

BTI 2016 | Russia Country Report

Status Index	1-10	5.06	# 81 of 129	
Political Transformation	1-10	4.40	# 83 of 129	➔
Economic Transformation	1-10	5.71	# 65 of 129	➔
Management Index	1-10	3.17	# 114 of 129	

scale score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	143.8	HDI	0.778	GDP p.c., PPP \$	25635.9
Pop. growth ¹	% p.a.	0.2	HDI rank of 187	57	Gini Index	41.6
Life expectancy	years	71.1	UN Education Index	0.780	Poverty ³	% 0.5
Urban population	%	73.9	Gender inequality ²	0.314	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

At the time of writing, Vladimir Putin has been in power for more than fifteen years. Putin served an initial two terms as president from 2000 to 2008, followed by one term as prime minister between 2008 and 2012, before beginning a third term as president in 2012. As a result, Putin has heavily influenced the political and economic development of Russia over these fifteen years.

Putin's return in 2012 to the Kremlin was accompanied by large public protests, which were directed against the fraudulent December 2011 parliamentary elections and March 2012 presidential elections. The political transformation that these protests provoked has been marked by an increasingly autocratic approach. While also overshadowing the Sochi 2014 Winter Olympics, which would have been an opportunity to demonstrate Russia's economic and political development under Putin's leadership.

Furthermore, the Maidan uprising in Kyiv led to the collapse of the Yanukovich regime in Ukraine, which the Kremlin (i.e., Putin and his administration) regarded as a Western conspiracy against Russian interests. In response, the Crimea was annexed by Russia and a military insurgency began in eastern Ukraine. These events were justified by the Kremlin under the slogan of protecting the "Russian World" and giving rise to "Novorossiya" (i.e., New Russia). As a consequence, relations with the West deteriorated dramatically, dropping to levels reminiscent of the Cold War. For the Kremlin's part, it has not hesitated to display open hostility toward the West and acknowledges its authoritarian tendency. In domestic politics, the Kremlin has reverted to exercising power through military strength and the suppression of semi-autonomous actors, including private businesses, local administrations, non-state media, politically relevant NGOs and even the Academy of Sciences.

In an effort to consolidate power and to increase control over Russia's elites, Putin – now looking more like a tsar than a president – has effectively facilitated the creation of an authoritarian-bureaucratic nomenklatura system. Russia is characterized by:

- the dependence of private individuals on their official position and support of their direct superior;
- short-term, hierarchical decision-making processes;
- dominance of vertical over horizontal networks, which is ensured by, among other things, frequent bureaucratic rotations at the regional level;
- temporary rather than permanent property ownership patterns, which supports a system of patronage;
- moral and legal norms for those in power are much broader than for ordinary citizens.

Most notably, the role of the Siloviki (i.e., politicians from the security and military services) has become much more pronounced, while the role of the judiciary has decreased.

The international financial and economic crisis, which hit Russia in the fall of 2008, marked the end of a long economic boom. Since then, economic growth has been sluggish and the public funds saved during the previous period of favorable economic growth have been spent on easing the economic and social consequences of the crisis. In 2014, without having completely recovered from the previous crisis, Russia was hit by further economic difficulties. These difficulties were caused by structural deficiencies within the economy, economic sanctions imposed by the West and, most importantly, a drop in the world oil price. Despite these difficulties, the Kremlin has chosen to prioritize security interests over the requirements of Russia's economic development – for which it is bound to ultimately pay a high price.

History and Characteristics of Transformation

The processes of economic and political transformation that led to the end of the Soviet Union were initiated through reforms introduced by the Secretary General of the Communist Party, Mikhail Gorbachev, in the late 1980s. However, it was the reforms advanced by Russian President Boris Yeltsin in the 1990s that have defined post-Soviet Russia. Following a violent clash between the president and the parliament, which ended with the shelling of the Duma on Yeltsin's order, a Russian constitution, providing for the democratic rule of law, was approved in 1993 by a public referendum. Parliamentary elections held at the same time, however, resulted in anti-democratic parties winning 43% of the vote. The political balance of power in favor of a strong executive remained fairly constant until 1999, when Yeltsin stepped down from office.

Under President Yeltsin, the discrepancies between constitutional provisions and political reality were substantial. This deficit, between theory and reality, can be attributed in part to anti-democratic forces that stalled reform projects in parliament while showing a flagrant disregard for democratic standards at a regional level. Yet, these deficits are also rooted in the manipulation and pressure exercised by the Yeltsin administration in handling the mass media. The tactics of the Yeltsin administration created a political context in which actors without democratic legitimacy (i.e., oligarchs) were able to exercise considerable influence over political decision-making processes.

The 1992 reform package marked the first milestone in Russia's transformation toward a market economy. Core components of this reform package included price liberalization and a massive privatization plan. However, the anticipated economic upswing remained a distant goal as Russia plunged into a prolonged economic crisis. By 1999, GDP had declined from \$516.8 billion in 1990 to \$195.9 billion, that is, by more than 60%. Throughout this period, Russia remained competitive on the global market only as an exporter of raw materials and military equipment while imported goods dominated the domestic market. And whereas investment shrank dramatically, capital flight remained high. Core economic reforms, including a new tax code and land code, were blocked in the legislative process. The protracted economic crisis also weighed heavily on Russians' standard of living and exacerbated social inequality. For many Russians the results of the political and economic transformation did not match their expectations. Worse still, this failure was attributed to alleged Western aspirations to weaken Russia.

The situation changed markedly when Yeltsin was replaced by his appointed successor Vladimir Putin in 1999, who then went on to win the election (with 53% of the vote) held in 2000. This transfer of power coincided with the growth of Russia's financial might as the price of oil and other raw materials started to rise and eventually skyrocketed. Putin enjoyed sustained support from significantly more than half of the voters throughout most of his first two presidential terms (2000–2008). A key factor in his popularity was his resolute handling of the second Chechen war, which began in 1999. Referring to the clashes in the northern Caucasus as a “state of emergency,” Putin took decisive action in combating separatists and terrorists throughout the region. Putin also won high approval for tough government measures against business tycoons, the oligarchs. At the same time, the Russian government imposed new constraints on democratic principles, in particular by interfering with press freedoms, subjecting NGOs to harassment and by committing human rights violations in the Chechen War. Showing flagrant disregard for the federal principles of the constitution, the government introduced political reforms in 2004 to strengthen central control over the regions.

Whereas authoritarian tendencies have characterized the political transformation of Russia under Putin, economic policy was initially dominated by liberal ideas and only gave way to an increased focus on gaining control over “strategic” economic sectors in his second term. Largely driven by increases in world oil prices, Russia experienced a decade of strong economic growth, with GDP increasing by an average of 6.9% per year between 1999 and 2008. Yet, despite large-scale social

projects, socioeconomic development has been slowed by widespread corruption, an extensive shadow economy and the executive branch's manipulation of the judiciary.

At the end of his second term in April 2008, Putin accepted the constitutional limit on presidential terms and did not seek re-election. His hand-picked candidate, Vice Prime Minister Dmitry Medvedev, won the presidential election with a margin that mirrored Putin's previous electoral success. Medvedev, in turn, appointed Putin as prime minister, a decision that appeared to confirm speculations of Putin continuing his hold on power. The strategy pursued by Putin and Medvedev in tandem aimed at ensuring political stability, economic growth and benign relations with the West. For the Russian leadership, violating certain democratic rights or market principles was, at times, a necessary means to achieve their stated objectives. Measured against their own standards of success, the political leadership of Putin and Medvedev was quite successful. However, measured against the normative standards of a democracy, based on the rule of law and a market economy anchored in principles of social justice, Russia continued to lack a comprehensive social, liberal and democratic system of governance.

