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An Assessment of Policy Measures to Support Russia's Real Economy

By

**Yuri V. Simachev, Andrei A. Yakovlev, Boris V. Kuznetsov, Michael Y. Gorst,
Aleksandr V. Daniltsev, Michael N. Kuzyk, Sergey N. Smirnov**

Forschungsstelle Osteuropa an der Universität Bremen
Klagenfurter Straße 3, D-28359 Bremen
Tel. +49 421 218-3687, Fax +49 421 218-3269
<http://www.forschungsstelle.uni-bremen.de>

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About the authors:

Yuri V. Simachev, Deputy Director of the Interagency Analytical Center (contact: Interagency Analytical Center, ul. Povarskaya, 31, Moscow, 121069, P.O.B. 35, Russia, email simachev@iacenter.ru)

Andrei A. Yakovlev, Director of Institute for Industrial and Market Studies at State University – Higher School of Economics (contact: State University – Higher School of Economics, ul. Myasnitskaya, 20, Moscow, 101000, Russia, email ayakovlev@hse.ru)

Boris V. Kuznetsov, Chief Researcher, Interagency Analytical Center, & Senior Researcher, Institute for Industrial and Market Studies, State University – Higher School of Economics (contact: Interagency Analytical Center, ul. Povarskaya, 31, Moscow, 121069, P.O.B. 35, Russia, email bkuz@bk.ru)

Michael Y. Gorst, Lecturer, State University – Higher School of Economics (contact: State University – Higher School of Economics, ul. Myasnitskaya, 20, Moscow, 101000, Russia, email horst@hse.ru)

Aleksandr V. Daniltsev, Director of Institute of Trade Policy, State University – Higher School of Economics (contact: State University – Higher School of Economics, ul. Myasnitskaya, 20, Moscow, 101000, Russia, email tradepolicy@rambler.ru)

Michael N. Kuzyk, Head of Division, Interagency Analytical Center (contact: Interagency Analytical Center, ul. Povarskaya, 31, Moscow, 121069, P.O.B. 35, Russia, email kuzyk@iacenter.ru)

Sergey N. Smirnov, Director of Institute for Social Policy and Socio-Economic Programs, State University – Higher School of Economics (contact: State University – Higher School of Economics, ul. Myasnitskaya, 20, Moscow, 101000, Russia, email socpol@hse.ru)

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Forschungsstelle Osteuropa

Publikationsreferat

Klagenfurter Str. 3

D-28359 Bremen – Germany

phone: +49 421 218-3687

fax: +49 421 218-3269

e-mail: publikationsreferat@osteuropa.uni-bremen.de

internet: <http://www.forschungsstelle.uni-bremen.de>

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Abstract

This paper presents the results of an analytical project on the design and approbation of methodology for assessing and monitoring the measures taken by the government of the Russian Federation in response to the recent worldwide fiscal crisis. The paper is based on our analysis of about 100 measures initiated between October 2008 and March 2009 to support Russia's real economy. Within the scope of this analysis, we singled out the main beneficiaries according to industry and enterprise scale, and estimated the effects of the measures during the crisis and recovery phases. The paper also describes the major risks the Russian government will face as a result of implementing the aforementioned measures and identifies the key problems and inconsistencies of the anti-crisis programme.

Key words: anti-crisis measures; methodology of assessment; Russia; real economy; beneficiaries of state support.

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1. Introduction

The global economic crisis has challenged every government in the world. Although huge financial resources have been mobilized to combat this crisis, no country has managed to find a foolproof way to dig out. New ideas and recommendations for anti-crisis measures are necessary to minimize the damage and bounce back. The search for solutions was the Russian government's top priority in October 2008, and it scrambled to implement a package of emergency measures. Since then, the government has devised and is currently putting into practice an extensive range of anti-crisis measures that is unique not only in terms of how diversely the measures influence the economy, but also with respect to the volume of allocated resources.

After the most urgent problems threatening the stability of our financial system have been solved and the cycle of emergency mergers is completed, we will undertake a *systematic evaluation* of the government's anti-crisis measures. In addition, suggestions on how to improve anti-crisis policies both in the making and already in practice will be made.

The impetus for taking such a step is our awareness that the resources for supporting the economy are limited, particularly given the fact that a quick exit from the crisis seems less and less likely. A sea change in economy policy will therefore be necessary. This change will require a shift away from the short-term 'theatre-of-war weapons' (which are supposed to alleviate the immediate consequences of the crisis and repair the damage done to the most vulnerable sectors) towards longer-range strategies for overcoming the crisis, creating incentives for entering new markets, expanding output and creating new jobs. A shorter horizon of economic policy was inevitable in the acute phase of the crisis, but an overview of the existing measures combined with a carefully-structured preliminary assessment of new measures will help to lengthen this horizon. Our analysis will also compare the current policies with the strategic priorities that were announced earlier this year by our government.

Evaluating the pros and cons of the current anti-crisis measures is particularly important now that financial *resources are becoming increasingly scarce*. However, we are by no means saying that 'the adopted measures are bad; we know the good ones'. We are convinced that practically every anti-crisis measure comes with substantial risks. These risks are manifold, and they need to be duly recognized so that their possibly negative effects can be minimized.

The present paper is the result of a joint project launched by the State University – Higher School of Economics (SU-HSE) and the Interagency Analytic Center for the creation and approbation of procedures for evaluating and monitoring the Russian Federation's anti-crisis programme. Similar studies have already been launched in many developed countries. Moreover, international organizations have already conducted a comparative analysis of fiscal policy response to the crisis in a number of countries (OECD 2009, chapter 3). However, Russia's response has not yet been studied. The only exception we are aware of is the World Bank Russian Economic Report published in March 2009. This report gives the first description of anti-crisis measures in Russia in comparison with the programmes that are being implemented in other countries. However, the World Bank Report is essentially a general overview of the economic situation in Russia and contains only a very brief analysis of the anti-crisis measures. On the contrary, our study analyses these measures in detail, identifying the beneficiaries according to industry and enterprise size and providing a comprehensive assessment of the outcomes that the measures are expected to produce during the recession and recovery periods. We also define the main risks the Russian government will face upon the practical implementation of these measures to support the real economy and identify the key problems (including inconsistencies) with its anti-crisis policy.

Because this project was carried out over a very short time span in February and March 2009, we were forced us to make some tough choices in terms of how to structure and carry out our research. Firstly, we had to choose between detailed procedures and a swift achievement of practical results. Although

we were aware that the proposed assessment approaches were far from ideal, we chose to test our analytical tools right away on a relatively wide range of measures rather than tailoring them to evaluate any one concrete measure. Secondly, we faced the choice between a detailed, all-inclusive assessment of the measures announced by the government (which would have taken several months and required enlisting a larger number of experts) and a swift evaluation of a set of interrelated measures exhibiting a simplified range of characteristics. We took the second option as the more feasible one and made ‘express diagnostics’ of about 100 measures designed to support the real economy.¹ Because our time and human resources were so limited, we were unable to evaluate the measures supporting the financial sector or particular livelihoods. In addition, we used only public data, which prevented us from evaluating the measures as accurately or thoroughly as our much better informed colleagues in economic agencies. One last limitation of our study was that each measure was evaluated by a single expert, which means that our results might contain some subjective opinions.

Given these restrictions, this study is considered to be a pilot project. Our major task was to offer and test a possible set of instruments for evaluating the anti-crisis measures. We thereby chose not to discuss the measures’ suitability per se but to provide an evaluation of the regulatory tools currently in use as well as the relevant *rules and mechanisms* that enable the execution of the measures. Nevertheless, we believe that we have successfully achieved positive practical results even at this pilot stage. Our approach has enabled us to analyse a wide spectrum of policy tools, to evaluate their relative strengths and weaknesses, and to define the risks they pose. Reliance on this analysis has allowed us to identify several problems with the anti-crisis programme and to formulate recommendations to solve or alleviate them.

2. The Impact of the Financial Crisis on the Russian Economy

To furnish a better understanding of the context in which the anti-crisis measures are being implemented in Russia, we must give a brief account of the general economic situation in Russia in 2008–9. The global crisis affected Russia later than other countries, and until mid-2008, Russia’s economic growth rates remained high, following the trend of the preceding nine years (the average annual GDP growth rate between 1999 and 2007 was 7%; in 2007 the rate was 8.1%). The crisis first manifested itself in August, when stock indexes fell sharply, culminating in a market crash in September. As a result, the leading RTS stock market indicator plunged four times (from almost 2,500 points in the beginning of May to less than 600 points in late October 2008). This steep decline posed problems for the financial sector because banks extensively borrowed foreign money on share packages. A number of big banks teetered on the brink of bankruptcy, and a panic erupted among their depositors.

