

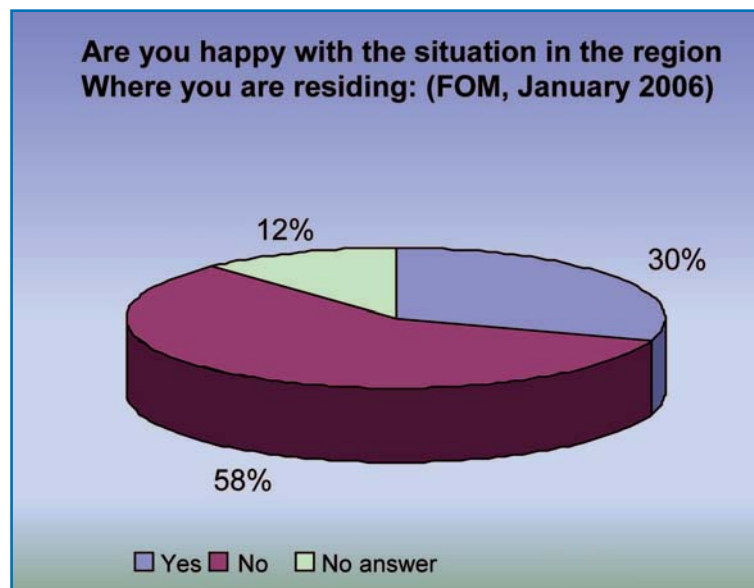
Chapter 9.

**REGIONAL DEVELOPMENT – SUSTAINING
OF FEDERAL TENDENCIES**

Development of regional political space in 2005 was substantially determined by the discussion regarding the need for developing new principles of regional policies, launched on the federal level. The result of this discussion was the **„growth locomotives” concept** designed by the Ministry of Regional Development (MRD). The main idea of this concept is that the state must provide financial assistance mostly to the regions that are growing and promising economically, while the „depressed” areas will receive funding only in the amount that is necessary in order to perform their social obligations to the people. Therefore, pursuant to the document submitted to the state on June 30, 2005, the model of „growth locomotives” support must actually replace the system which is a de-facto product of the „leveling” politics and implies a small number of donor regions and the main body of recipients in the framework of the Russian Federation. According to the Ministry of Regional Development data, more than 50% of the Russian GNP is sustained by only 10-12 territories out of 89 (including Moscow, Saint-Petersburg, Krasnoyarsk Region, Tatarstan and Samara Region), while the „leveling” measures cost the state approximately 30 billion Rubles per year. Pursuant to the MRD Concept, during the period from 2011 to 2020 financing of the „bearing” territories will increase almost threefold, up to 80 billion Rubles per year, and private investments up to 1 trillion Rubles.

For the first time the idea of the „growth locomotives” was proposed by the most active on the federal level regional leaders, Alexander Khloponin, Governor of the Krasnoyarsk Region. The first opponents of this concept became the ministers from the government economic block, as well as a number of regional leaders, including leaders both of the recipient regions, and of the „donors” (for example, the Samara Region Governor Alexander Titov). In their turn, they supported an „alternative” project of Dmitry Kozak, the Presidential Plenipotentiary Representative in the South Federal District, pursuant to which the political independency of the Federation Subjects must directly depend on their economic self-sufficiency, while the regions that are subsidized more than by 80% must be regulated directly from the federal Center. These suggestions first of all included the North Caucasus regions, because their situation was grossly overlooked by the „growth locomotives” theory. In this respect let us note that although the provision on financial control management in the regions has already been adopted (it will come into force in 2007), there is a danger of the federal managers being isolated, especially in the regions domineered by a clan system (a precedent in this case is the successive dismissal of the Chechen Prime Ministers). In the end the „growth locomotives” concept was officially approved for implementation by the MRD, while Kozak’s project was generally approved on the federal level, however, it would be premature to speak about its actual implementation.

In the context of discussion on the new principles of the regional policies we can pinpoint the following ***most significant aspects of political processes dynamics in the RF subjects***: implementing federal initiatives on the regional level, struggle between the elite groups for control over the strategically important „resource-intensive” territories, and electoral process in the Russian regions. Dynamics of the political situation in the North Caucasus should be reviewed separately.



9.1. Federal reforms on the regional level

„Consolidation” of regions: effectiveness of management and control

One of the most actively developing vectors of federal initiatives on the regional level in 2005 became the „consolidation” of regions. The official explanation for the need to implement such projects looks quite logical: as the main task in the process of „consolidation” the President named establishing subjects with an effective system of administrative management and strong economics based on implementing the strategic advantages of territories included in the region. Reducing the number of unprofitable federation subjects, for example by adding small and economically incapable regions constantly in need of federal subsidies to the large and prosperous ones, in order to implement this task. An example of such consolidation is the Perm

Region. Komi-Permyatski Autonomous Region joined a stronger subject with a stable budget surplus, and the district in exchange was granted an opportunity to expand its resource base. Another argument is the need to consolidate the so-called „matryoshka” Federation subjects in order to improve the management efficiency. For example, the Taymyr and Evenkiya residents have traditionally been voting in the elections for the Governor of Krasnoyarsk Region, while the legislative and budget systems of the three federation subjects had been formally independent prior to their integration.

At the same time, from the standpoint of federal interests, one of the most important results of implementing the consolidation initiatives must be *streamlining of control over and use of the resource potential of the territories, as well as over*. The problem of ensuring manageability of the regional economic processes remains salient event after the local elites were stripped of most of the powers that had been bringing them a substantial share of their income. We just have to remember, that within its new limits its area will be equal to four Frances and in addition will come into possession of tremendous oil reservoirs and non-ferrous metals. In this context we should mention that the consolidation of the Federation subjects became a logical conclusion of the course of *reducing direct subsidizing of the „losers” in terms of economic development of territories by the Federal Center*: starting from 2006, the regions that were previously subsidized by the government will receive subsidies from the budgets of their respective oblasts and districts.

