGPs), the United Aircraft Corporation has to a greater degree acquired shares in partly privatized companies both within the civilian and the military aviation industry.

⁷ In May 2009, Sergei Chemezov claimed that about 30% of the enterprises Rostekhnologii had been given were on the brink of going bankrupt (*Vedomosti* 28 May 2009).

directly, whereas the Russian Venture Company's funds are placed under external management by tender. Why this would call for Rosnano to be organized as a non-commercial actor and not a joint stock company is, however, not obvious. Equally interesting perhaps is why the Russian Venture Company was not turned into a state corporation. The company had a rather slow start,⁹ and, in 2007 its supervisory board was replaced and its capital replenished by 10 billion rubles. Although this reorganization coincided with the significant increase in the popularity of state corporations, the Russian Venture Company nevertheless remained a joint stock company.

As indicated in table 2 above, an important difference between state corporations and state-owned corporations is the absence of a profit maximization objective for the former. In practice, however, profit maximization is not always the core objective for the state-owned corporation either. If this had been the deciding criterion, the Russian Venture Company might very well have been redesigned as a state corporation. The United Shipbuilding Corporation and the United Aircraft Corporation, on the other hand, are classic examples of the traditional corporation, that is, holdings acting as market players in competition with foreign actors. But then again, the same could have been said for Rostekhnologii, and here the government's solution was a state corporation.

One explanation on the state corporation vs state-owned holding conundrum is off course timing. All the state-owned holdings discussed above had been established before the May 2007 changes to the law on non-profit organizations. From the point that these amendments went into force and until the end of the Putin presidency, all major reorganizations took the form of state corporations. Operational decision making and financial autonomy have been promoted as the main motivation behind state corporations.¹⁰ This raises the question of whether this represents a more permanent shift from a preference for state holdings to the

⁸ It is difficult to argue that the high-tech nature of Russian metallurgy or automotive industry makes them natural assets for a high-tech corporation. For an account of Rostekhnologii's ambitions in the field of metallurgy, see for instance Kiseleva & Cherkasova (2008) or *Rosbalt Biznes* (14 January 2009).

⁹ According to the 2006 annual report, its income was to a large extent made up from subletting office space, interests, and – somewhat surprisingly – from renting out railway wagons (Rossiiskaia Ventchurnaia ...2007).

¹⁰ Broadly speaking, FGUPs cannot take up loans, domestic or foreign, to finance investment projects and therefore have to rely on budget funding. The ability to initiate and finance investments without lengthy approval procedures is held up as a main strength of the state corporations.

new form of state corporations. In the second part of the paper we will discuss how the state corporations have fared after Putin stepped down as president.

6 The post-Putin presidency economic debate

It is still too early to speak of a post-Putin era in Russian politics – Putin still has at least one hand on the wheel and he enjoys unprecedented powers in the position of Russian prime minister. Speculations are also ripe about a possible Putin presidential comeback in 2012. Nevertheless, the new presidency, and maybe more importantly, the impact of the global financial crisis, have once again brought forward the issue of economic reform. Russia is no longer the “island of stability” in the sea of the world crisis, which it was claimed to be during Putin's final months as president (Gladunov 2008). As the authorities are no longer in a position to prop up the state budget with an ever-increasing inflow of petrodollars, the economic model introduced under Putin has come under scrutiny.

One noticeable change in the Kremlin's approach to the state corporations is that since Medvedev became president, no new corporations have been introduced. In fact, several projects for new state corporations that had been promoted during Putin's presidency have since been officially shelved. One example of this is the projected state corporation called the Russian Financial Agency. The agency is supposed to handle the budget surplus of the Russian state. In August 2009, however, Minister of Finance Aleksei Kudrin informed that although the planning of the agency proceeded, it was no longer considered an option to organize it as a state corporation (Konishcheva 2009), the ministry would “find a more suitable legal-administrative form for this corporation” (*Rossiiskaia gazeta* 14 August 2009).¹¹ To be true, in the summer of 2009, Medvedev signed into law the establishment of one of the long-awaited state corporations, the road construction corporation Avtodor. It is symptomatic, however, that this company was not presented as a state corporation, but got the somewhat watered down – and hitherto unheard of – official status as a state company (*gosudarstvennaia kompaniia*).¹²

¹¹ Kudrin is a long time opponent of the state corporations. Already in 2007, he criticized the state corporations for de facto privatizing state assets free of charge (Stack 2009).