1 Our evaluation of the anti-crisis measures had been roughly accomplished by 15 March 2009, before the Federal Government presented its Programme of Anti-crisis Measures for 2009 (on 19 March 2009). This programme identified seven policy priorities and classified the ongoing and planned measures according to the following priorities: 1) The government will fully honour its commitments to the public. Special attention will be paid to preserving the labour potential. 2) The industrial and technological potential of the future growth should be preserved and strengthened. The government will not invest taxpayers’ money in ineffective production lines. 3) Domestic demand should become the foundation of post-crisis recovery and subsequent steady advancement. During the crisis, the government’s support for domestic demand (investments and contracts) will play an increasing role. 4) The main task on the road to modernization is to change the current model of economic growth. The government will support major innovation-based processes, including greater energy efficiency of the economy. 5) Business should be freed from official pressure. The government will also propose a new package of measures to enable small businesses to make steady progress despite the crisis. 6) The economy should rely on a powerful national financial system. 7) The government and the Central Bank will conduct responsible macro-economic policy. However, most of these measures were declared earlier and have already been evaluated by experts.

Nevertheless, prompt assistance from the government and the Central Bank helped stabilize the situation in the financial sector by November, despite increasing inflationary pressure on the rouble. As a result, by the end of autumn 2008, the probable economic slowdown and the need to settle the external debts of Russian corporations, along with rising inflation, were believed to be the major challenges for the Russian economy.² Meanwhile, economic growth forecasts for 2009 were generally positive. For instance, Sergei Aleksashenko, a well-known Russian expert and former Deputy Governor of the Bank of Russia, believed in November that GDP growth in 2009 would be no higher than 2.5% (Aleksashenko 2008, p.34); the World Bank estimated GDP growth at 3% based on unchanged oil prices of around 75 US dollars a barrel (World Bank 2008, p. 17), and the November outlook issued by the European Commission for Russia predicted growth rates of 6% in 2009 and 6.5% in 2010 (DG ECFIN 2008, p. 137).

However, in reality, the ramifications of the crisis were much more severe. As stated in the Russia Economic Report released by the World Bank in March 2009, the overall decline in global demand, falling commodity prices, and the tightening of credit have accelerated Russia's economic slowdown since the fourth quarter of 2008 (see Table 1). Estimated real GDP growth in the fourth quarter of 2008 was about 1.1%, down from 9.5% during the same period in 2007. With few exceptions, all sectors reported lower growth rates in 2008, but tradables were even more sluggish, in line with collapsing global demand. These sectors grew by only 1.8% in 2008, compared with 3.9% in 2007, with growth in manufacturing turning negative in late 2008. Meanwhile, nontradables – driven mainly by retail and construction – sustained growth of 7.4% in 2008, compared with 10.3% growth in 2007.

Table 1. Main Indicators of Russian Economic Development, 2006–2009

	2006	2007	2008	Q4 2008	Jan-09	Feb-09
GDP growth, %	7.7	8.1	5.6	1.1***	-8.8*	-7.3*
Industrial production growth, year on year, %	6.3	6.3	2.1	-6.1	-16.0	-13.2
Fixed capital investment growth, %, year on year	16.7	21.1	9.8	-2.3	-15.5	-14.1
Federal government balance, % GDP	7.4	5.5	4.0	4.0	15.0	2.6
Inflation (CPI), % change, end of period	9.0	11.9	13.3	13.3	2.4**	4.1**
Current account, in billions of USD	95.6	76.6	98.9	8.1	n/a	n/a
Unemployment, % (ILO definition)	7.2	6.1	6.3	7.1	8.1	8.5
Memo: Oil prices, Urals (USD/ barrel)	61.2	69.5	95.1	54.9	44.2	43.1
Reserves (including gold), in billions of USD, end of period	303.7	478.8	427.1	427.1	386.9	384.1

* Preliminary estimate by the Ministry of Economic Development.

** Cumulative from year-end 2008.

*** Preliminary estimate by the WB staff.

Source: (World Bank 2009) on the databases of Rosstat, CBR, Ministry of Finance, Bloomberg data.

The economy deteriorated dramatically in early 2009. Demand- and finance-sensitive construction reported an 18.8% decline in January and February relative to the same period in 2008, while transport contracted by 18.2%. Retail trade reported modest growth of only 3.1% in January, but then registered a decline of 2.4% in February. Industrial production fell 10.3% in December 2008 relative to December 2007. It then dropped 16% year on year in January and 13% in February 2009.

² As mentioned by Aleksashenko (2008), the total external debt of Russian companies and banks, as of 30 September 2008, exceeded 510 billion US dollars, of which about 200 billion US dollars was due before the end of 2009.

Five of the Russian Federation's fourteen major manufacturing industries reported output declines in 2008, with electronics, electrical and optical equipment hardest hit (-7.9%), followed by textiles and sewing (-4.5%) and chemicals (-4.2%). Most of this dislocation took place in November and December 2008, when total manufacturing output respectively fell 10.3% and 13.2% (year on year). As credit continues to tighten and demand sinks even lower, manufacturing is likely to contract further this year. According to recent statistics, manufacturing output dropped 24.1% in January 2009 compared with January 2008, and 18.3% in February 2009 compared with February 2008.

Although average unemployment in 2008 remained relatively unchanged (6.3% in 2008 and 6.1% in 2007), it shot up to 8.5% in February 2009 (ILO definition), from 8.1% in January 2009 (and from a record low of 5.4% in May 2008). Real incomes also declined substantially at the end of 2008 and the beginning of 2009. In the fourth quarter of 2008 alone, real disposable income dropped 5.8% compared with the same period in 2007, and 10.2% in January 2009 (year on year).

It appears that a large share of the additional liquidity initially provided to the financial system was immediately converted into foreign currency, putting more pressure on the rouble. In November 2008 the Central Bank of Russia started to allow increasingly frequent step depreciations resulting in a 28% decline of the rouble against the US dollar-euro basket in late January. The CBR tightened monetary conditions in early February 2009 to prevent further loss of foreign exchange reserves. However, foreign exchange reserves fell to about 380 billion US dollars in mid-March 2009, from its record high of more than 580 billion US dollars in September.

The fiscal position of Russia has worsened considerably, and in early 2009 the Ministry of Finance released the main parameters of its revised federal budget for the year. It is prudently based on the currently low oil prices (41 US dollars a barrel, Urals) and the drop in budget revenues from the original 21.2% of GDP (under the old assumption of 95 US dollars a barrel) to 16.6%, or 6.72 trillion roubles. At the same time, expenditures will be increased by 667.3 billion roubles to 9.69 trillion roubles, which will produce a deficit of 2.98 trillion roubles (about 7.4% of GDP), a massive reversal of the fiscal position from the 4.1% surplus in 2008. The consolidated general government deficit is expected to be 8% in 2009 and will be financed largely by the Reserve Fund (7% of GDP) with modest domestic borrowing (up to 1% of GDP).

As a result, according to World Bank estimations, due to the much bleaker global financial outlook and oil prices in the 45 US dollars per barrel range, the Russian economy is likely to contract by 4.5% in 2009 (World Bank 2009, pp. 6–7). However, the OECD refrains from making precise forecasts for Russia (OECD 2009, pp. 101–103), and the Ministry of Economic Development of the Russian Federation predicts that GDP will decline by 2.2% in 2009.

At the same time, the Ministry, in its report on the current economic situation released in May, has pointed out that according to the January-to-April data, the scale of GDP decline is decreasing (Ministry of Economic Development 2009). The data from current surveys of industrial enterprises show that the situation has already stabilized since January and February 2009 (IET 2009), and a more detailed analysis of output by commodity shows that economic growth has already resumed in a number of sub-industries (Ekspert 2009).

3. The Main Methods and Procedures for Evaluating the Anti-Crisis Measures

At the outset, let us point out that we are not going to examine the anti-crisis programme in terms of its actual effect on the real economy or on the specific sectors. In many cases, it is too early to measure this effect. Besides, this task is too complex and too large for this short-term project. We have there-

fore asked our experts to evaluate the *probable limitations, problems and risks* posed by implementing the anti-crisis programme.

The gist of our approach is *to make a 'thorough' evaluation of all of the measures in question in a single format* based on the following parameters:

- Instruments that are used for putting a measure into practice; their functional orientation; time-frame; approximate volumes of fiscal expenditures (lost revenue);
- Assessment from the position of correspondence to or departure from the long-term guidelines (principles) of government policy that were established earlier;
- Identification of the main types of beneficiaries and losers from the realization of the measure (by industry, scale of business, etc.);
- Assessment of underlying motivations (incentives for expansion and innovation for business enterprises); the presence of any behavioural requirement;
- Assessment of major risks (distorted 'rules of the game'; greater uncertainty in the business environment; restricted competition; non-transparency of application; conditions for making opportunistic decisions; difficulties in management and tuning);
- Detection of possible 'traps' that might appear as soon as the economy resumes growth (risks of forming 'ineffective equilibria');
- Detection of factors that can influence the efficiency of the measure (owing to its design, its need for tuning, the influence of other measures and the external institutional environment);
- Comparison of peculiar effects of the measure (instrument) in the crisis phase vs. the recovery phase.

