

Can Russia raise a non-profit capitalism?

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Why this topic?



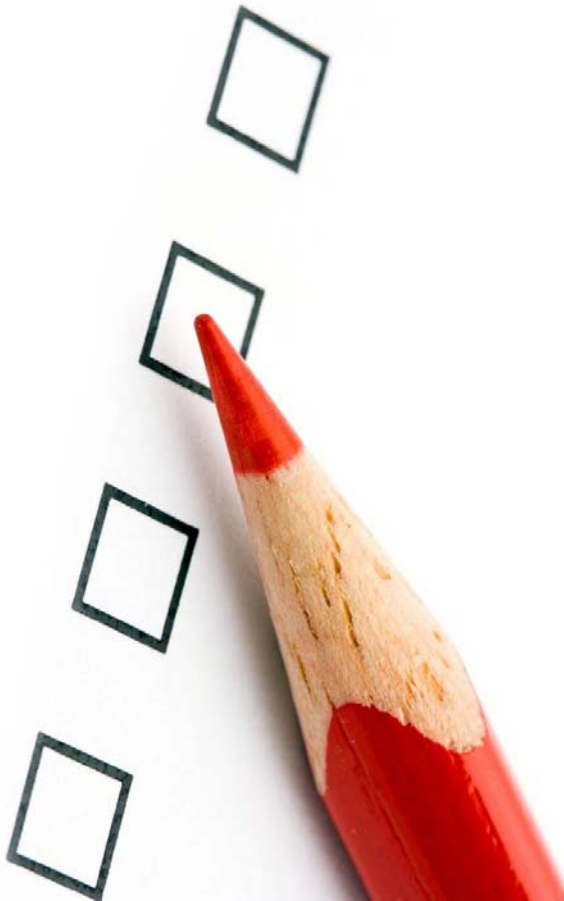
- Russians as a nation have very limited understanding of how to manage wealth, both meaning the wealth dug in the earth and our personal financial resources.
- My goal today is to try and explain why this kind of wastefulness lives in us and what forms of that have evolved if we look at management of the public resources through the eyes of the State, pro-State institutions and private business elite

Presentation outline

1. Determinants of social barbarity towards natural resources

2. Problems behind attempts to manage public resources

3. New legal forms used by the State to manage public resources



Presentation outline

1. Determinants of social
barbarity towards natural resources



Motivation behind the Russian barbarity (1.1)

Russian literature and folklore suggest an answer to the debate. The boundless territory of the country is the cradle of the “generous Russian spirit”:

- **F. Dostoevsky:** beauty of the nature plays a provocative role, often awakening human soul to meanness instead of winged sentiments;

- **N. Berdyaev:** unlimited land resources influenced the understanding of Russian people, that it is impossible to settle and develop such a huge space;



Motivation behind the Russian barbarity (1.2)



- **Words of the song, popular in the Great Stalin Era:** ...my native country is so large: there are so many forests, fields and rivers, that I simply don't know any other country where a person could breathe that freely.

Motivation behind the Russian barbarity (2)

Looking at things through the eyes of the Russian elite:

- All types of public resources (including natural and mineral resources) are viewed as exhaustible not because of the natural scarcity, but rather because the old ruling elite fears to yield its powers to the new elite whenever new appointments occur;
- Abuse of power to increase personal wealth and status is considered to be a natural privilege from holding top executive positions with the State.



A silent testimony of helicopter hunting in the Antay Mountains

Motivation behind the Russian barbarity (3.1)



Looking at things through the eyes of an average population:

- For several generations solicitous attitude to environment was not an issue, because people were focused on simple survival (any potential thoughts of green behavior are currently dominated by thoughts of food and shelter);

- Urbanization and industrialization washed rural population out of the suburbs to the growing cities, using the vacant space for industrial production and construction;

- For people it became more economically justified to explore new territories, than to increase the efficiency of resource consumption in existing settlements.

To make a living Russian native minorities are often forced to collect wild-growing herbs

Motivation behind the Russian barbarity (3.2)



- Witnessing an every day damage caused to environment by industrial production that is being intensified to maintain growing wealth of the Russian business elite, the only role model that Russian middle class has is “take it all now”;
- Double standards that appear as a result of the Law being ignored by the few and powered by a fake priority of money as an ultimate value cause average Russians to strive for a “Russian dream.”

Presentation outline

2. Problems behind attempts to manage public resources



Leave it public?



- The infinite belief that human resources on top executive positions of political system are a vital element for the country has remained strong throughout the years of all reforms;
- The best solution to all the problems has been a super management team in the government and state owned entities;
- This way, headcount of government officials by the end of the 1990s was twice bigger than in the era of Stalin and Khrushchev and 1.5 times bigger than in the era of Brezhnev and Gorbachev;
- In addition, opposition of local elite brings to naught almost all the initiatives to implement best practice of management for public owned resources.

Make it private?



- Global financial crisis forced many governments to nationalize a big part of resources that have been previously handed over to private institutions;
- Still, social science views private ownership as one of the most efficient instruments to combine progress with saving of the resources;
- So far science could not suggest an indicator to evaluate efficiency of management in social projects that would be as good criteria as profit for commercial projects.

Make it a State capitalism!



Yukos case:

- Yukos Empire was divided between Gazprom and Rosneft. The result of such “acquisition” for each company was reflected in skyrocketing growth of managerial costs, but was luckily balanced out by favorable oil prices and monopolistic position on the market. What was hard to cover up is poor motivation and limited experience of newly appointed managers who started their career in special government services.

Other examples:

- Beyond natural resources sector we’ll find that up to 90% of state and municipal enterprises became bankrupt.