The situation changed on the 24 September 2011 when Putin and Medvedev traded places in, an arrangement compared to the chess move of "castling". This caused discontent among Russia's elites and served as a trigger for the protests of the so-called "creative class" in the large urban centers, including Moscow. Moreover, an economic slowdown, resulting from the exhaustion of Russia's resource-based economic model and increasing government interference in business practices, undermined relations between the state and society, which throughout the 2000s had been based on a pattern of paternalism and a steady growth of living standards. The Kremlin responded with a sustained propaganda campaign that presented the West and, in particular, the USA as an external threat to Russia and its perennial enemy. The state media machinery, which developed in the 2000s and was further streamlined in 2013 and 2014, proved highly effective in promoting this image. In the course of the Ukrainian crisis this situation finally escalated beyond the boiling point. It is far from clear how the regime will be able to escape from the trap in which it has ended up.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Russia's statehood is seriously challenged only with regard to separatists in the northern Caucasus. Since the second Chechen War began, in September 1999, the Russian military has been unable to establish full control in the region. The northern Caucasus regions of Dagestan, Chechnya and Ingushetia are regularly subject to attacks by rebels targeting individuals and institutions representative of Russia's central power. Rebels have also committed several acts of terrorism throughout the region and beyond, including in the Russian cities of Volgograd and Moscow. However, there are no serious limitations on the state's monopoly on the use of force outside the northern Caucasus.

Apart from the separatist conflict in Chechnya, the definition of citizenship and who qualifies for it is not a politically contentious issue. The majority of the population conceives of the current Russian state as a state based on those people who irrespective of creed or ethnicity have lived within its territorial borders for a long time, with a dominant role ascribed to the Russian nation. Xenophobia is widespread and directed primarily at individuals from the Caucasus, Central Asia and Africa. Racial violence has led to rioting and the deaths of several individuals. There are also many cases of state employees discriminating against Russian citizens who are members of ethnic minorities from the northern Caucasus.

Officially, there is separation of church and state, and the political process is secularized. However, in many respects the Russian Orthodox Church enjoys a privileged status. For example, some government officials publicly demonstrate their denominational preference, while the church occasionally interferes without restriction in cultural affairs. Most importantly, traditional Russian Orthodox values since 2013 have become the central building bloc of efforts by the Kremlin administration to forge a new ideological identity. Members of minority religious groups, including the Roman Catholic Church and Islam, have occasionally complained of discrimination. Yet, at the same time, the Russian government has

Question
Score

Monopoly on the
use of force
9

State identity
9

No interference of
religious dogmas
7

adopted an explicitly pro-Islamic stance on several occasions and President Putin has repeatedly pointed out that, in absolute terms, Russia has one of the world's largest Muslim populations.

Apart from some northern Caucasus regions, the state has in place a basic administrative infrastructure (i.e., administrative institutions, fundamental administration of justice, the means of implementing policies) throughout the country. However, bureaucratization, corruption and a lack of funds have resulted in erratic administrative performance.

Basic
administration
7

Basic infrastructural services such as water supply, transport, communication, health services and education have been in place throughout the country since Soviet times. However, some rural areas still do not have access to all services. Indeed, more than 10% of all Russian households lack full access to sanitation. Moreover, the lack of funds for maintenance and modernization have resulted in a decline in the quality of basic services in many regions. In addition, corruption tends to disadvantage the poor concerning access to services such as health and education.

2 | Political Participation

The Russian electoral system may be nominally democratic, but it is clearly designed to favor the pro-presidential party, whether the official United Russia or the amorphous All-Russia People's Front, established in 2011 when United Russia's popularity began to decline. The voting process is generally free but there are severe problems in terms of electoral fairness. Electoral campaigns and registration processes are biased against opposition parties and candidates. There are severe constraints with regard to registration and media access. In many local and regional elections officials have denied opposition candidates and parties registration. Election campaigns are regularly manipulated by the state administration throughout the country. This includes biased media coverage on state-controlled television channels in particular, the use of state resources to support specific parties or candidates, and bans on public demonstrations or assemblies organized by opposition parties. Moreover, the electoral system has been structured to favor the pro-government party United Russia. Electoral fraud is widespread and elections in some ethnic republics, particularly in the northern Caucasus and Kalmykia, have never met any democratic standards.

Free and fair
elections
4

However, independent opinion polls, conducted during previous parliamentary and presidential elections, consistently indicated that the majority of the population supported the pro-presidential party, and the presidential candidacies of Vladimir Putin and Dmitry Medvedev. The biased media coverage, which the pro-presidential

party and presidential candidates received, ensured that there was no need to systematically manipulate the vote count.

On the eve of the December 2011 parliamentary elections, popular support for the ruling United Russia party seemed to have eroded. The poll numbers for President Medvedev, Prime Minister Putin and United Russia declined, with a young, well-educated urban population expressing its disappointment with President Medvedev's failure to deliver on his economic and social promises. Furthermore, Putin's announcement that he would run again for the presidency in March 2012 was met by many with deep frustration. The leadership appeared to grow nervous and sought to manufacture stable majorities in the parliamentary elections through electoral fraud. According to international and local observers, the election's flaws were apparent in several regions and major cities throughout the country, including Moscow. United Russia won only 49.3% of the vote, which was widely believed to have been inflated, despite being well below Russian standards and considerably less than the two-thirds majority it had won in the 2007 elections. In the largest protests seen across the country since the early 1990s, Russians called for new elections, criticized the arrest of demonstrators and demanded the removal of the chairman of the Central Election Commission.

Nothing of this happened, and in the March 2012 presidential elections, Putin was able to secure victory with 63.6% of the votes. The ODIHR stated that although this election was conducted more fairly than the previous parliamentary elections, genuine competition remained absent. The Russian NGO GOLOS estimated some 15% of votes had been falsified.

After Putin had replaced the gubernatorial elections in 2004 with presidential appointments, direct regional elections for Russia's governors were reintroduced in 2012, a decision that was widely seen as a concession by then President Medvedev to public protests. Yet, regional elections remained biased toward incumbent governors due to the so-called official filters, which introduced mechanisms that barred any serious competitors. In all 43 regional elections between 2012 and 2014, the incumbent that had Moscow's approval claimed victory.

Moreover, in order to avoid serious campaigning and to provide for easier victories in regional and local elections, all elections are now held on the second Sunday of September. However, in the northern Caucasus republics as well as in the "new" Russian territories of Crimea and Sevastopol (which remain unrecognized by the international community) the old scheme was used in 2014. Meaning that regional assemblies ceremonially ratified the direct appointment of governors by President Putin. This pattern was adopted by three more regions in 2014.

In formal political decision-making, elected representatives have full power to govern. At a national level, the informal power of non-state actors (i.e., oligarchs) has been successfully reduced under President Putin, only to be replaced by the influence of state corporations led by his close allies and former colleagues. It is generally assumed that representatives of the secret services and the military (referred to in Russia as the “siloviki”) have gained broad political influence. This influence is mostly formalized through appointments to official positions in government agencies and state-owned companies. Concerns about democracy in Russia thus focus on the behavior of elected or legitimately appointed representatives and not on the influence of other potential veto powers.

Effective power to govern

3

The constitution guarantees freedoms of association and assembly, and state representatives voice support for these rights. However, in practice, there are considerable restrictions placed on rights to organize and communicate politically. Smaller liberal as well as right-wing opposition parties have systematically been discriminated against by the state administration and the media. NGOs critical of the national or regional government have also repeatedly been subject to harassment by state agencies.

Association / assembly rights

3

Several demonstrations and public assemblies by oppositional parties and movements have been banned or have been prevented under administrative pretexts. Unauthorized demonstrations have, on many occasions, been dissolved by police forces using violence who then arrested several participants. Some protests against specific state policies, like the demolition of houses, road projects through nature reserves or special driving rights for privileged people (“blue light driving”) have also been dissolved by the police.

The fraudulent parliamentary elections in December 2011 triggered the largest mass protests across the country since the 1990s. The arrest of demonstration participants was widely used as an attempt to intimidate the protestors. Although demonstrations subsided after Putin’s re-election, clashes between protestors and the police at a rally in Bolotnaya square, located in the center of Moscow, on the eve of Putin’s 7 May 2012 inauguration led to further arrests, pre-trial detentions and a two-year investigation. Over a dozen randomly chosen participants were sentenced to two and a half to four and a half years in prison. In the months after Putin reclaimed the presidential office, the government increased pressures on NGOs, and further restricted assembly and association rights by enacting new legislation that increased the fines for participating in unsanctioned rallies. According to the Council of Europe’s Venice Commission, the law violates a number of European standards, for example, by allowing the authorities to change the location of a rally on arbitrary grounds.