To assess the anti-crisis measures, we obviously had to define their range. This turned out to be more difficult than it seemed at first glance. A number of policies now claimed as anti-crisis measures were decided upon or discussed much earlier (such as changes in depreciation policy). Another problem is the abundance of quasi-state measures (relating to the activities of large state-owned companies and systemically important banks) obstructing the path of the government's anti-crisis policy: they are too opaque to be easily appreciated. Meanwhile, these measures can greatly distort competitive conditions and involve an unreasonable redistribution of resources. Nevertheless, we resorted to a formal rule for our preliminary selection, i.e. singling out the measures that had been officially announced as anti-crisis³.

We used the following substantive criteria to select the measures to be analysed:

- The measures should be oriented towards the support (and development) of the real economy. We also examined the measures intended to enhance social welfare, support the labour market and expand the demand for goods (or services) of certain industries. However, we *did not examine* measures that were meant to ensure the stability of the financial and banking systems or measures related to improving corporate laws.
- Implementation of the measures in question can substantially change the relative positions and behaviour of economic agents due to changes in the regulation and 'tuning' of existing instruments, as well as due to the appearance of new instruments of government policy.

³ For quite a long time (November 2008 to March 2009) a single legal document defined the composition of the anti-crisis measures, their schedule times, and the parties responsible for their implementation by ministry and agency. The document was called the Action Plan for Rehabilitation of the Financial Sector and Certain Industries, enacted on 6 November 2008. However, this plan excluded a number of earlier measures, mostly related to tax policy and to some decisions that were made later, namely those related to the automobile industry and agricultural machinery. To compensate for the Action Plan's omissions, we also used the following documents: 'Review of Anti-Crisis Measures for Rehabilitation of the Financial Sector and Certain Industries' (on the federal government's official web-site) and 'List of Anti-Crisis Measures Being Implemented by the Russian Government and the Central Bank of Russia' (on the Prime Minister's official web-site). Recently (on 19 March 2009) a comprehensive 'Anti-Crisis Programme of the Government of the Russian Federation for 2009' was presented for public discussion for the first time. The programme is supplemented by a list of the main anti-crisis measures taken by the Russian government in 2009 to rehabilitate the Russian economy.

- Implementation of the measures in question will involve a substantial reallocation of public resources, because applying the individual tools of government support will be costly.

As a result, we made *a list of about 100 arrangements that had been labelled as anti-crisis measures*. We chose measures that would enable us to evaluate the application of the instruments in use (either because regulations were being enacted or because the measures were presented in clear and detailed wording).⁴

The *informational base* for assessing the anti-crisis measures was compiled from relevant *legislation* (laws, resolutions, directions, orders).

Our general principle has been to rely only on *publicly available documents* (including documents prepared for federal government meetings and transcripts (theses) of statements made by decision-makers) found on the public administration's official web-sites.⁵

4. The Main Objectives of the Anti-Crisis Measures

A large package of anti-crisis measures has been announced in a very short space of time (since November 2008); this requires not only drawing up and adopting a great deal of legislation but also creating mechanisms for the manual control of certain instruments.⁶ Many measures were taken within strict time limits and under strong pressure from various vested interests.⁷

As a result, *the public administration faced a greatly increased workload, and on some occasions, the practical implementation of the measures was out of synch*. For example, there was a great delay in government procurement orders, which forced the government to help finance the largest systemically important companies and enterprises in the military-industrial sector. More importantly, a gap opened up between the adoption of legal acts and the implementation of related measures, creating the impression that 'there are many measures, but still no results'.⁸ This possibly spurred policymakers to design additional measures, and arrangements for individual industries (sectors) and policy directions came in droves. By March 2009, the total set of anti-crisis measures appeared to be jumbled and inconsistent. At the same time, by virtue of its many aspects, the anti-crisis programme helped accelerate a number of strategic policies that had been planned earlier, particularly those pertaining to corporate law, the support of small and middle-sized enterprises, and the improvement of the tax administration.

At this juncture, we considered it important to *reconstruct* the objectives of the anti-crisis policy in terms of the composition and features of the measures in question (see Appendix on p. 28).

4 Some of the measures, according to the application of a number of tools, were divided into 'sub-measures' (for example, the co-financing of regional programmes to support small and middle-sized enterprises and the co-financing of employment programmes).

5 It should be noted that although official information about the Russian anti-crisis policy is abundantly available, it is fragmented and scattered across a number of official web-sites. Our work was made easier because many ministries conduct their policy fairly openly and have published theses and presentations made by their ministers and vice-ministers on their web-sites.

6 Readers should be aware that the Programme for Rehabilitation of the Financial Sector and Certain Industries, enacted on 6 November 2008, while only one of many anti-crisis measures, contains 55 points (measures). According to this programme, documents for 34 of the points were due as early as November, and those for another 10 points were due in December.

7 The following measures, taken in 2008, were especially important: in December, the refinancing of external indebtedness of major Russian companies; in November, the endorsement of a package of laws intended to reduce the tax burden, change tax charges and improve the tax administration; since November, a set of legal acts related to changes in the rates of custom duties has been enacted.

8 At present, measures are under preparation to improve energy efficiency, encourage innovations, and make further changes in taxation.

On the basis of our analysis, we deduced that the anti-crisis measures are centred on finding ways to accomplish the following tasks:

- Expanding access to financial resources (direct lending by government-affiliated banks and financial institutions for development along with injecting public funds into these institutions; subsidizing interest rates and giving government guarantees of interest in order to provide incentives for private credit; giving recommendations to banks about lending; and issuing shares and bonds and raising public funds to purchase these assets directly from the market by designated organizations).
- Reducing the burden on businesses (a lower tax burden, lower rates of customs duties on exports, and a lower administrative burden).
- Easing the negative social consequences of the crisis and development of the labour market (including higher unemployment benefits, co-financing of regional employment programmes⁹ and limitation of foreign labour).
- Providing incentives for the expansion of domestic demand (government procurements, advances and preferences for domestic producers; procurements and investment programmes for natural monopolists; leasing; customs protection; and subsidized consumer loans).
- Supporting small and middle-sized enterprises (by co-financing regional programmes for the development of small and middle-sized businesses¹⁰ as well as lending programmes from Vneshekonombank, i.e. the Bank for Development and Foreign Economic Affairs) and enhancing competition.

It is important to note that several of the measures are multifunctional. For instance, some of the anti-crisis measures enhancing social welfare can also be regarded as expanding domestic demand for the production of certain industries and promoting enterprise activity.

Certainly, this ranking of priorities according to the number of relevant measures is very relative, taking into account that the appropriated resources are disproportionate in principle, and that the scope of coverage of the economy by concrete measures is different. The issue of the *redistribution of resources* that have been appropriated for the design and implementation of the anti-crisis measures is also very important, but in this case, our evaluations are far from being exact, and should therefore be considered strictly demonstrative in nature for a number of reasons.

In general, we estimate the total volume of additional resources, according to the existing assessments of the cost of the anti-crisis measures designed for the real economy, at 2.1–2.5 trillion roubles in the period from October 2008 to December 2009¹¹. *Firstly, these measures are aimed at providing entities in the real economy with broader access to financial resources (1.1–1.2 trillion roubles¹²); secondly, they are aimed at lowering the burden carried by the businesses (fiscal losses of about 500–700 billion roubles); thirdly, they are aimed at improving social welfare, expanding consumer demand and supporting starting entrepreneurs (250–300 billion roubles, and later, an additional 180–230 billion roubles); and finally, they are aimed at supporting SMEs (60–90 billion roubles).*¹³

9 This includes various lines, but the following have been designated as priorities: creating temporary jobs (public works, on-the-job training), retraining those who are likely to lose their jobs, providing assistance in moving to new places of work, and supporting self-employment and small businesses.

10 This also includes a great number of lines, but the following are priorities: subsidizing new businesses, expanding micro-credit, developing a system to guarantee funds and subsidizing lending rates.

11 We are aware that our quantitative estimates differ slightly from the estimates of the volumes of tax and fiscal anti-crisis measures and their distribution among the lines of support that are given in the World Bank Report [World Bank 2009, pp. 9–11]. This disparity is due to some differences in methodology – in particular, we analysed the announced measures in detail and took their content into account in their classification. Nevertheless, our conclusions are the same on the qualitative level.

12 The reimbursement of the largest Russian companies' external debts by the Vneshekonombank from October to December 2008 is included, amounting to about 11.5 billion US dollars, along with state guarantees for enterprise borrowings in 2009 totalling 300 billion roubles.

13 Since some measures were related to more than one task, our sum of assessments according to the appropriated

This does not mean that there are no significant measures to be taken for the fulfillment of other tasks. We believe that a number of other measures are very important in terms of the scale of their effect on the real economy, such as imposing ceilings on the tariffs of natural monopolies, making an accurate assessment of their investment programmes, issuing recommendations to banks about lending to industries in the real economy and controlling the banks that have obtained public support. However, these measures are the most opaque ones for assessment as policy instruments.

Box 1: Some Issues Related to the Redistribution of Resources

Problems and deviations in our estimates arose for the following reasons:

Many measures are 'non-monetary', such as the lowering of administrative barriers, making their effect on the redistribution of resources hard to estimate.