No way? Follow the detour sign!



- Currently there is no law that would limit the scope of privatization (just a few remarks regarding medical care);
- Lack of efficiency related to government exposure in commercial projects along with sabotaging actions from the state body in reply to any initiatives that threaten its existence in the form of rent taker force the government to invent new forms of asset management.

Presentation outline



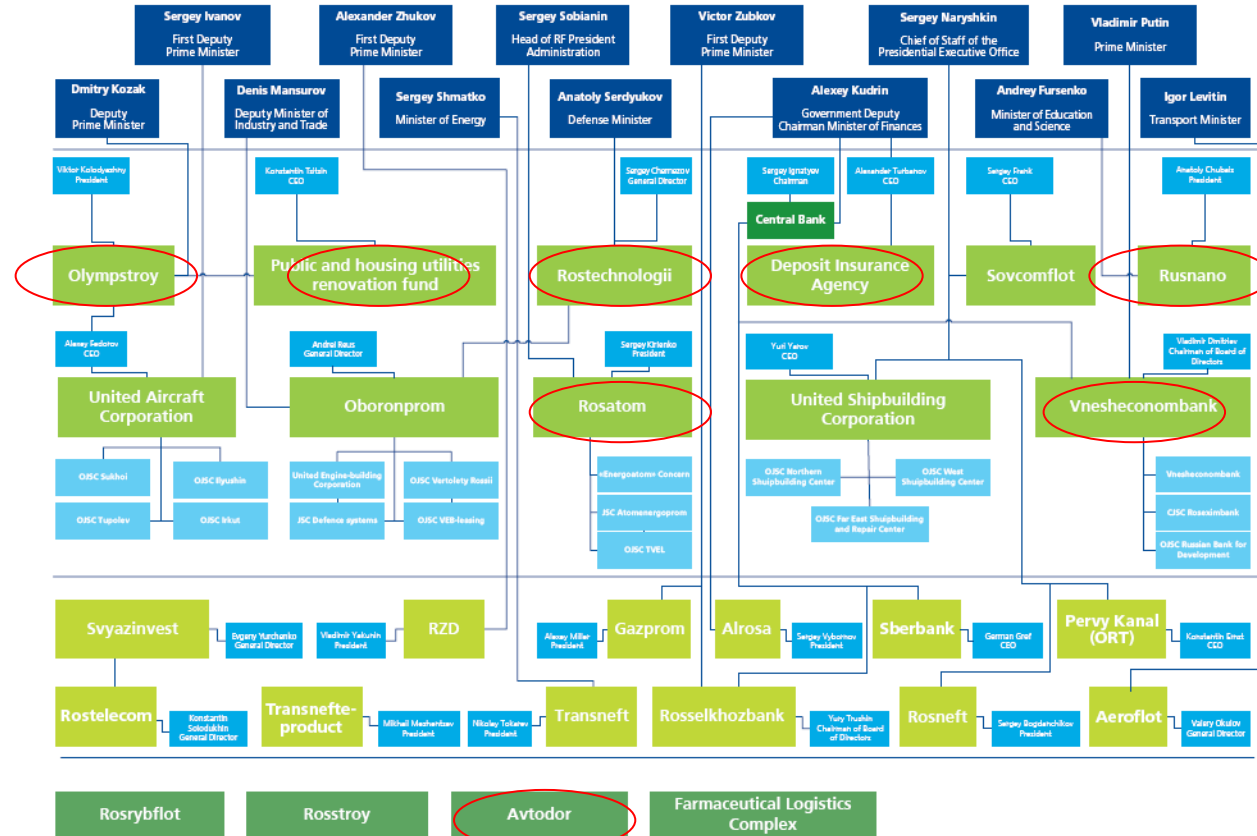
3. New legal forms used by the State to manage public resources

State Corporations: what's the fuss?



- A new form of privatization in 2007 was associated with formation of various types of state-like institutions: state funds, state corporations and state companies (the last two are considered different forms of enterprises), - that have received a big chunk of state funds and assets based on the ownership right. No procedure for nationalization exists.
- The legislation classifies the mentioned institutions as non-profit organizations that own assets, handed over to them from the government. This way they differ from open joint stock companies with government's stake where assets are owned by the government.
- At the same time, State corporation as a legal form is not explained by the Civil Code;
- Taking a long list of additional "privileges" that state corporation currently have, one can conclude that large amount of state funds have simply been transferred out of control of the budget to a set up non-transparent and most likely inefficient institutions.

State Corporations: suggested structure



- New activities (e.g. venture projects)
- Existing activities (e.g. defense, utilities)
- Financial infrastructure (e.g. state guarantees)

New players in charge of few projects



- In 2007 alone the government created 6 state corporations (increasing the number from only one in 2003);
- Functions of new entities spread from financing of the state programs focused on massive repairs of housing to financing of venture funds, that currently combine “advantages” of uncontrolled use of state assets and considerable tax cuts;
- To illustrate the resource base of state corporations let us mention that in the middle of the panic on financial markets in the end of 2008 VneshEconombank received \$20 bln bail out package from the government and another \$50 bln from the Central Bank. Basically we now have the second Ministry of Finance that can help distressed companies based on any approach that it considers appropriate.

So what's new?



- It is not very clear why the scoop of work given to the state corporations was unable to exist in the old structure of ministries?
- Why did we have to establish a giant that we can't control, for a set of operations that can easily be handled by existing resources?
- On the other hand what if the only thing that control does is multiplying the further inspections?
- And finally, do all these controversies help to maintain weak balance between public and private in Russia?

Questions?



Thank you!