In addition, NGOs that engage in political activities and receive financing from abroad must register as “foreign agents” according to a new law that was passed in July 2012. Since most NGOs refused to obey, in June 2014, the Ministry of Justice was granted the authority to put NGOs on the “foreign agents” list without consent. By February 2015, the list included 35 organizations. Being on the list means that the organization will have to cope with the highest level of state scrutiny, making it very difficult to work. Under pressure from the Russian government in the last couple of years even international organizations, such as the US Agency for International Development and UNICEF, were forced to leave the country. They were preceded by the Open Society Institute, the Ford Foundation, the British Council, the National Democratic Institute, the International Republican Institute and the International Foundation for Electoral Systems.

The constitution guarantees freedom of expression, but in practice the mass media and journalists face heavy pressure from several fronts. The state executive directly controls most of the media. According to an assessment by the Russian Ombudsman for Human Rights, since 2006 “the main mass media, and above all the leading electronic media, accounting for 90% of the information segment of the country and forming public opinion, have been under the very strict control of state organs.” As a result, media coverage of elections is systematically manipulated. Opinions critical of the government are on many occasions restricted to a handful of newspapers and radio stations with a very limited reach, primarily aimed at the political and business elite, and to the internet. This does not mean that there is no criticism of official policy or no controversial debate in the Russian mass media, but that the Kremlin can generally decide what controversial issues can be discussed and what not. Whereas under the presidency of Medvedev the press initiated discussions on controversial issues, since the reelection of Vladimir Putin criticism outside the boundaries set by the Kremlin is strongly discouraged. Critical journalists and media are often subjected to administrative harassment, in the form of extensive fines for libel or intensive investigations by state organs into, for example, tax avoidance.

From August 2014, blog websites must be registered as a media outlet, if they attract more than 3,000 visitors a day. This new legislation also requires internet companies to store user data for six months and supply law enforcement agencies with this data on request. According legislation introduced in 2014, shares of Russian media outlets owned by foreign entities will be limited to 20% by 2017. This restriction significantly tightens the existing regulations which ban foreign citizens from owning media outlets with a circulation of more than one million subscribers and from owning more than 50% in terrestrial TV channels or radio stations that can broadcast to more than half of the Russian population. Consequently, Western media outlets should either reduce their broadcast coverage or withdraw their services from Russia. This includes the BBC, RFE/RL and Voice of America. In 2014, after 21 years of broadcasting in Russian, CNN ceased its operations in the country.

Freedom of
expression
4

According to the Glasnost Defense Foundation, five journalists were killed in 2014 and 127 were attacked, some of them seriously injured. There is no evidence that the state is behind these assaults, but the state has proven unable to protect journalists or to hold anyone responsible for these crimes.

3 | Rule of Law

Serious deficiencies exist in the checks and balances among the executive, legislative and judicial branches, with division of powers existing only de jure. As the president de facto controls the parliament, the legislature exercises its review function only to a very limited degree. The largest share of bills, 256 out of 478 adopted in 2014, are submitted by the executive branch. Moreover, no bill can be adopted without the approval of the Kremlin. The judiciary is independent in principle, but lower-court decisions in particular are often influenced by corruption and political pressure.

Separation of
powers
3

In especially high-profile cases, such as the Pussy Riot affair in 2012 or the cases against the opposition leader Aleksey Navalny in 2013 and 2014, principles of equal treatment and formal court proceedings have been violated through direct interference by the Kremlin.

The judiciary is institutionally differentiated and a formally adequate education and appointment system for judges exists. However, their professionalism suffers from the legacies of corruption and state interference. The fact that Russia has the third highest number of cases pending at the European Court of Human Rights suggests that Russian citizens consider their domestic courts to be biased.

Independent
judiciary
4

According to many surveys of entrepreneurs, courts are perceived to operate fairly in the case of inter-firm disputes. In contrast, court cases against state agencies are perceived to be unfair. The take over of the relatively autonomous and modern Highest Court of Arbitrage in 2014 by a more state-controlled Supreme Court is a serious blow to what judicial independence remains. The Kremlin strongly pushes Russian businesses towards “de-offshorization” and encourages all disputes involving Russian businesses to be resolved domestically by state-controlled courts. The government did not abide by the 2014 ruling of the Hague Arbitration Court, which ordered Russia to pay the shareholders of Yukos \$50 billion for expropriating their assets. Moreover, in 2014 the Constitutional Court ruled that the decisions of international courts may be overruled in the event that they “do not correspond to the Russian constitution”.

The Russian leadership, including Putin and Medvedev, repeatedly names corruption as a key challenge. There many legal instruments exist that are capable of tackling corruption. These instruments include a 1992 decree introduced by then President Boris Yeltsin to fight corruption in the civil service as well as additional anti-corruption laws and a further presidential decree designed to enforce the U.N. Convention against Corruption and the Council of Europe's Criminal Law Convention on Corruption. In addition, since 2012 public servants have been obliged to disclose the value and source of their wealth.

Prosecution of
office abuse

4

However, most anti-corruption efforts are symbolic in nature. Accusations of corruption among the political elite are considered to be functions of public relations campaigns that arise within political power struggles. When, for example, in 2012 Putin decided to sack Defense Minister Anatoly Serdyukov, there were several media reports alleging mismanagement and corruption under his watch. However, all charges against him had been dismissed by 2014.

The constitution guarantees civil rights. The Russian Ombudsman for Human Rights, together with his colleagues at the regional level and independent NGOs, serve to monitor the assurance of these rights. However, Russia's political leadership often sacrifices civil and human rights as well as the rule of law in order to strengthen its own political power, which the country's leaders believe is requisite to providing stability. Lower courts are often biased in favor of local politicians or as a result of corruption and do not, therefore, properly protect civil rights. The state prosecution has initiated biased and selective investigations against a considerable number of independent journalists and NGOs. The rules of due process have also been violated in the Yves Rocher Navalny case, which saw a court decision in December 2014. The fact that nearly 100,000 cases from Russia are pending at the European Court of Human Rights also underscores the poor state of civil rights protection the country. Moreover, since the launch of the anti-LGBT campaign by the Kremlin, harassment of homosexuals has become commonplace.

Civil rights

5

With regard to the fight against terrorism and the situation in the northern Caucasus, the security forces have decided at least implicitly that "stability" trumps the local population's rights. This view is by the fact that human rights violations at the hands of Russian security forces are rarely investigated and rarely punished. Amnesty International and Russian human rights organizations regularly report cases of torture in state prisons in the northern Caucasus.

4 | Stability of Democratic Institutions

The democratic institutions foreseen in the constitution are in place and perform their functions - in principle. The institution of Regional Governors was, until recently, a debatable exception. The constitution defines Russia as a federal state, but from 2005 to 2012, elections for regional governors had been abandoned, with the president appointing these officials instead. Some experts claim that this was in violation of the constitution, but the Russian Constitutional Court disagreed. In 2012, direct elections of regional governors were reintroduced, but results for most of the first rounds of elections showed that the election processes were heavily influenced in favor of the incumbents.

Performance of democratic institutions

3

In general, the efficiency of democratic institutions is hampered by interference from the state executive. A further obstacle to the adequate performance of democratic institutions is the country's weak party system which is dominated by the "party of power," United Russia. A weak and passive civil society, limited in its capacity to counteract the effects of strong state influences, also contributes to democratic institutions' weak performance. Finally, legislative provisions are often poorly implemented by an inefficient administration that is subject to corruption.

Political power is concentrated not so much within the existing democratic state institutions, which are accepted as legitimate by all relevant actors, but rather within different semi-legal bodies headed by the president, in which major political, business and security elites are represented. However, although the existence and legitimacy of democratic institutions is not challenged by any relevant actor, these institutions are manipulated and undemocratic methods are deemed legitimate by political elites. In sum, the acceptance of democratic institutions is for most influential actors more a question of pragmatic consideration than of principle. And acceptance relates only to the letter of democratic rules, not to their spirit.

Commitment to democratic institutions

2

5 | Political and Social Integration

So far, Russia has been unable to establish an organizationally stable, socially rooted party system. The relevant political parties are predominantly personality-oriented voting associations. The population is highly skeptical of political parties. In fact, the share of the population claiming to trust parties never exceeds 10%. The Communist Party is the only party with a socially rooted, though shrinking and aging, mass base. In addition, the pro-presidential party United Russia, which was founded in 2001 through a merger of the two main rival parties of the prior elections, has created an organized mass base from above. It has done so with state support and by providing financial and professional incentives for members. Further parties with a certain degree of institutionalization are the populist-nationalist Liberal Democratic Party

Party system

4

(LDPR) and the liberal Yabloko party. United Russia, which is still the dominant party in Russian politics, won only 49.3% in the 2011 parliamentary elections, down nearly 15 percentage points from its 64% share in 2007. But it still holds a majority in the State Duma (the lower house of parliament) and in almost all regional parliaments. United Russia often cooperates with the populist LDPR (9%) and other parties of the so-called systemic opposition within the Duma, that is, the Communist Party (19.2%) and the Just Russia party (13.2%). As a result, there is a low level of polarization in the party system.