We failed to find any official estimates concerning some measures that will undoubtedly involve a substantial redistribution of resources (changes in tariffs for the services of natural monopolists; lending to the real economy by the banks that have received government aid).

Assessments of fiscal losses from tax measures are extremely unreliable and tend to change a great deal over the course of time (for instance, a shorter monitoring period for the calculation of customs duty rates on oil exports had a significant effect when world prices went down; the estimate of losses from the lowered taxation of profits turned out to be grossly overstated because the tax base had dwindled; the assessment of losses from granting regions the right to determine tax rates under a simplified taxation scheme basically depends on how widely and how long this option was used by the regions).

Beside federal fiscal expenditures, substantial resources are redistributed by state-owned financial institutions for development and by specialized banks; a number of measures are realized on the condition of sharing financial responsibility with the regions, which raises the question of whether these resources should be taken into account or not.

A sizeable redistribution of resources was made in the fourth quarter of 2008, which makes it tricky to establish demarcation with 2009.

The measures with official estimates of the resources in question (fiscal; some related to taxation and others to customs duties on exports) can be correlated with several groups in different types of classifications.

We considered only increases in the lines of resource provision under the anti-crisis programme, although these are naturally followed by decreases in some lines.

We have observed that the main emphasis of the anti-crisis programme is on creating incentives for lending to the real economy – the share of relevant measures is about half of the total resources in the anti-crisis package. Another quarter of the resources have been allocated to reducing the tax burden. Measures for stimulating domestic demand (no more than 10% of the total resources in the anti-crisis package) are quite skimpy by comparison. It is evident that the *anti-crisis package contains a very limited range of export incentives, which are primarily aimed at promoting high-tech exports, with few provisions for stimulating a competitive environment*¹⁴ (excluding those designed to support SMEs). There are extremely few incentives for engaging in innovative activities and for improving the performance of natural monopolies and large state-owned companies, and no measures have been taken to attract foreign investors or develop special economic zones.

tasks is slightly higher than the total sum.

14 Here we should mention the importance of the Programme for Development of Competition in the Russian Federation, which was approved by the government on 26 February 2009, but has not yet been transformed into practical measures.

5. The Main Beneficiaries of the Anti-Crisis Measures

To identify the main beneficiaries of the policy measures, we found it helpful to single out specific dimensions. Comparing the benefits gained according to *business scale* and the *industrial affiliation of companies* is the traditional way to execute this kind of study.

According to expert assessments, the majority of the measures are centred on supporting large-scale companies. In principle, most measures have no formal limitations with respect to middle-sized enterprises, but the established order and procedures of decision-making give preference to big businesses. Expert assessments also indicate that *half of the measures are addressed to the interests (problems) of super-large and large corporations* and account for 60% of the total resources in the anti-crisis package. About a third of the measures are intended for the support of small businesses, but their aggregate weight in total resources is just 5%.

This is partly due to the priorities of the anti-crisis policy, which is primarily addressed to highly concentrated industrial sectors and to the largest corporations. It is also worth noting that a number of recipients of selective support are enterprises forming company towns (AvtoVAZ, KaMaz and others). Another important factor is that big businesses have direct access to various levels of legislation and public administration and thus have more lobbying power at their disposal.

Some observers maintain that supporting large companies allows channeling the benefits down through cooperative links. However, we believe that this is possible mostly in industries with fairly rigid vertical organizational structures (such as the military-industrial complex). At the same time, the losers are middle-sized companies in the horizontally organized sectors and in new sectors with few or no super-large companies so far.¹⁵

In principle, a substantial number of the measures are claimed to be addressed to the development of SMEs, but in reality they mostly cater to micro-enterprises and small businesses;¹⁶ in any case, they give these small firms practically no incentives for expansion. As a result, middle-sized companies (which produce the bulk of the output in a number of industries) are at a disadvantage because they are entitled neither to receive the general assistance allocated to small businesses nor to obtain the selective support given to large corporations. In our opinion, there are only two important systemic arrangements that do not discriminate against middle-sized businesses: reduction in profit tax rates and the introduction of a 30% increase in depreciation premiums. However, the positive effects of these measures are diminishing as the crisis worsens.¹⁷

In general, the anti-crisis measures are concentrated on the margins, i.e. focused on big businesses and micro-businesses, in terms of quantity as well as in terms of the redistribution of resources required for their execution.

Enterprises that are affiliated with many industrial sectors are supposedly beneficiaries of the anti-crisis measures. However, although they look fairly diversified, many industries get little or no special assistance. We are referring here to chemicals, logging and woodworking, the light and food industries, building materials, and some other sectors.

Judging by the quantity of measures, it is quite easy to deduce the government's priorities with respect to national industries: automobiles and agricultural machinery, the military-industrial complex,

15 Perhaps for this reason, these measures are applicable on a limited scale to logging and woodworking, or to the light and food industries, which have no leading companies that are capable of lifting the whole chains of cooperation.

16 Nevertheless, measures in support of SMEs are very important for the labour market even in their present shape.

17 In late 2008, the official estimation of fiscal losses from the reduction in taxation of profits amounted to 400–500 billion roubles; by March 2008, the losses had already amounted to 294 billion roubles. Estimated fiscal losses from the 30% increase in depreciation premiums declined from 150 billion roubles to 50.4 billion roubles.

agribusiness and housing construction.¹⁸ The set of measures addressed to automobiles and agricultural machinery is distinguished by a wide variety of tools. Judging not only by the quantity of measures but also by the scale of resources they involve, the oil and gas sector is certainly one of the government's priorities, because the relevant enterprises stand to reap an estimated 200–250 billion roubles from the lowered tax burden. Direct and indirect¹⁹ support of automobiles and agricultural machinery will weigh in at around 190–200 billion roubles, and the military-industrial complex is looking at about 180 billion roubles.

In general, the main beneficiaries of the anti-crisis measures are the traditional industrial sectors, which are also the most vulnerable ones, and the measures are chiefly aimed at compensating the losses of larger companies. We believe it is important that *the majority of measures with substantial anti-crisis effects be of a compensatory nature* because they will alleviate the aftereffects of the crisis. However, there are practically no measures to encourage enterprises to take any initiatives of their own (technological modernization, product diversification, opening new markets, etc.). The importance of assistance to the most vulnerable sectors is understandable, but nevertheless, our impression is that there is a *shortage of measures that would ensure the proper conditions for new dynamic sectors and support the growth of middle-sized companies*.

6. The Main Tools Used for the Implementation of the Anti-Crisis Measures

We believe that before assessing the current anti-crisis measures, we should establish whether they belong to *general economic policy or industrial policy*.²⁰

We attribute to *economic policy* those measures that affect all economic agents (not necessarily equally). In general, they produce either changes in general tax treatment or changes in the rules of the game in all markets or the majority of markets, and also affect an indeterminate range of agents. We attribute to *industrial policy* the measures that provide support to individual enterprises (selective measures), to groups of enterprises in a single sector, and to individual sectors of the economy.²¹

Following this classification, we find that although the measures attributed to general economic policy are fewer, their number is comparable to those attributed to industrial policy (41% compared with 55% of the total number of measures). However, *industrial policy has a much heavier weight in terms of resource endowment*. According to our estimates, in 2009, economic policy measures (primarily the reduction of taxes on profits and depreciation premiums) will cost 600 to 900 billion roubles. Meanwhile, industrial policy (in particular, a rise in the non-taxable minimum of tax on the mining of minerals; vari-

18 Many measures supposedly addressed to social welfare are in fact related to the creation (support) of demand for housing; the housing construction industry is therefore a significant beneficiary.

19 In the case of automobile enterprises, their share of state guarantees (70 billion roubles) has been taken into account, as has assistance to guarantee the floatation of their bonds (60 billion roubles); in the case of the military-industrial complex, the granting of state guarantees to defence enterprises has been taken into account (100 billion roubles).

20 In a number of cases, labelling the measures as belonging to a particular policy line is difficult because both producers in the real economy and households can be their beneficiaries. In these cases, we classified a measure according to expertise and determined their main beneficiary. As an example, we can cite the subsidizing of interest rates on consumer loans for the purchase of domestically-produced automobiles. Formally, it is a benefit for the end consumers, who can save money, but it is more directly an incentive for expanding the demand for the products of a particular industry.

21 Industrial policy measures refer not only strictly to mining and manufacturing (enterprises and/or industries), but to other real economy sectors as well, such as agriculture, transportation, construction, etc.

ous means of support for the housing construction industry; packages designed to assist individual industries; and subsidies and state guarantees) will cost *approximately 1.4–1.7 billion roubles*.²²

Taking a look at the tools that are used by the government to put the anti-crisis measures into practice, we can see that their spectrum is wide and includes almost the entire set of levers at hand, from tax policy to administrative and organizational measures. However, the most frequently used tools can be classified into four groups: institutional changes (in rules and regulations); changes in taxation; facilitation of access to financial resources; and direct and indirect encouragement of the demand for domestic production. These four groups of tools account for roughly 80% of the total number of measures.²³ Notice that two thirds of the measures attributed to industrial policy are instruments facilitating access to financial resources and encouraging demand in specific markets, while about half of the measures attributed to general economic policy are of an institutional nature.