¹² In essence, however, Avtodor's status is more or less identical with that the state corporations.

Is the political tide turning from state corporations as a way of organizing economic relations? The analysis below explores the development of the discourse on state corporations as it has evolved since the change in presidency. Based on our reading of the debate, we group the arguments into the following categories: legal matters, issues connected to the state corporations' lack of accountability, and economic concerns.

Legal arguments

The somewhat ambiguous legal status of the state corporations has been a main issue in the debate. The state corporations have been characterized as an anomalous legal form, "neither truly state-owned nor private, neither truly non-commercial nor solely profit oriented (Stack 2009).

An influential voice in this debate has been the Presidential Council on Codification and Improvement of Civilian Law, which in 2008 was tasked by Medvedev to review the legislation on juridical persons. In March 2009, the council put forward a draft in which it proposed to solve the ambiguous status of the state corporations through abolishing this legal category altogether. The council pointed to the lack of homogeneity of the existing state corporations and used this as an argument for claiming that "no such form really exists, and each state corporation has its own specific traits" (Pleshanova *et al.* 2009). Moreover, according to Aleksandr Makovskii, Deputy Chairman of the Presidential Council,

The fact that a state corporation combines the functions of a commercial entity with those of a body of state power [cf. the role of Rosatom] ultimately means that the state could be held financially liable for the results of its business activities (quoted in Pleshanova *et al.* 2009).

As a result, in the initial draft presented by the Presidential Council, it was suggested to reorganize the existing state corporations according to other ownership forms not enjoying the special privileges associated with state corporations ("*Kontseptsii...*" 2009). It was proposed that Rosatom and Olimpstroii could be turned into state organs, whereas Vneshekonombank, Rostekhnologii, Rosnano, and the Deposit Insurance Agency could be transformed into regular commercial companies. Finally, the Housing and Municipal Services Restructuring Fund, which according to the council resembled

a “classical fund”, should be given status in correspondence with this (*ibid.*). In the final version of the draft, which was forwarded to the president in June 2009, the idea to abolish the state corporations was dropped, but the council still recommended a moratorium on the creation of new state corporations (Kazmin & Sterkin 2009).

This demand was reiterated by Anton Ivanov, Chairman of the Supreme Arbitrage Court, and a key figure in Medvedev’s liberal network. In an interview with *Vedomosti* in June 2009, Ivanov called for the enforcement of “universal norms for all legal entities” (Kazmin & Sterkin 2009):

It is not for nothing that legal scholars criticize state corporations. Their assets are private, but you cannot call them private in essence. And if it is decided to liquidate a state corporation, who would get the stakes in the companies owned by them? (...) We need to stop calling old structures by new names, when they in fact remain the same in essence (Kazmin & Sterkin 2009).

Although Medvedev still has not forwarded proposals for amendments to the legislation on juridical persons to the State Duma, the fact that Avtodor was presented as “state company” rather than a state corporation seems to indicate that he intends to abide with the call for a moratorium. On the other hand, the decision to further dilute the concept through the introduction of a new category of state ownership hardly addresses the abovementioned concerns around the ambiguous status of the legal state corporations.

Lack of accountability

A related concern is the lack of accountability. In a corruption-ridden economy like the Russian one, and with the history of how state assets were privatized during the 1990s still fresh in mind, the lack of transparency around the operations of the state corporations has caused considerable concern. As there are no publicized performance measures by which the public can monitor the state corporations’ activities and no third party, such as private minority stakeholders, capable of exercising control, the real accountability of these organizations has been questioned.

Already at the very end of Putin's presidency, in March 2008, the Committee for Industrial Policy of the Federation Council (the upper house of the Russian parliament), conducted a review of the state corporations in which they highlighted the lack of accountability as a major worry (Sovet Federatsii 2008). The committee concluded that the concept of state corporations for all practical purposes was void of any external control and as a result provided ample space for corruption and theft by the management (*ibid.*).