Until recently, there were only eight registered political parties in Russia. Changes in 2012 to the law on political parties have been implemented. However, instead of strengthening the party system and widening its ideological base, it has strengthened the position of the larger parties. While the number of political parties has mushroomed, reaching 77 by February 2015, only a few of the new ones are able to participate in regional elections, let alone national elections.

The interest groups targeting social and political issues are weak. Important social interests are under-represented. The trade union movement remains dominated by the successors to the socialist unions, despite an increase in independent unions. The political leadership's reaction to the activities of interest groups has essentially been symbolic. The new law that forces politically active, foreign-funded NGOs in Russia to register as "foreign agents" could have a severe impact on the landscape of civil society organizations, as many of them are at least partly dependent on foreign funding. Political NGOs critical of the government have been excluded from the dialogue between the state executive and civil society. They have also been subject to harassment by state agencies on several occasions. However, NGOs that are less political are able to function.

As a result of several years of harassment or marginalization, the strength and variety of interest groups has been further reduced. Today, many NGOs shy away from political affairs. There are also numerous state-sponsored organizations openly supporting the government. In 2014, the government provided 2.7 billion RUB in grants to NGOs and business associations that avoid challenging the government. In contrast, there are only a relatively small number of NGOs that speak out in opposition to the government.

The large public demonstrations following the 2011 parliamentary elections indicated that a sizable and primarily urban part of civil society in Russia is beginning to take on a more active role in public life. At the same time, these groups and people face increased suppression. Though street protests continued throughout 2012, the numbers of participants declined as the momentum in mobilizing a larger share of the population could not be sustained. In 2014, as Putin's post-Crimean approval rating hovered at 85 to 88 %, political rallies almost disappeared. Nevertheless, there were instances of protests in response to redundancies in the health and education sectors

Interest groups
4

as well as an increase in the cost of accessing public services. The “non-systemic” opposition also organized a demonstration of tens of thousands against Russia’s military involvement in eastern Ukraine.

The population’s approval of democracy per se as voiced in representative polls is moderate to high, depending on the wording of the question. However, about a third of the Russian population is not able to give any meaningful definition of democracy.

Approval of
democracy
n/a

Moreover, when asked about specific democratic principles, including democratic elections, accountability and civil rights, the majority of the Russian population does not consider any of these principles to be important, as polls by institutes like FOM or the Levada Center regularly indicate. In summary, about a quarter of the population is openly opposed to democracy, whereas little more than 10% can be counted as strong democrats. Accordingly, the majority of the Russian population has no strong opinion on democracy. This implies a sort of silent consent to democratic norms, but no principled opposition to undemocratic norms.

The low rates the Russian population gives in assessments of democratic performance and approval of democratic institutions may indicate disappointment with the Russian reality more than any attitude toward democratic ideals as such.

In Russia, trust among citizens – as measured in public opinion surveys with the question whether most people can be trusted – is lower than in most West European countries. A quarter of the population claims to have trust in others. This result is on par with the average for all 57 countries included in the latest round of the World Value Survey. However, this average level of trust translates into a comparatively low level of voluntary and autonomous activity.

Social capital
4

In recent years however, the situation has started to improve as thousands of volunteers organized through social networks participated in fighting forest fires and assisting those hit by flooding, among other activities. Self-organization in civil society encounters strong barriers, namely the burden of a Soviet past in which NGOs did not exist, and harassment by the state executive power. Accordingly, NGOs are unevenly distributed, flourishing mainly in the two largest cities, Moscow and St. Petersburg, and are often spontaneous and temporary.

Many Russian NGOs have been able to survive only as a result of the support of international organizations and sponsors. New legal provisions and increasing pressure by the government throughout 2011 to 2014 to cut off foreign funding have severely affected their capacity to operate.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers

7

The key indicators show a relatively high level of socioeconomic development for Russia. Measured in terms of the Human Development Index (HDI), the country's level of development permits adequate freedom of choice for almost all citizens. In the 2014 report, based on 2013 data, Russia scored 0.778 placing it 57 out of 187 countries. There is no indication of fundamental social exclusion on the basis of poverty, education or gender discrimination. The economic boom, which started in 1999 and led to a rise in GDP of more than 70% by 2008, had been accompanied by an eightfold rise in average wages (from \$80 per month to \$600). The negative impact of the global economic crisis (2008 – 2009) on socioeconomic development has largely been averted through expansive state spending. As a result, unemployment had returned to pre-crisis levels by 2010 and the mean wage had increased to about \$900 by 2013. (Although, at the very end of 2014 the mean wage fell by 40% due to a devaluation in the Russian ruble). However, at the same time, social inequality as indicated by the Gini index increased markedly in the 1990s and has since then hovered around the 0.4 level. For example, Russia scored 0.42 for 2012. Reasons for this include long-term unemployment, an insufficient pension system, anti-poverty measures that fail to target the very poor and a flat income tax rate. There are considerable regional differences in levels of socioeconomic development within Russia. Financial readjustments made among regions do not materially reduce these discrepancies.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	764016.0	1524917.5	2079024.8	1860597.9
GDP growth	%	6.4	4.5	1.3	0.6
Inflation (CPI)	%	12.7	6.9	6.8	7.8
Unemployment	%	7.1	7.3	5.6	-
Foreign direct investment	% of GDP	2.0	2.8	3.3	1.2
Export growth	%	6.5	7.0	4.2	-
Import growth	%	16.6	25.8	3.7	-
Current account balance	\$ M	84388.7	67452.2	34800.6	58431.5

Economic indicators		2005	2010	2013	2014
Public debt	% of GDP	15.9	11.3	14.0	17.8
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	9.9	-1.9	-	-
Tax revenue	% of GDP	16.6	13.0	-	-
Government consumption	% of GDP	16.9	18.7	19.7	-
Public expnd. on education	% of GDP	3.8	-	-	-
Public expnd. on health	% of GDP	3.2	3.7	3.1	-
R&D expenditure	% of GDP	1.07	1.13	-	-
Military expenditure	% of GDP	3.6	3.9	4.2	4.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The foundations of market-based competition are assured by the country's institutional framework. Prices on the domestic market were freed in 1992. By now, price regulation by the state is restricted to utilities. The state also provides subsidies for agricultural products, although these have decreased since Russia joined the World Trade Organization in August 2012, following 18 years of negotiations. The national currency became freely convertible in summer 2006. Foreign trade has been liberalized and the remaining restrictions are no more extensive than those found in other OECD countries.

However, economic policy remains skewed in favor of politically influential large corporations, in particular state-owned companies. The state has increased its share of companies owned and has, in a number of economic sectors deemed to be of strategic relevance, discriminated against private and foreign investors in particular. Although the global economic crisis has led to an increase in state support for individual enterprises, the bias in favor of well-connected enterprises has been reduced, while support for innovative and export-oriented firms has improved, according to an independent study by the Higher School of Economics (Moscow) and the Levada Center. The informal sector amounted to 30% to 50% of GDP in the late 1990s. According to the Russian government, President Putin's economic reforms have reduced the size of this sector considerably.

Market-based
competition
5

However, independent empirical studies are not available. Although the economic boom in the late 1990s generated a net capital inflow, Russia showed a net outflow by 2008. The net outflow reached \$151.5 billion in 2014. Recently, this outflow can be attributed to Western banks retracting credit due to sanctions imposed on Russia by Western countries. Red tape presents a serious obstacle to running a small or medium-sized enterprise.

Russia is ranked at 62 out of 189 on the World Bank's 2015 "Ease of Doing Business" ranking, although it is placed at 156 on dealing with construction permits and 155 on trading across borders. As a result of unattractive conditions for business, especially the uncertainty of property rights, investments lie far below the levels needed to satisfy the Russian economy's needs. In January 2015, Moody's and Standard & Poor's announced a downgrade in Russia's credit rating to a speculative BB+, which will make it even more difficult to improve the investment climate.