Now let us consider the tools that are used to put anti-crisis measures into practice with respect to *the main types of government policies*. In this context, the most widely used groups of instruments are:

(1) *Tax policy* (the lowering of certain tax rates and changes in taxation procedures):

Tax policies are mostly related to novelties in the taxation of profits. The effects of these measures, such as reducing the taxation of profits and increasing depreciation premiums, tend to decrease along with the deterioration of the enterprises' financial health, diminishing returns, rising uncertainty about business conditions and soaring prices of imported technological equipment.

(2) *Customs policies* (multiple changes in customs duty rates in different directions):

The government has become much more actively engaged in changing customs duty rates,²⁴ especially import rates. To say that this is a policy of frontal customs protection against imports is incorrect, not least because import rates have been both raised and lowered. There are signs that the tariff schedule is beginning to target more individual commodities, that the list of foreign economic activities is becoming more detailed due to the addition of sub-sub-positions, and that the regulations are catering to the interests of certain big corporations and some large-scale projects rather than to those of the relevant markets.

(3) *Public procurements* (timely placement, larger advances, the extension of rules for public procurements to purchases of natural monopolists and state-owned companies, and the introduction of preferences for purchases of Russian-made goods):

Measures addressed to public procurements for the expansion of demand lag far behind the schedule of the other measures. As a result, their efficacy in preventing the spread of the crisis in the economy has weakened considerably. The problems with larger advances and guarantees for advances have not yet been resolved. Measures for the extension of rules for public procurements to purchases of natural monopolies have not yet been introduced, although they appear to be quite substantial (i.e. if they are supplemented with efforts to improve the management of these companies). The development of leasing, to which little attention was paid earlier, deserves a generally positive assessment.

(4) *Fiscal measures* (the subsidizing of interest rates, state guarantees, injections of capital into specialized banks and financial institutions for development in order to increase their loans to the real economy, and replenishment of the capital of individual, systemically important enterprises):

22 In the overall costs of industrial policy, some 'conditional' costs are also included – such as state guarantees for lending (300 billion roubles), which are unlikely to be completely used.

23 This classification is informal and based on substantive expert estimations. For instance, changes in leasing rules and an increase in the market value of Rosagroleasing Co. formally looks like the facilitation of access of agricultural enterprises to financial resources; but in our classification, it falls under the creation of demand because we consider this to be the principal goal.

24 From November 2008 until February 2009, the federal government passed twenty-three resolutions on changes in customs duty rates (seventeen of which established temporary rates for nine months). In the period of November 2007 to February 2008, fourteen resolutions on changes in customs duty rates were passed.

These measures, which are the most widespread, are mainly aimed at expanding loans to companies. The main emphasis is on subsidizing interest rates and state guarantees for loans. Efforts are also being made to create facilities for the issuance of infrastructure corporate bonds and the regulation of this area is progressing.

Some of the anti-crisis measures designed by the federal government presume that *regional governments will take an active role* in implementing and adapting them to regional conditions. These measures include:

- Granting the right to differentiate to some extent the rates in the simplified taxation scheme;
- Expanding regional quotas for limiting the size of the foreign workforce;
- Co-financing programmes for renewing municipal transport pools
- Extending the requirement to place some orders among SMEs to municipal contracts;
- Co-financing regional employment programmes;
- Supporting programmes for the development of SMEs.

In our opinion, the measures that are aimed at supporting programmes for employment activity and programmes for the development of SMEs require the regions to participate as energetically as possible, because these programmes involve a large number of different mechanisms with some significant innovations. The newly established rules give the regions great flexibility as well as many opportunities to vary the content of these programmes and emphasize their components to suit the situation. The effect of these measures will mostly depend on the actions of the local authorities. This will require *monitoring the results, making inter-regional comparisons, and issuing rewards for best practices*.

Concerning *ways of distributing benefits from achievements among economic agents*, we can provisionally draw attention to three groups of tools in practice:

- *Selective measures* (choice of individual enterprises and individually tailored decisions according to many criteria that are hard to formalize);
- *Competitive measures* (competitive bidding with clear criteria for selection and access);
- *Systemic measures* (all enterprises, or those that meet a certain size of product line requirements, receive the benefits).

As our analysis has demonstrated, half of the measures under study can be considered systemic; 20% require competitive bidding providing that economic agents meet formal criteria, and 30% are selective. At the same time, *selective measures* lead in the anti-crisis package in terms of the volume of resources allocated for redistribution (47%). The reason is that the anti-crisis policy focuses on large and super-large corporations, which involves a great number of volitional decisions, increases vulnerability to pressures from various vested interests, and intensifies lobbying for the additional funding of selective measures.

In principle, selective measures are reasonably important under crisis conditions, but not on this massive scale and not with such a great variety of instruments. Some of the measures relating to changes in customs duty rates could be regarded as systemic, but are actually used as selective measures, because they are taken to meet the needs of individual economic agents.

The role of *competitive measures* is generally declining. The expansion of outlays for selective measures involves an extensive search for additional resources at the cost of reduced expenditure on target fiscal programmes. The role and place of such programmes in crisis conditions are still unforeseen. As a result, *lobbying will probably shift from creating programmes (because the formation of new programmes under existing rules is rather costly) to expanding selective measures* and increasing their funding. Consequently, *selective measures can, for objective reasons, be extended to the enterprises that fail to wait for procurements*.

In terms of resources, the *systemic* measures that have already been taken are showing signs of declining efficiency and are clearly oriented towards the compensation of losses. They are not aimed at the

encouragement of positive results (company growth and the opening of new markets, including export markets, as well as efforts to attract foreign investments and increase energy efficiency).

We thus observe a certain *imbalance in favour of selective measures*, and, as long as the negative impact of the crisis continues to mount, this bias could become stronger. To a certain extent, this is the result of the *absence of a well-developed set of systemic instruments for industrial policy*.

At the same time, some of the measures that are currently being used as selective ones (for instance, subsidized interest rates, state guarantees) could be transformed into competitive measures. We also believe that it is important to increase expenditure on active measures for the promotion of employment and support of SMEs, but in mandatory combination with a basic improvement in the monitoring of results and the development of tools for the dissemination of best practices.

7. The Risks Involved in Implementation

We have already mentioned that *all measures entail risk*, but it is essential to define the risks related to each measure and to work at finding ways (mechanisms) to minimize them.

The most frequently observed negative outcome was *deterioration in the competitive environment (46% of the total measures under consideration)*. This deterioration was caused not only by the enactment of numerous protectionist customs regulations and the preferential treatment of domestic producers, but also by the strong distortions of the competitive environment in the cases where various Russian business sectors received unequal (preferential) treatment, particularly in their access to government support.

As a rule, 'strong', ostensibly short-term tactical measures are difficult to 'usher out', especially if they have no built-in criteria for termination or if their discontinuation is likely to create risks and introduce further uncertainty into the changing environment. In many cases, the cancellation of temporary measures is troublesome because of powerful lobbying for their preservation. The implementation of the anti-crisis measures is taking two directions (in terms of choice of instruments):

- Resource endowment is being scaled up for selected instruments;
- New instruments are being created.

Both approaches have pros and cons (i.e. risks). In the first case, the instruments can be implemented swiftly, because there is a routine system of administration in place for the existing measures, but in crisis conditions, the instruments may prove to be too weak and/or reproduce unreasonable limitations.

Examples include the increase in depreciation premiums and the partial subsidizing of interest rates on loans to exporters of products with a high level of processing. The depreciation premium increase works efficiently during upswings, but has a very limited effect during downturns, i.e. when enterprise profits fall and when investment activity weakens because imported technological equipment becomes very expensive. As a result, the main benefits of this measure tend to go to large companies whose investment programmes are 'protected' natural monopolies in the first place.

The choice to partially subsidize interest rates on loans to exporters was made because this is perhaps the only workable instrument for supporting high-tech exports. However, this measure stipulates barriers for new exporters (a three-year-long history is required for entitlement to this instrument). In addition, its compensatory effect was increased by a partial reimbursement of interest paid on loans taken out after 2005.

In the second case, a larger anti-crisis effect from new instruments can be hoped for, but the risks become too high: hazards related to overrated expectations, inaccurate initial tuning, delays in putting the new instruments into practice, and 'exit problems' as soon as the crisis is over.

Examples include granting support to starting entrepreneurs and partial compensation of interest rates to individuals who borrow money to purchase domestically produced automobiles. We believe that granting support to starting entrepreneurs is one of the ‘breakup’ measures, but the essential issues here are the conditions of their implementation and management under regional programmes, efforts to follow up the real effects and an accurate definition of affordable expenditures on subsidies. Another fundamental issue is the risk that potentially positive effects will be initially overstated, so that this or that cutting-edge instrument will later be regarded with scepticism. Partial subsidizing of interest rates on lending to individuals is one of the few measures aimed at the creation of consumer demand. Let us point out that it was initially claimed as a clearly selective tool for the creation of demand for products made by a single motor car factory, but was later expanded to cover a fairly wide range of automobiles made in Russia, including global brands. However, it is extremely unclear how this measure will actually meet the needs of consumers.