As maintained by Valentin Zavadnikov, the Chairman of the Committee for Industrial Policy, the matter was further complicated by the fact that the legislation establishing the state corporations frequently did not contain clear criteria by which the performance of the state corporations could be assessed (*FK Novosti* 2008).¹³ As mentioned above, all state corporations are set up through the adoption of individually designed legislation. According to the review of the Committee for Industrial Policy, evaluation criteria were completely absent in the legislation concerning Rostekhnologii, Rosnano, and the Deposit Insurance Agency, and with respect to Rosatom and Vneshekonombank, the criteria listed did not correspond to the goals, and as such could not be used to assess the performance in a meaningful way (*FK Novosti* 2008).

Andrei Illarionov, Putin's former economic advisor and an outspoken critic of Russian state capitalism, has argued: "There is no such form of ownership as a state corporation. It is not a form of ownership but a form of appropriation of natural resources" (quoted in Zaostrovsev 2008). Although this is clearly an exaggeration, the fear expressed in *Russia Profile* seems to be more representative for the mainstream argument:

With their wide-ranging powers and little room for oversight and accountability, the state corporations seem to adhere to a state-dominated model of bureaucratic capitalism that could crowd out private enterprise and increase corruption (Stack 2009)

¹³ Zavadnikov and the Committee for Industrial Policy also fiercely opposed the proposal to establish Avtodor as a state corporation (Stack 2009).

Corruption and ulterior motives

The abovementioned review of the state corporations by the Committee for Industrial Policy describes the state corporations as “the perfect chance to transfer state property to the non-state sector with no financial benefit for the state and at the risk of uncontrolled use and alienation of assets” (quoted in Stack 2009). Butrin (2007b) argues that for managers, state corporations were a good alternative to privatization because this organizational form would give them control over company cash flow without having to actually pay for the assets themselves. There have also been speculations about state corporations being nothing more than a way for Putin to channel control over substantial financial assets to his protégés and supporters as a hedge against undesirable consequences of the presidential succession.

The allegations about state corporations being a vehicle for high level corruption often focus on Rostekhnologii and the close relations between Sergei Chemezov and Putin (see e.g. Vermin 2009; Bernstein 2008). While the story of friendly favors might have some explanatory power in the case of Rostekhnologii, this company Rostekhnologii can in many respects be seen as a special case. It seems less relevant in the other cases.

Economic arguments

Although the concern about state corporations being just another scheme for appropriating state assets at low – or no – cost for the chosen few definitely has an economic aspect, the two main arguments here are connected with the question of whether the state corporations can contribute to bringing Russia out of the current crisis and the cost associated with establishing and maintaining state corporations.

From the vantage point of economic reform and the state corporations' contribution to the modernization of Russian economy, President Medvedev has on several occasions questioned the future of the corporations. In an interview with the editor of *Kommersant* in June 2009, he refuted the idea that the state corporations had been formed to serve as “locomotives of the development of our economy” and he doubted that “this is the way to go in order reform our economic structures”:

The life of [the state corporations] should be finite. The corporation in the sector of housing and municipal services was given five years. And after that, after having fulfilled its purpose, it should be transformed (...). Other corporations, which are involved solely in business, should in the end be privatized (quoted by Mursaliev 2009).¹⁴

The idea of the state corporations as an element in the modernization of Russian economy was also challenged by the Federal Anti-Monopoly Service (FAS). In June 2009, FAS prepared a report to Prime Minister Putin, in which the state corporations were named as one of the main threats to competition in Russia (FAS 2009). The following month, Sergei Stepashin, the Head of the Audit Chamber, joined the growing number of critics when he in an article in *Vedomosti* claimed that "so far state corporations as an alternative to the oligarchic empires have failed to live up to the expectations" (Stepashin 2009).

The second concern is related to cost: Can Russia afford to prop up unprofitable businesses in the time of economic crisis? The state corporations were established when the state budget ran with a huge surplus, but now, in the wake of the financial crisis, the cost of maintaining them raises questions. One of the main arguments for introducing the state corporations had been that coordination and scale would improve the performance of the state-owned companies. Now, however, in a time of crisis, the state corporations' special status has become a liability and an obstacle to efficient management (Selina & Faliakhov 2009).