Broad sectors of the economy, defined as significant to national security, are shielded from competitive pressures and have been amalgamated within sector specific conglomerates, such as Russian Technologies, which is headed by an old acquaintance of Putin, Sergei Chemezov. Despite long-running debates, the "natural" monopolies in the natural gas and transportation industries have not been subject to substantial reforms. In addition, a new giant, the state company Rosneft, has emerged in the oil sector. Russia's anti-monopoly agency is rather efficient in addressing the liberalized sectors of the economy, though this is less true at the regional level, where some administrative offices have blocked competition.

Anti-monopoly
policy
7

Although Russia's foreign trade has been liberalized in principle, and despite having finally joined the World Trade Organization (WTO) in August 2012 after 18 years of negotiation, some barriers to free trade remain. In response to the global economic crisis, new protective import tariffs were imposed on certain agricultural products and on cars in late 2008. Regulatory exceptions with regard to these products as well as some metals have resulted in regular trade disputes, primarily with the EU. In summer 2010, grain exports were temporarily banned in reaction to a poor harvest resulting from extreme drought and forest fires. The sanitary authority has also become famous for providing cover for politically motivated import bans that have frequently targeted companies from, Belarus, Moldova, Ukraine, the EU and the US.

Liberalization of
foreign trade
8

In 2010, Russia formed the Customs Union with Belarus and Kazakhstan, which allows for common tariffs and removes customs duties and other barriers to mutual trade, with the exception of certain protective measures designed to prevent price dumping. In January 2015, further economic integration took the form of a Eurasian Economic Union including Russia, Belarus, Kazakhstan and Armenia.

Although Russia has a two-tier banking system and a central bank that is eager to demonstrate its independence, the Russian banking sector remains underdeveloped and is still not able to perform its economic function as a financial intermediary. Moreover, the banking sector is dominated by state-owned banks. Regulation of the banking sector has some deficits and the adoption of international standards (Basel II, Basel 2.5, Basel III) is proceeding slower than originally planned and in many other countries.

The international financial crisis of 2008 combined with the current economic recession have put a heavy strain on the already weak Russian banking sector. But the Russian state guaranteed the banking system's liquidity, thus preventing a collapse. In 2008 and 2009, the government spent a total of \$31 billion (equal to slightly more than 1% of GDP in both years) to support the financial sector. About half of the money was used to recapitalize banks and other financial institutions. In addition, the government and the central bank adopted a package of further measures to increase banking liquidity, including a cut in central bank reserve requirements, and increased provision of central bank loans and budget funds (for administration) to commercial banks. Such state support has been reinstated in the wake of the current economic crisis.

As a result, the number of banks in Russia is still disproportionately high. In December 2014 there were about 842 banks operating in Russia, including 74 banks supported with only foreign capital. All of these banks were included in the system of securing deposits.

8 | Currency and Price Stability

After the 1998 financial crisis, which caused significant inflationary pressure as the ruble lost around 70% of its value against the U.S. dollar, the government and the independent central bank were able to bring inflation under control and stabilize the exchange rate through a consistent budgetary and monetary policy. The national currency became fully convertible in summer 2006. As in many countries, inflation accelerated in 2008 because of rising prices for raw materials (especially oil, gas and metals) and agricultural products. The financial crisis then put the exchange rate under pressure. In autumn 2008 alone, the central bank invested more than \$100 billion to defend it. The result was a controlled depreciation of the currency and an only temporary increase in inflation. The reaction to the global financial crisis has thus proven that monetary policy is one of the key concerns and also key competencies of the Russian government.

However, the economic sanctions imposed on Russia following the Ukraine crisis combined with a depreciation in the world oil price led the central bank to reverse its exchange rate management strategy and replace its first deputy governor and head of

Banking system

6

Anti-inflation /
forex policy

8

monetary policy, Xenia Yudaeva. In order to prop up the ruble, the central bank sold \$76 billion and €5.4 billion of its foreign currency stocks. This reduced the central bank's foreign currency reserves by a quarter, from \$509.6 billion to \$385.5 billion. Despite these interventions, the central bank subsequently reversed its exchange rate management policy and adopted a free-floating exchange rate policy. Following this policy reversal, the ruble appreciated by over 10% having previously lost more than 40% of its value. Yet, this appreciation coincided with a stabilization of the world oil price.

Over the last decade, Russia has adhered to a consistent austerity policy that regularly led to budget surpluses. This allowed for a significant reduction, from over a third of GDP in 2000 to 2% of GDP in 2008, in the sovereign debt owed to foreign actors. However, this contrasts sharply to trends in private debt owed to foreign actors. The fact that monetary policy is integrated into general economic policy is also indicated by the Reserve Fund, which was introduced to save for the future the state budget's windfall profits from high oil prices. This fund has been largely defended successfully against demands for increased state subsidies. The saving of windfall profits allowed in autumn 2008 as well as again in 2014 and 2015 the Russian government to react to the economic crises with extensive liquidity support and stabilization programs. The resulting budget deficits of 6% in 2009 and 2% in 2010 could be financed from the Reserve Fund, in 2011 and 2012 budgets were practically balanced. The situation worsened again in 2014 and 2015 when the government cut budget expenditures by 10%, excluding pension and defense expenditures that together amounted to a staggering 9% of GDP for the first quarter of 2015. Nevertheless, in 2015 a budget deficit of about 3.5% of GDP is projected. In May 2015, the Finance Ministry estimated that the budget will only be balanced by 2018. This implies that even in the best of circumstances the Reserve Fund will be depleted before the budget is balanced.

A side effect of the current economic crisis, caused by a decline in the world oil price and economic sanctions imposed by Western countries, is a considerable improvement in Russia's current account balance, from 1.6% of GDP in 2013 to more than 7% of GDP in 2015. While a depression in GDP rates can partly explain this trend, it should largely be attributed to a substantial reduction in imports resulting from Russia's counter sanctions against Western countries and the low ruble exchange rate.

9 | Private Property

Property rights and the regulation of the acquisition of property are defined formally in law. With the exception of the sale of farmland, legal provisions are practical. They are not, however, consistently implemented or adequately safeguarded by law, especially against state intervention. In those sectors deemed strategic by the government (e.g., the oil industry), the state seems to be systematically reducing the share of private owners through administrative pressures, which lead either to confiscations or to negotiated sales. The two most recent cases occurred between 2012 and 2014. First, the state-owned company Rosneft paid \$44.4 billion in cash between 2012 and 2013 to acquire Russia's second largest private oil company, TNK-BP. In the second case, Bashneft, the fifth-largest oil company, was "deprivatized" when the AFK "Systema" company was forced to hand it back to the state in 2014, having originally bought it from the state in 2009. Some property rights, especially copyrights, are ignored on a regular basis.

Property rights
3

According to the IMF the state now controls 71% of the economy, which is almost twice the 38% share it held in 2006. This seems to be a result of the Russian government's attempts to bring "strategic" enterprises back under state control. The prime example for this is the oil industry, where the share of state companies in production has risen from about 15% in 2004 to about 40% in 2010 and 55% in 2013. The bias toward state ownership is also highlighted by the fact that there have not been any major privatizations in recent years. There are also market concentrations tolerated by the state, especially in the "natural" monopolies such as natural gas and railroads. The share of small and medium business is only 16% and is decreasing.

Private enterprise
4

Moreover, the lack of sufficient protection for property rights is a major constraint on the vibrancy of the private sector, particularly concerning SMEs. In many cases, well-connected business people or civil servants managed to strip successful competitors of their property with the help of, for example, law enforcement agencies, tax authorities or sanitary inspectors.

10 | Welfare Regime

Parts of the social security system are relatively well developed in Russia, but they do not cover all risks for all strata of the population. Moreover, efficiency and availability is reduced by widespread corruption. Though pension payouts and unemployment benefits have been increased considerably in recent years, they are still insufficient in covering basic needs. Without additional income – such as a job in the shadow economy, private farming or family support – these social groups are at risk of slipping into poverty. The bigger cities have large numbers of homeless people without access to state social facilities. Economic growth since 1999 has mitigated the country's social problems, as wages and employment rates have risen and poverty has been reduced.

Social safety nets
6

The negative impact of the global economic crisis of 2008 – 2009 on Russia's socioeconomic indicators has been offset by increased government spending. But improvement in the state's social insurance systems has been limited. Reform of the state's social welfare system has aimed at liberalization. However, most Russians lack the financial means for private insurance and, especially in the pension system, private companies are underdeveloped.