Sometimes, the risk posed by the inaccurate initial tuning of new instruments is further intensified because *the different lists of measures* that are endorsed by the government’s agencies *are made without clear protocols for discussion or conciliation of various interests*, and there are no criteria for the preparation of such lists, at least the very general ones.

Box 2: Exemption from the VAT on Imports of Technological Equipment That Has No Analogue in Domestic Production

Exemption from the VAT on imports of ‘technological equipment (including components and spare parts) that has no analogue in domestic production in accordance with the list approved by the Government of the Russian Federation’ is a measure that is supposed to encourage technological modernization. So far, there is neither any information about a document that approves the list of exempted equipment, nor any announcement about when it is planned to be accepted (the regulation will be enforced only after this list is approved), nor about the criteria to be used in the preparation of this list. At this stage, this measure looks completely opaque. This measure is also very ‘pointed’ because the VAT on imported equipment is often much higher than customs duties.²⁵

Obviously, in order to ensure that this measure will produce real systemic incentives for the economy, the criteria and principles for the compilation of this list of equipment should be openly defined. If not, there will be no practical way of creating a sufficiently stable and understandable system of incentives and signals for enterprises. We realize that elaboration of a universal list of equipment that could impartially show the value of this measure is an extremely difficult task. To this end, criteria should be set for the identification of equipment analogues, which is never easy. For instance, there is the problem of choosing among a variety of criteria: the technical parameters alone, generic features or the commercial interchangeability of a good.

We believe that the *risk of administrative failure*, which must be taken into account when a measure is designed, is highly important. This risk is higher for measures that require decisions about rendering support to be made by skilled public servants (or commissions); it is also higher for measures calling for competence in economic and even technical matters and/or relying on information that can be given only by the recipient and is thus difficult to verify, etc. Sometimes, the administrative risks are not so much related to the difficulty of the decision to render support per se, but are instead due to the great number of individual decisions that have to be made, which can overload the relevant agencies and either delay or bring decision-making to a standstill. If risks of this type are high, it may be better to change the design of the measure and simplify the procedures and criteria used for decision-making.

25 It is important to note that this measure is actually tantamount to subsidizing imports, because foreign suppliers obtain more favourable conditions for competition with Russian enterprises. Similar measures in terms of economic sense (although using different methods) were applied in the early 1990s to so-called ‘critical imports’.

The analysis of consolidated assessments made by the experts we consulted *shows that the risk of administrative failure is considered to be high for 42% of the anti-crisis measures, moderate for 21%, and low for 37%*. Other things being equal, a low risk is more typical of measures with routine administrative procedures (payment of unemployment allowances, fixation of tariffs), or of tax policies that are simply designed (such as lowering the tax rate on profits). Concerning the correlation between administrative failures and instruments in use, we observe that the *means for the expansion of demand* (primarily government and municipal procurements) and the *means for the stimulation of lending* (including subsidized interest rates and state guarantees) are the most susceptible to such failures.

The risk of administrative failure is mostly determined by the type of instrument in use (a selective, competitive or systemic one). Systemic measures entail the lowest risk of failure (fewer than 30% of them are highly risky). Strange as it may seem, the measures involving competitive methods of selection are the riskiest (66%), while only 46% of selective measures are considered to be very risky.

Let us point out that *the measures that have strong anti-crisis effects more often bear a higher risk of administrative failure* than the measures with relatively weak effects. A high risk of misadministration is typical of 30% of all measures with weak effects and associated with 43% of all measures with moderate effects. Among the measures with strong anti-crisis effects, 57% carry a high risk of administrative failure.

However, it must be emphasized that the presence of a high risk of administrative failure does not mean that the measure in question is unproductive. This degree of risk must be taken into account, and decision-making must be subjected to more carefully elaborated regulations (criteria, terms, requirements of decision-makers, and so on). Typically, many measures involve *insufficient transparency of results, and in some cases, there is a risk that the decision-making procedures will have a low degree of transparency*.

8. The Main Problems and Contradictions of the Anti-Crisis Policy

In this section, we summarize some of the basic problems that were revealed by the expert assessment of a wide range of measures taken by the government of the Russian Federation to ease the consequences of the economic crisis in 2008–2009. Although these assessments are based on the working materials submitted by the experts, certain conclusions might not necessarily reflect the point of view of the entire group of experts, but instead represent the opinions of the authors. Nevertheless, we hope that our analytical work can serve as an impetus for constructive changes, primarily in improving the procedures for elaborating new measures, optimizing the measures already under way and further monitoring their effects.

8.1. Some Fundamental Reasons Why the Effects of the Anti-Crisis Policy Have Grown Weaker

In crisis conditions, the need to take prompt and radical measures that often go counter to the accepted logic of strategic decisions and former principles of economic policy is a serious test for any system of government. This is clearly demonstrated by the present practice of inventing and adopting anti-crisis measures both in EU countries and in the United States, where decision-making has a long history of correction and tuning. This trial is all the more serious for the Russian government, because in this country, a systemic approach to the elaboration of economic policy was not yet in place even before the crisis, which means that the process of making decisions and especially of controlling their results in practice was never truly efficient.

We believe that a whole range of basic problems arose because the system of decision-making buckled under a rapidly increasing workload. These problems were recognized earlier, but did not have a serious negative impact on the quality of governing until recently. In our opinion, analyzing the emerging problems of the anti-crisis policy provides a golden opportunity to study the whole system of economic decision-making and perhaps find some ways to reform it. This will help improve the quality of governing and administration not only in times of crisis but afterwards as well.

Below, we draw attention to the basic governing problems that led to many shortfalls in the anti-crisis actions taken by the government from October 2008 to March 2009.

The failure to establish powerful interest groups that are oriented towards modernization and the absence of effective channels of communication between the authorities and the business community. *The failure of the authorities to create a 'coalition for modernization' in the years of economic growth and to set up powerful interest groups to promote renewal is perhaps the most fundamental shortcoming in the design and implementation of economic policy in Russia. Many attempts were made to build mechanisms for interaction or at least 'reciprocal informing' between the authorities, the business community and society (deliberative bodies, public chambers, forums, efforts to involve business representatives in discussions about agendas and concrete decisions), but no efficient system for the coordination of interests and the elaboration of concerted decisions was established.* Communication with the business community was often limited to a narrow circle of large and super-large corporations; a climate of general mistrust between the authorities and businesses continued to exist, and a mechanism for establishing a private-public partnership, which had been declared a priority, was never set up. It would be unfair to solely blame the state for the failure to build such a coalition. The poor channels of communication were largely due to weak and inefficient business associations, underdeveloped institutions and feeble civil society organizations. Nevertheless, the very fact that the government did not fully recognize its own need for such a dialogue explains why many initiatives for modernization were stalled and why offers to develop new instruments for economic policy fell upon deaf ears.

The limited potential of the administrative system. Even before the crisis arose, the public administration could hardly cope with its workload. Because the anti-crisis measures are manifold and mostly selective (so that they depend upon the operations of different inter-agency groups), the potential for public administration is limited. *Facilities for designing, discussing and implementing an anti-crisis policy that is both integral and divided into echelons are therefore in short supply.* For this reason, the anti-crisis policy is susceptible to the risks of lobbying and opportunistic decisions. This drawback is becoming a serious problem in combination with the inconsistent and fragmented availability of information on the anti-crisis policy, especially since the government is failing to enact concrete measures.

The limited range of tools for governmental influence. When the crisis broke out, the government had a limited range of tools to influence the economy (federal target programmes, public procurement orders, taxes, tariffs, etc.). Many of them are not flexible enough and have no provisions for the regular optimization, improvement and transfer of best practices. When financial resources were abundant, the state had little incentive to make these tools more effective and transparent or to create a high-quality system for monitoring affairs according to industry and sector (especially outside the government's sphere of influence). These defects were less pronounced *before the crisis because there was enough time to gradually refine certain tools.* This enabled the tools to be better administered and allowed them to be used more skilfully, with special attention paid to the reactions of the business community. Prior to the crisis, the public administration could concentrate its efforts on the enactment of regulations rather than on monitoring their practical effects. In times of crisis, it is imprudent and even dangerous to tune the tools according to the 'act, watch and react' method, especially because the systemic mechanisms of interaction between the state and the business community have become much weaker.

We believe that *the solution for making the anti-crisis policy more effective* can be found not so much in putting forward one new proposal after another but rather in *improving the tools for their implementation*. Some arrangements, even those that are conceptually correct and progressive, can lose their clout due to ineffective tools, inaccurate tuning, and inexact and non-transparent procedures that are poorly administered and nominally monitored.

8.2. Special Characteristics of the Generation and Implementation of the Anti-Crisis Policy

We are aware of the fact that in the dire economic situation of autumn 2008, the government of the Russian Federation was obliged to take many measures in a hurry in response to the arising threats. It was often forced to act without complete information about evolving affairs, and there was no time for a careful evaluation of the measures or their possible aftereffects. The measures that were ultimately taken reflect the lobbying activities of certain companies and industries as well as 'a surge of anti-crisis creativity' in the ministries and agencies.