The state corporations had been given a handsome dowry when they were established. When the financial crisis hit the country, the government, quite contrary to what had been foreseen in the legislation, turned to the state corporations to prop up the budget. In early 2009, the Russian government temporarily reclaimed unused funds from Rosnano and Housing and Municipal Services Restructuring Fund to the amount of 164 billion rubles. This led to claims that some of the corporations had been turned into "quasi reserve funds" (*Gazeta.ru* 25 February 2009). What is certain is that this move illustrates the

¹⁴ According to Medvedev, the only exception to this would possibly be Rosatom, which should possibly be kept on state hands.

current dilemma the Russian authorities face when it comes to the future fate of the state corporations.

7 Conclusion: Waiting for the verdict

It may be that the introduction of state corporations started out as an earnest attempt to put the federal budget's abundance of petrodollars into play in a way that would facilitate the long-declared goal of diversification of the economy while at the same time increasing the control and coordination of the diverse portfolio of state assets. As the concept gained popularity, however, it was applied to spheres where its appropriateness became increasingly doubtful (e.g. ZhKKh and Olimpstroï have no diversifying objective). In the end, state corporations seem to be employed where nothing else had worked. Increased belief in the economic role of the state combined with a recognition that the very same state had limited capabilities what concerns efficient management is part of the explanation for prescribing state corporations. Although it now appears as state corporations have proven yet another dead-end in the attempts to modernize Russian economy, it is nevertheless probably still too early to write them off completely.

In August 2009, President Medvedev asked Prosecutor General Iurii Chaika and Head of the Control Department of the Presidential Administration Konstantin Chuichenko to go through the financial activities of four of the state corporation (Vneshekonombank, Rostekhnologii, Rosnano, and Olimpstroï) and

to pay particular attention to the questions concerning the purposefulness and effective use of state property and financial means that have been transferred to the state corporations, and also the correspondence between the activities of the state corporations and the goals that were formulated in the federal laws that established them (*RIA Novosti* 2009).

According to the Presidential Press Service, Medvedev had ordered the review in order to decide on "the expediency of the future use of such business structures as state corporations" (*ibid.*). So far, however, there has been a marked difference between words and deeds during the Medvedev presidency. Medvedev has made a number of liberal overtures, including his programmatic "Russia, Forward!"-manifest (Medvedev 2009). He has attempted to bolster his image as a champion

of modernization, but some critics would claim that Medvedev's professed liberalism in the economic sphere is no more than veneer. Indeed, it is difficult to reconcile the signals Medvedev has sent with the fact that he recently signed the law establishing the "state company" Avtodor. The shift from state capitalism back toward a more liberal model, of which Medvedev spoke during the 2008 presidential campaign, has indeed been slow in coming. Nevertheless, the belief in the state corporations seems to be waning in the Kremlin.

The Kremlin is, however, no longer setting the agenda alone to the same extent it did during Putin's presidency. The future destiny of the state corporations has been seen as part of the struggle between the "siloviki" and the "civiliki" over control with the economic reform course, and more generally, the future path of Russia. Some of the state corporations are headed by people associated with the "civiliki" who have expressed no objection to the transformation of state corporations, like Anatolii Chubais in Rosnano, and Sergei Kirienko in Rosatom. On the other hand, Sergei Chemezov, the CEO of the "mother of all state corporations", Rostekhnologii, a silovik and a Putin associate, has been seen as one of the main stumbling blocks for future reform (Stack 2009). According to Kirill Rogov of the Institute of Economy in Transition:

Whereas for other state corporations the consequences will be limited to adjusting their status to conform with the Constitution and Russia's laws, for Rostekhnologii this is the beginning of the end of the project itself (quoted in Stack 2009).

Influential Presidential Advisor Arkadii Dvorkovich has expressed the view that the state "got too carried away by developing this form [state corporations], which has been applied to very different branches of activities, also when other solutions could have been made" (quoted in Iadukha 2009), but at the same time warned against transforming the state corporations in the midst of an economic crisis (*ibid.*). Dvorkovich's assessment is indicative for what might be the outcome: The heyday of the state corporations was no doubt the times when Russian authorities could afford such extravagant economic undertakings. At the same time, the political interests vested in the project makes it unlikely that this category is likely to disappear in the near future.

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