Special government programs to improve health care and fight rural poverty have had only very limited impact so far, primarily because of the magnitude of the problem and inefficiency within the state bureaucracy. According to OECD data for 2012, Russia spent 6.3% of GDP on health, well below the OECD average of more than 9%. Yet the sheer size of the state health care sector as an employer, with 700,000 doctors and an additional 1.5 million trained medical personnel, makes a rise in salaries difficult. Another problem with the special state programs is that they have not established meaningful accounting mechanisms for the use of funds.

Equality of opportunity is not fully assured. There are substantial differences from one region to another. Members of non-Russian ethnic groups, in particular those from the Caucasus, are subject to systematic discrimination in the education system and on the job market. In Moscow, for example, citizens from the Caucasus region have been banned from working at public markets. Social exclusion extends to people living in the northern Caucasus where, in some regions, living standards and wages are far below the national average and a quarter of the population is unemployed. There are sizable communities of homeless people in the bigger Russian cities. Throughout the country, women have equal access to education but are under-represented in the political system and in business management.

Equal opportunity
6

11 | Economic Performance

Until 2008, when the global economic crisis hit Russia, the country's macroeconomic performance had been strong. GDP grew by 70% from 2000 to 2008. In 2006, GDP grew by 8% and fixed investments increased by 17% (though they were at rather low levels to begin with). At 9% in 2006, the rate of inflation based on the Consumer Price Index (CPI) was much lower than the 20% recorded in 2000. Unemployment also fell from 10% in 2000 to 6% in 2006, and the state budget recorded a surplus equal to 7% of GDP in 2006. For the same year, Russia ran a current account surplus of nearly \$100 billion thanks to massive exports of raw materials (oil, gas and metals), and the share of tax revenue as a percentage of GDP stood slightly above a 33%, which was roughly equal to the OECD average.

Output strength
5

Then the economic crisis hit. From 2008 to 2009, GDP fell by more than 8%, fixed investments dropped by 17%, inflation (CPI) rose to 12% and unemployment to 8%. The current account surplus was reduced to \$50 billion. Falling oil prices in 2009

delivered a heavy blow to the state budget, which depends heavily on tax and customs payments from the oil and gas industries. As budget revenues shrunk by nearly 15% from 2008 to 2009, Russia's budget shifted from a 6% surplus to a 4% deficit during the same time period. Although this indicates a severe macroeconomic crisis, Russia's performance was not extraordinarily bad by international comparison. The impact of the crisis was mitigated by heavy state spending. From 2008 to 2010, the Reserve Fund was reduced by \$100 billion, but central bank reserves were soon stabilized and foreign debts remained at an extremely low level (equal to 2% of GDP).

Since 2010 and in line with global trends, the Russian economy at the aggregate level has started to grow. However, the national economy has not reached its pre-crisis levels. Furthermore, this recovery has not been felt across Russia, nearly half of the country's regions have not recovered positive growth rates. After reaching 4.5% in 2010, Russia's economic growth rate slowed dropping to 3.4% in 2012, 1.3% in 2013 and 0.6% in 2014. For 2015, Russia is expected to enter into a period recession with a growth rate between -2 and -3.5%. The reasons for this downturn are hotly debated and include the adverse effects of the depression on world energy and raw material markets, the collateral damage of the Ukrainian crisis, the exhaustion of Putin's resource-based economic model, and the failure of this economic model to modernize and diversify Russia's economy.

12 | Sustainability

Russian economic policy is focused on medium-term economic growth. Ecological concerns are entirely subordinated to growth efforts, despite a considerable legacy of environmental damage from the Soviet era. Environmental concerns are addressed only when they promise to deliver clear, material, short-term advantages (and can be used to put pressure on unwanted investors) or when rewards in the international arena are expected in return (e.g., when the EU agreed on Russia's WTO accession terms in return for Russia's ratification of the Kyoto Protocol).

Nevertheless in 2012 then President Medvedev issued a decree which was meant to guide Russia's environmental policy until the year 2030. The decree acknowledged several ecological challenges facing Russia, including global challenges like climate change and domestic challenges like air pollution. There are also some remarkable success stories, such as the closure of the pulp and paper mill at Lake Baikal on 1 January 2014 following years of debate and the loss of 1,000 jobs.

A long-term political effort to reduce the country's economic dependence on raw material production, however, would reduce the negative impact these industries have on the environment, but such motivations are rarely cited by leaders when addressing such long-term goals. Relevant support for renewable energies is only slowly being addressed.

Environmental
policy
4

Russia inherited from the Soviet Union an education system with relatively high standards from an international perspective. Under post-Soviet conditions, however, the country has been unable to put this education potential to good economic use. Instead, Russia has suffered from the mass emigration of top personnel. Funding shortages and corruption have greatly reduced the quality of the state education system. The private education sector has not developed to a great enough extent to make up for the public system's shortcomings.

The Russian government reacted to this by declaring education a top priority as one of four national projects to receive considerable additional funding. Spending on education has reached about 5% of GDP. However, in the 2009 PISA test, the performance of Russian pupils was statistically significantly below the OECD average in all three categories (reading, mathematics, science). Russia has joined the Bologna Process, which aims to create a common European academic education system. But only a few academic institutions (mainly in Moscow and St. Petersburg) are able to teach on a European level. R&D in some areas (e.g., space technology) is still on par with international standards, but overall Russia fails to meet the OECD average in terms of R&D spending and output. In 2010, the government announced an ambitious goal of strengthening the positions of Russian universities among the world's top universities. Ten research universities were established and assured of substantial financing from the federal budget. However, the 2014 economic crisis put an end to these plans. Yet, even before 2014, there had been no marked improvement in the relevant rankings.

The Russian government has declared R&D a top priority, with spending on R&D hovering around 1% of GDP in recent years. A government initiated project to create a Russian Silicon Valley in Skolkovo, near Moscow, has not had any discernible effect on innovation within the Russian economy. Moreover, since Putin's return to the presidency, the project has fallen out of favor.

In 2009, Russia adopted the exam system used at most U.S. educational institutions, with finals at secondary level schools and entrance exams for tertiary level education. Aimed at decreasing corruption and providing provincial schoolchildren access to the best universities, this system - though certainly an improvement - remains fraught with problems, as demonstrated by scandals involving unusually high results for students in some regions.

Transformation Management

I. Level of Difficulty

The structural constraints on governance in Russia are moderate, and key indicators show a relatively high level of socioeconomic development. The country has an educated workforce that is, however, shrinking by 0.7 to 0.8 million a year as a result of demographic shifts. A decline in health care standards, an increasing rate of alcoholism and an aging population are generating serious demographic problems. Russia's population declined from 147 million people in 2000 to 143.7 million in 2014, increasing to 146.3 in 2015 with the inclusion of Crimea.

Structural
constraints

4

Russia's sheer size in landmass and physical geography continue to pose infrastructural challenges not easily overcome, not even by good governance. The country's population is concentrated in the more climate-friendly western and southern regions of the country, leaving vast areas of the country sparsely populated. These areas, where most of the country's highly valuable natural resources are found, remain essentially cut off from Russian and global markets. Russia has no developed transcontinental rail or highway system, which makes transporting these materials costly.

Throughout most of Russia's history, civil society was subject to considerable repression. Independent NGOs started to develop only in the late 1980s. The only longstanding tradition to which NGO members can refer is that of the dissidents and human rights activists of the Soviet period. Trust in institutions and social trust are relatively low in Russia. A culture of participation in public life is developing, but at a slow pace.

Civil society
traditions

6

The ruling political elite around President Putin has facilitated a strong confrontational approach to national politics. Many of Putin's political associates perceive politics in terms of "us versus them," which has resulted in several opposition figures and political movements being subject to discrimination and the target of populist slogans, biased media reports and police raids. The political leadership's capacity to dominate public discourse has created a context of passivity among much of the Russian population and marginalized the opposition.

Conflict intensity

4

Nonetheless, divisions in Russian society are beginning to emerge, as demonstrated by the political protests of 2011 and 2012 waged in the country's larger cities.