Hastily-declared measures in many cases were not and could not be supported with carefully-designed legislation to ensure that they were put into practice. For this reason, actual execution lagged far behind the announcement of the measures. As a result, the *pre-emptive anti-crisis potential of a number of measures* remained unused. And on many occasions, the government overestimated its real administrative ability to enact the declared measures.

The urgency of generating anti-crisis measures had another important result: their initiation and provision was opaque, and their implementation was accordingly non-transparent. Obviously, the *losses and risks from insufficient transparency tend to multiply during a crisis*. We would attribute this phenomenon to asymmetric information, which is described below.

- The government is not familiar enough with the current situation in Russian industries or their prospects. Consulting services that were helpful earlier are much less so now; they give a better view of the state of large and super-large corporations, which they present in a more detailed way, but depict the potential of medium-sized companies and new industries in an extremely fragmented way. This situation increases the risk of lobbying for selective decisions and biases the entire anti-crisis programme towards the traditional economy.
- In turn, the business community and society in general are ill-informed about the sequence of the main steps of the anti-crisis programme and about how the declared measures are supposed to work in practice. As a result, the measures lose their motivational power, giving way to trading in insider information, so that the top echelons of officials end up receiving inadequate target information from the business community and society about the actual use and effects of the measures.

Without a doubt, there are various considerations in favour of limiting the flow of information. However, concrete decisions then tend to be made in the mode of a situational 'trade' between agencies. This scenario makes mid-level bureaucrats feel more at ease, because it masks their blunders and allows them to declare, without good reason, that their actions have great practical potential. Limiting information diminishes the responsibility of business associations (in terms of their accountability to their members) and gives an advantage to representatives of large and super-large corporations, who have better personal access to internal documents and decision-makers.

With respect to the assumed measures, the main practical emphases of the anti-crisis policy are:

- To support the fuel and energy complex for the sake of fiscal stability;
- To support the investment programmes of natural monopolies in order to expand domestic investment, with no serious steps taken to improve their management;
- To support manufacturing in order to diversify the economy, but with the stress on selective assistance to large companies that are often uncompetitive in the global market;

- To support small firms, but with the emphasis on increasing their number rather than on growing and transforming small businesses into middle-sized ones.

In our opinion, this approach tends to lead to a *redistribution of resources in favour of traditional sectors, preserve an obsolete technological infrastructure, create distortion in regulations and impede the recovery of high economic growth after the crisis is over.*

The fact that many of the measures are not coordinated with the long-term strategic goals of economic development is fraught with the danger that the system may weaken: prospects for firms will become more uncertain, conditions for fair competition will be shattered, and incentives will become destructive. This applies to the measures that are deployed only once, such as the injection of additional capital, or the buying-up of bonds, etc., which gives recipients and other economic agents the false impression that similar measures will be repeated in future. This is also true of some institutional changes that will have long-term consequences. The essentially extraordinary anti-crisis measures, which distort the natural institutional structure and substantially change the 'rules of the game', are often imposed with no strict time limits or indication of when it would be appropriate to discontinue them. On a number of occasions these changes have led to 'traps' (inefficient equilibria) that require new sets of 'post-crisis' measures in order to find a way out.

In our opinion, many defects that are typical of some means of directly supporting producers could be avoided by stipulating a broader set of 'counter-requirements' for the recipients of state assistance. These should not be requests for fixed or controlled prices (although this is an option if a recipient is a monopoly), but demands for modernization and improvement of competitive power. No doubt, in many cases such 'counter-requirements' exist in reality, but they are also opaque and non-public.

8.3. Tendencies and Dangers

- An expected radical decrease in the amount of resources at the government's disposal to provide anti-crisis support to the real economy will no doubt become the main tendency. This decrease will occur for natural reasons, because tax revenue and other fiscal revenues will decline. The need for social support, especially for the underprivileged, will grow; difficulties will arise in many regions, and inter-government transfers will have to be extended. Enterprises forming company towns will probably face new challenges.
- If the global crisis is prolonged (a possibility that no one can rule out), focusing on instruments for selective assistance will produce areas of 'chronic distress', which will call for more and more spending. Industry-wise priorities in the anti-crisis policy that are determined now (and are addressed to the most vulnerable sectors) have become predominant in the direct or indirect allocation of resources through systemically important banks. This can lead to excessive concentration of the public and private funds given to solve the problems of large companies, while more promising firms will face additional resource constraints. This approach is acceptable only if one is sure that the crisis will be over by the end of 2009.
- A prolonged fiscal crisis can turn temporary protectionist measures into permanent ones and encourage interest groups seeking wider and stronger protection from foreign competition to exert powerful pressure on the government. If this practice becomes widespread, it will increase the risk of inflation and suppress final demand. This outcome is undesirable in the recession phase and recovery phase alike.
- An extension of assistance to private businesses by the state in exchange for a higher share of equity capital can trigger another round of 'creeping nationalization' without leading to any improvement in performance. This will impose greater responsibility on the state for everything that happens in the economy.
- Facing a lack of ready cash for aid, the government will turn to withdrawing money from institutions for development (which were established in order to achieve the ambitious goal of technologically modernizing the Russian economy). The government will then exert fiscal and

administrative pressure on 'affluent' enterprises that have managed to adapt themselves to new conditions and survive without any public assistance. Moreover, a decrease in resources for the anti-crisis policy will expand the range of non-monetary (regulatory) measures.

- If the federal authorities are unable to support regional economies in distress, the regions will most likely introduce unauthorized anti-crisis activities of their own that are likely to entail the abuse of administrative power.

We have indicated the negative effects that *can come into play* if the approaches to the design and implementation of the anti-crisis measures are not modified even in 2009, which is relatively 'calm' in comparison with the period of October to November 2008. Negative consequences will also ensue if there is no coherent programme to alleviate the recession and compensate for its negative effects as well as to offer real avenues for modernization (the development of new industries, human capital and innovations). In this context, we regret to report that the Russian Federation's Anti-Crisis Programme for 2009 is really more of an attempt to organize all of the measures that are currently under way or were declared earlier than a true antidote to the fiscal crisis. At the same time, we appreciate the fact that the compilation of this programme and its presentation to the public have been extremely positive.

9. Policy Implications

We do not claim to know the secret of how to successfully implement anti-crisis measures. As we have already mentioned, these measures can be elaborated only in a dialogue between the government, the business community and society. Nevertheless, considering the decisions that have already been made by the Russian government, we have tried to predict their possible short-term and long-term outcome and to assess the costs and risks of putting them into practice. In addition to the qualitative conclusions presented in the previous section, this kind of analysis has enabled us to formulate some definite ways of improving the mechanisms of implementing the measures.

For starters, it would be prudent to make the *procedures of the generation and implementation of the anti-crisis policy* more substantiated and transparent.

Firstly, the ultimate goals of the measures must be clearly stated. The measures' main beneficiaries, expected effects and possible problems (risks) also need to be announced.

Secondly, the concrete design of the measures, including the ways in which they will provide support as well as their projected enactment (conceptions of legislative documents) must be made in consultation with businesses and concerned social organizations. To this end, business associations and social organizations should actively request the publication of official assessments.

Thirdly, schedules must be set for putting each measure into practice, with test points for controlling them, in tandem with the business community and society.

Finally, all enacted legislation on the anti-crisis measures must undergo mandatory tests to ensure that it contains strict requirements with respect to the disclosure of information and transparency of decision-making.

These predetermined test points and an appropriate level of disclosure of information will make monitoring the implementation of the anti-crisis measures feasible. These conditions will also enable the opening of feedback channels, which should facilitate the correction or abrogation of relevant measures, if necessary.

We believe that the range of instruments for the anti-crisis policy must be gradually enlarged. With this end in view, the laws and regulations in force must be systematically improved to facilitate a more flexible reaction to coming challenges. In a recession, we are perhaps forced to 'call in the fire brigades' to quell the accompanying social and economic problems. Nevertheless, we must urgently begin to design in advance the measures that will be needed by the final phase of the crisis. These measures

must include bills prepared beforehand that can be enacted without delay for the abolition (immediate or gradual) of the measures that were in force during the recession but might later jeopardize national strategic interests. Among others, this refers to the problem of 'how to exit from nationalization'.

Special attention should be paid to improving the performance of state-owned companies and natural monopolies; their development strategies must also be revised to comply with national needs both during the recession and the subsequent recovery. This segment of the economy falls, for the most part, within the area of government responsibility, and its impact on the rest of the national economy is very strong. We believe that measures that will support certain industries or enterprises must be prepared with an eye to minimizing inefficient substitutions. Critical social policy tasks such as supporting the unemployed and creating new jobs must not be replaced with attempts to generate artificial extra demand for hopelessly poor products. Support of demand can be justified only in cases where there is a need to maintain not only jobs but also facilities and skilled personnel. This support is reasonable either when it is certain that these resources will remain in need after the crisis is over or if the policy is justified for national security reasons.