In the northern Caucasus, ethnic conflicts have the character of a low-intensity civil war and are associated with terrorist acts. They also have a religious dimension. Apart from this, visible divisions of Russian society have not transformed into violent conflicts. The non-Caucasian ethnic communities traditionally living on Russian territory have been accommodated within the federal system. The same applies to religious communities. However, xenophobia and anti-Semitism are spread among the population. Several people were killed in racist attacks in recent years, especially in the larger conurbations of Moscow and St. Petersburg.

II. Management Performance

14 | Steering Capability

Question
Score

Whereas Russian policies under President Yeltsin (1993 – 1999) presented a largely desolate picture of incompetence and short-term power grabs, Vladimir Putin, after coming into office in 2000, immediately defined and pursued clear, long-term priorities that have dominated the policies of his and later Medvedev's (2008 – 2012) administrations. However, these long-term priorities are inconsistent with the goal of establishing a market-based democracy. Politically, the government is primarily concerned with maintaining the executive's control over the legislative process and with implementing its policy measures. In terms of economic issues, the state is primarily concerned with expanding its presence in the economy and promoting economic growth, in part through direct intervention.

Prioritization
5

In May 2012, President Putin laid out a dozen ambitious long-term goals by decree. The strategic goals included creating 25 million new jobs by 2020, a 50% increase in labor productivity, and an improvement of Russia's World Bank Ease of Doing Business ranking from 120th to 50th by 2015. The issued decree also included the goal of increasing the average lifespan to 74 years and the birthrate to 1.753 per woman by 2018. The government was tasked with preparing a strategic plan and new budget policies by October 2012, creating an ombudsman for the protection of small businesses by December 2012, and reviewing the status of state corporations by March 2013.

Although the government sets and maintains strategic priorities, its capacity to implement related policy measures is limited. The main problem is the deficient capacity of the state administration, which has repeatedly proven unable to realize large-scale projects due to a lack of resources, corruption and incompetence. As a result, policy measures that require just a small team of technocrats, as in monetary policy, are realized successfully on the basis of a long-term strategy. But all those policy measures such as health care, welfare provisions or education, in which the interests of different elite groups overlap, and which depend on support from larger parts of the state administration (e.g., throughout the regions), cannot be implemented successfully.

Implementation
4

In reaction to this, the government sometimes prefers technocratic projects where broad-based approaches would be needed, as in innovation policy, where one pet project at present substitutes for a systematic support program. The failure to implement many important reform projects targeting modernization was, on many occasions, acknowledged by Dmitry Medvedev as the major challenge facing the country. The ambitious long-term goals of the new Putin presidency aim primarily to improve the delivery of services in health and education at the regional level, and to make Russia an integral power within the decision-making processes and security architecture of Europe.

In response to administrative and political resistance to reform, the government has increasingly resorted to power and pressure tactics. At the same time, criticism originating from outside Putin's circle (as opposed to criticism of weaknesses in the state administration that are exercised by the leaders themselves) is met with increasing arrogance. As a result, independent decision makers, advisory bodies and civil society organizations (CSOs) are increasingly brought under Kremlin control and opposition voices are repressed or ridiculed. Although there are some influential think tanks in the country that regularly give independent advice to the government on key policy reforms, their role is diminishing.

Policy learning
4

15 | Resource Efficiency

Although reforms have improved resource efficiency considerably in the last decade, Russia is still far from achieving an effective use of resources. Although a stringent austerity policy has rendered the use of government funds more efficient, the use of human and organizational resources continues to suffer at the hands of an often corruptible and only modestly competent administrative apparatus.

Efficient use of
assets
4

The state budget has been consolidated. The level of state debt has been considerably reduced. External corporate debt, however, in mid-2014 exceeded \$653 billion or 35% of GNP. The processes of budget planning and spending have been improved considerably. However, there is no effective audit, and reports by the Audit Chamber have on most occasions been ignored. With a share of 2% in total employment, the

state executive's bureaucracy is not, by international comparison, oversized. However, its organizational structure and code of behavior often lead to considerable inefficiencies. Although Putin from time to time stresses the need for administrative reform, regular re-organizations have not led to structural improvements, as they are not able to efficiently tackle the problems of corruption, inefficiency and conflicts over competencies. As a result, the coherent strategy of the political leadership, which is regularly translated into coherent legislation, is also regularly distorted when it comes to implementation.

In reaction to these problems with implementation, the government has increasingly abandoned the goal of decentralizing political power as foreseen in the Russian constitution. Instead, the national political leadership, as in many other countries, regularly bases dismissals and appointments at the national as well as the regional level on matters related to personal or political loyalty rather than on efficiency.

Due to the increasingly central role of a single person - Vladimir Putin - in Russia's political system, policy coordination is predominantly hierarchical, and at the discretion of the president and his apparatus. The president primarily makes use of presidential commissions, which are composed of government ministers, advisers and presidential appointees. Since the outbreak of the Ukrainian crisis, the National Security Council, headed by Nikolai Patrushev, has become an important deliberative tool. Patrushev is said to be member of Putin's kitchen cabinet, an intimate and informal group that advise Putin on policy.

Beyond Putin's kitchen cabinet, the Russian state executive is divided into rival networks that are based in part on ideological divisions but increasingly on competition over access to rent-seeking opportunities. The liberal reformers, who were in charge of economic policy in the first half of the decade, have been sidelined by politicians with a secret service or law education background. However, though seldom noticed, some major policy areas like financial policy are still dominated by liberal policies.

Since the Yukos affair, the state executive is increasingly marked by conflicts between different government camps over competencies and especially over control of state-owned enterprises. As alignments shift with the issue concerned, the picture is less stable than the standard reference to the siloviki (the Russian term for high-ranking members of all armed state bodies from secret service to army) suggests. At the same time, the government's reaction to the global economic crisis has shown that it has the capacity to coordinate conflicting objectives in a coherent manner on short notice, in particular when vital state interests are at stake. Yet, despite this capacity, the Ukraine crisis demonstrates that the balance of power between liberal-minded economists and orthodox siloviki has further moved towards the latter group. Russia's interests are based more on security than on economic development.

Policy
coordination
5

Corruption is widespread in Russia and poses an increasingly heavy burden to any development. This impression is shared not only by independent experts (including international expert opinion as measured by various country rankings) and polls of foreign as well as domestic businesspeople but also by top state representatives, including the president, who regularly cites corruption as a key problem. This situation can be explained by the near complete lack of functioning integrity mechanisms. State auditors are often competent, but lack enforcement powers. Rules to hold politicians or bureaucrats accountable are underdeveloped and seldom enforced in practice. While public procurement processes remain open to manipulation, the introduction of mandatory tenders has improved the regulation and transparency of these processes. Corruption is not systematically prosecuted with the courts themselves highly corrupt. Civil society is too weak and passive to have a real impact on the situation, while the media and NGOs are systematically discouraged from speaking out or taking against alleged corruption cases and public integrity issues.

Anti-corruption
policy
3

16 | Consensus-Building

The elite consensus developed under President Putin is not primarily oriented toward the creation of a democracy. Since 2013, adherence to democratic ideals has all but disappeared from official pronouncements. The major political actors agree on the Putin model of a “controlled democracy”. That means they accept the existing political system, including controlled elections, as a necessary means of legitimizing political power. However, they preserve the right to manipulate related mechanisms in order to improve their own position. Accordingly, elections are manipulated to ensure the victory of pro-presidential parties and candidates. These political manipulations render democratic processes increasingly meaningless. Actors in favor of democracy, such as the political parties Yabloko and Civic Platform or the democratic movements, have been increasingly marginalized in recent years and are no longer granted free access to public discourse.

Consensus on goals
4

The elite consensus developed under President Putin is not primarily oriented toward the creation of a market economy. Instead, consensus has formed around the model of a limited market economy, which combines the state as a major instrument in coordinating economic activities with some market mechanisms. These, however, are subject to manipulation in the interest of these elites. Accordingly, market rules are bent to support state enterprises. However, the fundamental principles of a market economy are not rejected by Russia’s key political actors, but simply ignored in practice.

Representatives of genuinely democratic movements have been marginalized in Russian politics. There are only a few relevant pro-democratic reformers represented in the ruling federal and local elite. These reformers are predominantly concentrated in roles concerning economic management. At best, the core representatives of the regime adhere to democratic principles selectively.

Anti-democratic
actors
2

During his first two presidential terms from 2000 to 2008, Putin achieved considerable progress in consensus-building, compared with his predecessor Yeltsin. The notion of the “Putin majority” has now become a fixture in the country’s political vocabulary. Opposition parties in parliament have been successfully marginalized. Putin’s opponents in the regions have also seen their position weakened.

Cleavage /
conflict
management
6

A large although decreasing majority of the population supports Putin and his team. The appeal for broad-based collaboration to ensure stability (meaning above all stable or rising living standards) is a core component of their political rhetoric. The global economic crisis has demonstrated both the success and the limits of this policy. On the one hand, the government succeeded in guaranteeing stability and securing continuous support by a majority of the population. On the other hand, first signs that stability might be lost (especially in the form of higher import tariffs on cars) led to protests, demonstrating that the Putin majority might be more fragile than its long persistence indicates. This is also indicated by the distrust of the political elite by most private entrepreneurs. However, the only cleavage-based conflict the political leadership has not been able to bring under control is the separatist (ethnic/religious) conflict in the northern Caucasus.

Officially, the state executive seeks dialogue with civil society. For this purpose, President Putin signed the Law on the Public Chamber in April 2005. The Chamber, consisting of citizen representatives and CSOs, is intended both to advise political decision makers on a wide range of public issues and to serve as a kind of ministry tasked with civil society issues. The Chamber has so far had no significant influence on political decisions or public debates.

Civil society
participation
2

Another such organ is the Council for Civil Society and Human Rights. The Council is composed of a large number of independently-minded representatives from civil society and academia. The president holds consultative meetings with the Council or its chairman about twice a year. On more than one occasion, the council has voiced serious concern and criticism of government decisions. For example, it questioned the validity of the referendum in Crimea, which led to what officially is labeled a “reunification” with Russia.

Both civil society and the mass media risk serious harassment from state organs when they engage in unwelcome criticism of the state. Most mass media outlets have been brought under state control, and the creation of the Chamber in combination with the restrictive regulation on NGOs appears to be an attempt to bring civil society under control too. Those remaining outside state control are often oppressed or ridiculed.

Dealing with past injustices is not a major topic in Russia. Attempts by CSOs to initiate a public debate on Soviet human rights abuses are hampered by a government policy that aims to celebrate Soviet successes such as victory in the Second World War and to forget or elide Soviet transgressions. Nonetheless, there are some exceptions to this, as was demonstrated by the Russian leadership's openness with regard to the Katyn massacre, an approach that promoted Russian-Polish rapprochement. The Kremlin also gave the green light for a monument to be built on Academician Sakharov Prospekt, by the end of 2015, commemorating the victims of Stalin's mass repressions.

Reconciliation
5

17 | International Cooperation

Under President Putin, most international aid is outright rejected. A new law introduced by the government requires NGOs receiving support from abroad to register as "foreign agents." Publicly, Putin has justified the law by stating that Russia does not need foreign help in order to develop and can arrange the necessary measures on its own. The period under observation has seen an acceleration of this trend as the authorities have taken steps to end foreign assistance, in particular to Russian civil society. The U.S. Agency for International Development (USAID) ended its activities in Russia, as did the UN Children's Fund (UNICEF), due to government pressure. Rhetorically, Putin defends the Russian way with demonstrative self-confidence. He refutes the moral right of foreign actors to make judgments concerning Russia's political or economic system and human rights record. It has become widely accepted by Russian policymakers that foreign assistance is neither needed nor of benign intentions. In contrast, policymakers claim that Russia is a net provider of assistance. In practice, however, this has largely remained amorphous and meager, with the exception of the much advertised humanitarian convoys sent to the separatist areas in eastern Ukraine.

Effective use of
support
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Within its conceptual framework aimed at moral autonomy (meaning Russia's right to pursue its own self-defined path and to establish regional dominance), the Russian government behaves consistently in international politics. However, tensions have been rising for three reasons.

Credibility
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First, Russia increasingly assumes the attitudes of a great power, using its permanent seat at the U.N. Security Council and its closer relations with some states facing considerable international pressure (e.g., Iran, Syria or Venezuela) to stymie international conflict resolution.

Second, there have been serious conflicts over Russian energy exports that have led to supply interruptions in the European markets and have raised concerns in the European Union in particular.

Third, Russia treats the CIS region as its sphere of influence and reacts to conflicts with increasing assertiveness. This led to an escalation of the South Ossetian conflict, when Russia reacted disproportionately to Georgian provocations and later recognized the two breakaway republics of South Ossetia and Abkhazia as independent states (contrary to the argument it had used against the independence of Kosovo). This has left many foreign observers and governments with the impression that Russia is unpredictable. The rising pressure on countries of the European Union's Eastern Partnership to join the Customs Union has led to growing tensions between the EU and Russia.

The worst case is the armed conflict in Ukraine where the Russian military is actively involved. This has not only led to a rise of tensions with the West, which has led the international community to the brink of a new Cold War. Worse still, Russian policy to treat this conflict as a secret service operation, with the associated dishonest and contradictory statements from government sources, has devastated the credibility of the current Russian leadership. Even those foreign governments, notably Germany, that have continued to advocate for Russia's participation within the security architecture of Europe are becoming increasingly impatient.

In relations with neighboring countries, Russia applies a foreign policy concept based on ideas of regional hegemony. However, Russia has been unable to transform the CIS into its own "backyard." Whereas some CIS countries, like Kazakhstan, Belarus or Armenia, have accepted Russian dominance in return for preferential economic treatment and security guarantees, and others, like Uzbekistan, have opted for pragmatic cooperation with Russia but refrain from closer integration, some CIS countries are in open opposition to Russia's foreign policy. In dealing with these neighboring countries critical of Russia's foreign policy, Russia regularly provokes the escalation of single-issue conflicts into broader state affairs. Since his return to office, Putin has intensified efforts to enhance further economic and political integration through the Customs Union and the Eurasian Economic Union, which represent the first initiatives within the CIS that hold some prospect of success.

In 2013 and 2014, Russian attempts to bring Ukraine closer into its sphere of influence – or at least to prevent it from signing the Association Agreement with the EU – led to large-scale intervention in Ukrainian internal affairs. This intervention included the annexation of Crimea under the claims of protecting the rights of ethnic Russians, securing vital strategic interests and restoring historical justice. This intervention heightened tensions with the West, their highest since the end of the Cold War. Furthermore, the intervention threatens Russian ambitions for greater political integration among the post-Soviet countries.

Regional
cooperation
4

Strategic Outlook

During the period under review, Russia's political transformation has been seriously setback. The mass protests, following the fraudulent parliamentary elections in December 2011, temporarily confused the regime and were met with an increasingly repressive response. Since Putin won the presidential election in March 2012, numerous legislative changes have consolidated the government's control, and further restricted the country's national assembly and media freedom. For example, fines for participating in unauthorized demonstrations have been dramatically increased, slander has again been made illegal and a blacklist of websites that can be blocked even in the absence of a judicial order has been created. In addition, NGOs that engage in political activities and receive financing from abroad must register as "foreign agents."

Against the background of anti-Western hysteria, mostly aimed at the USA and pumped up by a propaganda machine, nationalist tendencies within Russian society have radicalized. Caused by the developments in Ukraine and a search for a "fifth column" among the liberals and Westernizers, human rights activists have been marginalized and tensions within Russian society have increased. To consolidate its power, the political elite around Putin routinely resorts to anti-democratic measures. This includes marginalizing political actors outside the federal executive, exercising control over nationwide mass-media outlets and harassing politically relevant NGOs.

The international financial and economic crisis, which reached Russia in autumn 2008, marked the end of a long period of strong economic growth. The economic situation worsened substantially in 2014 due to a combination of several negative factors. These factors included serious flaws in Russia's economic model, weak institutions, economic sanctions imposed on Russia after the annexation of Crimea and, especially, the dramatic drop in the world oil price.

Faced with a gradual decline of legitimacy at home, the Russian government adopted an external aggressive foreign policy approach and a "besieged fortress" domestic policy approach. This has caused the political transformation of Russia to regress. The regime has lost its hybrid quality and has firmly embarked on a full-scale authoritarian trajectory. The flagrant violation of international rules and norms has worsened Russia's economic and political climate. Russia's economic model, based on natural resource extraction, is increasingly unsustainable, while economic inequalities between regions is increasing and government management is increasing inefficient. Russia has found itself in an impasse, which it conceals through propaganda, but this approach is unsustainable and almost certainly requires a fundamental turn around in the not too distant future.