Finally, it is important to define and begin to put into practice, even in the recessionary phase, measures that could enable us to shift from protecting 'the most vulnerable' economic agents to supporting 'new engines of growth', which could greatly accelerate the post-crisis economic revival.

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Appendix: Anti-Crisis Measures With the Highest Financial Resources: Volumes and Potential Effect on Real Economy

Anti-Crisis Measures	1. Expansion of access to financial resources	2. Lowering of burden on business	3. Alleviation of social problems, development of labor market	4. Creation of domestic demand	5. Development of competitive environment, support of SMEs	Estimated resources, billion rubles (October 2008-December 2009)
Lending by Vneshekonombank to Russian borrowers for refinancing their foreign loans against the pledge of assets in Russian territory	+					\$11,5 billion*
Capitalization of the Agency for Housing Mortgage for expansion of mortgage	+	+				60
Capitalization of the Russian Agricultural Bank for expansion of financing of agricultural and grain market interventions	+					75**)
Changes in the Vneshekonombank Memorandum on financial policy in order to finance large-scale projects in agribusiness	+					60***)
Subsidies for repayment of borrowings by certain airline companies in order to support their operations	+					30
Credit guarantees to organizations for operating in the main areas of productive activity and capital investment	+					200
Credit guarantees to enterprises in the defense-industrial complex	+					100
Subsidizing interest rates on certain types of investment and short-term borrowings in agribusiness	+					17
Fiscal subsidies to enterprises in the defense-industrial complex for repayment of interest on borrowings made in 2008-2009, including borrowings for replenishment of working capital	+					15

Anti-Crisis Measures	1. Expansion of access to financial resources	2. Lowering of burden on business	3. Alleviation of social problems, development of labor market	4. Creation of domestic demand	5. Development of competitive environment, support of SMEs	Estimated resources, billion rubles (October 2008-December 2009)
Expansion of subsidies to enterprises in the defense-industrial complex for prevention of bankruptcies	+					3
Subsidies to enterprises in the defense-industrial complex for covering of costs or lost revenues on state-defense orders and government procurements	+			+		12
Expansion of subsidies to Russian exporters of industrial goods for partial reimbursement of interest on their borrowings	+					6****)
Subsidies to enterprises in agricultural machinery, automobiles and transportation machinery for reimbursement of interest on borrowings made in 2008-2009 and used for technological modernization	+					2,5
Subsidizing interest rates for consumer loans, used for purchase of automobiles made in Russia	+			+		2
Guaranteeing bond issue made by Russian Railways Co. by the Russian Government and Vneshekonbank for financing the company's capital investment programs	+			+		100
Assistance for the placement of bonds issues by Russian automobile companies with a guarantee from the Russian Government	+					60
Organization of additional issues of shares and bonds by certain strategically important enterprises	+					50
Subsidizing interest rates on borrowings of enterprises in fisheries and fish farming	+					1,1
Credit lines to leasing companies for Russian automobiles	+			+		1
Guidance to commercial banks using different types of public support in allocation of their credit resources to defense enterprises, agribusiness and SMEs	+				+	

Anti-Crisis Measures							Estimated resources, billion rubles (October 2008-December 2009)
	1. Expansion of access to financial resources	+					
	2. Lowering of burden on business	+	+	+	+	+	
	3. Alleviation of social problems, development of labor market						
	4. Creation of domestic demand						
	5. Development of competitive environment, support of SMEs					+	13*****)
	Recommendations to commercial banks using different types of public support for priority lending to certain industries: automobiles, agriculture machinery, air transportation, residential housing						294
	Limitation of increases in tariffs for products (or services) of natural monopolists						250*****)
	Reduction in profit tax rate from 24% to 20%						50,4
	Shortening of screening terms in calculation of customs duty rates for exports of oil						104
	Increase in depreciation of premiums for certain types of fixed assets from 10% to 30%						
	Increase in the non-taxable minimum of tax on mining of minerals from \$9 to \$15 per barrel of crude oil						
	Reduction in the period of acknowledgement of cost of licenses for use of mineral resources to 2 years, and for calculation of profit taxes						2
	Granting tax holidays for mining of minerals in the continental shelf, in the Nenets Autonomous Area, on the Yamal Peninsula, and in Eastern Siberia						
	Granting of the right to establish tax rates for simplified taxation schemes in the range of 5-15% to Constituent Entities of Federation						
	Limitation of the number of inspections of business enterprises						

Anti-Crisis Measures	1. Expansion of access to financial resources	2. Lowering of burden on business	3. Alleviation of social problems, development of labor market	4. Creation of domestic demand	5. Development of competitive environment, support of SMEs	Estimated resources, billion rubles (October 2008-December 2009)
Protection of legal entities' and individual entrepreneurs' rights during the implementation of state and municipal control (supervision)	+	+	+			
Limitation of rates of increase in tariffs on products of natural monopolies		+	+			33,9
Increase in the size of the maximum unemployment benefit to 4900 rubles, and in the period of payment, from 6 to 12 months			+	+		43
Tax deductions for people buying or building housing will be doubled to 2 million rubles			+	+		35
Providing housing for all Second World War veterans			+	+		26,3
Enabling families who possess a government maternity capital certificate to use such money for improvement of their housing conditions ahead of standard time	+		+	+		77,6*****)
Co-financing of regional employment programs			+			
Restructuring of mortgage loans through the Agency for Housing Mortgages for persons who lost their jobs or suffer a decline in income	+		+			
Reduction of quotas for foreign workers			+			
Compensation (through an increase of the authorized capital) of lost revenue of Russian Railways Co. in connection with subsidized fares for students in secondary and higher education.			+			2,3
Ensuring of bids for the 2009-2010 government procurement program in December				+		
Increased advance funding for the fulfillment of measures under federal targeted programs and the state defense order				+		
Preferential prices (from 5 to 25%) for suppliers of Russian goods under the state order				+		

Anti-Crisis Measures						Estimated resources, billion rubles (October 2008-December 2009)
Regulation of the procedure for buying the products of natural monopolies and state corporations, and for ensuring privileges for Russian producers.					+	
Increase in import customs duties on automobiles.				+		
Reduction of tariff quotas for imports of poultry and pork, substantial increase in tariffs on over-the-quota meat imports				+		
Use of the funds of the state corporation Housing and Utilities Reform Fund in 2008-2009 for the acquisition of economy-class apartments			+			50
Use of federal budget funds ("Housing" Program under the Ministry of Defense) in 2008-2009 for acquisition of apartments			+			32,6
Compensation (through an increase of authorized capital) of the Russian Railways Co, for revenues lost in connection with the slowdown in the rate of indexation of railway carriage tariffs for 2009	+			+		50*****)
Granting subsidies to the Russian Railways Co. to compensate losses from the transportation of new vehicles from European Russia to East Siberia and the Far East.			+			2
Implementation of a program to renew pools of automobiles used by municipal authorities				+		20*****)
Increase in financing of the purchase of automobiles for the needs of federal authorities				+		12,5
Increase in the market value of Rosagroleasing for the expansion of purchases of agricultural machines	+			+		25
Expansion in lending to SMEs by Vneshekonombank	+				+	30*****)

Anti-Crisis Measures		1. Expansion of access to financial resources	2. Lowering of burden on business	3. Alleviation of social problems, development of labor market	4. Creation of domestic demand	5. Development of competitive environment, support of SMEs	Estimated resources, billion rubles (October 2008-December 2009)
Granting support to regional programs for the development of SMEs				+		+	10,5*****
Required quotas for purchases for small and middle-sized companies will be extended to municipal procurements						+	25
Fees for connecting SMEs to small-yield power will be lowered (paid by installments).			+			+	

*) Since 2009, acceptance of new applications for refinancing external debts has been suspended

**) Initially, capitalization of the Bank was increased by 30 billion rubles, and later, by another 45 billion rubles

***) This estimate was made according to comments made by representatives of Vneshekonombank about the portfolio of projects in agribusiness appropriated for lending; at present, Vneshekonombank is reported to have plans to finance agribusiness projects for 100 billion rubles

****) The amount of subsidies provided for 2009 is 6 billion rubles; however, the increase from last year is about 3 billion rubles

*****) This estimate was made in the 2008; it is possibly overstated

*****) This estimate (made in the late 2008) is most likely to be overstated; so far, only 13 regions have set lowered rates under the simplified taxation scheme, in many cases with industry-wise limitations

*****) Including the adopted decision on financing for programs for active employment policy measures (33.9 billion rubles) in addition to the present financing (43.7 billion rubles), and also including regional co-financing (5%), the total amount of resources is estimated at more than 80 billion rubles

*****) In principle, in December 2008 a decision was made to increase the authorized capital of the Russian Railways Co. by 41.4 billion rubles. Possibly, 50 billion rubles is an additional capital injection

*****) Taking regional co-financing into account, total resources will amount to 30 billion rubles

*****) For 2009, the sum of 30 billion rubles was provided; the increase from last year's level is about 20 billion rubles

*****) For 2009, the sum of 10.5 billion rubles was provided; an increase from last year's level of about 6 billion rubles.

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