As to the position of the leaders of subjects regarding the „consolidation” issue, their active efforts in implementing the presidential initiatives are first of all motivated by their desire to comply with the salient political tendencies and prove their loyalty to the President, because after institution of the procedure of „vesting powers” the political fate of the governors is completely in his hands. A typical example here is an unexpected mitigation in the prosecution language of the criminal case against Michael Mashkovtsev, Governor of Kamchatka Oblast, occurring after he had addressed the residents of the oblast and of Koryaksky AA with an appeal to support the procedure of merging these two federation subjects during the referendum. One other motive of this „loyalty” can also be an opportunity to get from the Center additional means for preparing and implementing the merger projects. Thus, the already implemented consolidation of Komy-Permyatski AA and Perm Oblast cost the FC 12 billion Rubles. Finally, the successful implementation of the presidential initiatives in the regions, including the referendum on merger, may open in front of the governors new career perspectives (one vivid example is that Yury Trutnev, the former head of Perm Oblast, was offered a job with the state government). Therefore, motivation of the actions of regional elites has nothing to do with improving efficiency of managing territories.

Finally, last year came into force the **new consolidation rules** for the territories: pursuant to the amendments to the Federal Constitution Law on the Procedure for admitting into the Russian Federation and establishing in its limits a new RF subject, the consolidation initiative is passed down from the regional legislative councils to the governors, who must get an official approval from the Center prior to launching a referendum. Therefore, considering that the governors are actually appointed by the President, we can talk about maximally simplifying the procedure of approving the consolidation initiatives.

REGIONAL CONSOLIDATION PROCESS: PROJECTS AND RESULTS

Date	Federation Subjects	Referendum Results
07.12.2003	Perm Oblast and Komy-Permyatskiy AA	„Yes” to the consolidation said 84% of the voters in the Oblast, and 89.7% in the AA. In December 1, 2005 in the RF appeared a new subject, Permsky Krai.
17.04.2005	Krasnoyarskiy Krai, Evenkiyskiy and Taymyrskiy (Dolgano-Nenetskiy) AA	„Yes” to the consolidation said the following groups: 92.4% in Krasnoyarskiy Krai, 69.95% in Taymyr, 79.87% in Evenki. Consolidated Krasnoyarskiy Krai will become a legislatively valid unit on January 1, 2007.
23.10.2005	Kamchatskaya Oblast and Koryakskiy AA	„Yes” to the consolidation voted 84.99% in the Oblast, 89.04% in the AA. Kamchatsky Krai will be legally established on July 1, 2007.
16.04.2006	Irkutskaya Oblast and Ust-Ordynskiy AA	In the event if the majority votes „Yes”, a new subject shall be established by the beginning of 2008.

Furthermore, at the beginning of 2006 Kamil Iskhakov, the Plenipotentiary Representative of the RF President in the Far East Federal Okrug, announced that it is necessary to develop consolidating projects in this region in order to „more effectively allocate the budget funds, develop the transport infrastructure and communications, implement other programs in the framework of implementing the priority national projects”. In this context we can pinpoint **two main aspects of possible activation of the subject consolidation process in the Far East**.

From one hand, a number of tendencies related to the „Chinese threat” cause more and more concern on the federal level. **The need to improve efficiency in managing of the Far East territories** is gaining key importance. Demographical disbalance in the Russian Far East is utterly important. This phenomenon first of all has to do with the fact that high development rates of Chinese economy lead to

deepening of the key social disproportions in the region. For China the need to reform the state companies in the agricultural sector is still a serious economic problem: their modernization will substantially increase unemployment and aggravate the internal social conflicts in China, which, in its turn, is threatening to bring about a new wave of immigration to Russia, especially to the Far East Federal Okrug. Currently the Russian Far East, with an area exceeding the entire territory of Western Europe, is populated with only 7 million of RF citizens. At the same time, statistics shows that in the last 15 years the lack of management efficiency in these territories lead to the fact that more 2 million Chinese reside in the region legally or illegally, and the population of their settlements tends to grow steadily (especially in Southern Siberia).

Another potential danger is posed by the scheduled high volumes of energy resources export from Russia to China, because this type of resources is the non-renewed type, and its unlimited consumption is dangerous for the Russian economics already in the middle-term future. Therefore, *we can talk about economical and territorial expansion of China in the Far East, and „consolidation” of the Far East Federal Okrug regions could have helped to more effectively resist the negative tendencies associated with this process.*

Just as important looks the second aspect of promoting the consolidation initiative, related to the *desire of Kamil Iskhakov to support his own positive image on the federal level and assure his loyalty to Vladimir Putin by promoting the presidential projects.* The very exemplary efforts of the Presidential Plenipotentiary in the Far East Federal Okrug serve the same purpose. For example, he actively participated in liquidating the consequences of contamination of Amur with benzol after a series of explosions at a chemical plant in the Tszilin Province in China, visited the Middle East, as well as actively criticized the federal authorities, calling „a laughing stock” the process of implementation of the federal program „Far East and Zabaykalye”. Considering that Kamil Iskhakov has a reputation of a „tough manager”, one would think that if he successfully demonstrates his abilities in managing the traditionally „problematic” Far East, the political future of the current Plenipotentiary may be very promising.

Finally, due to efforts of a number of public organizations, at the end of 2005 the issue of possible consolidation of Adygeya Republic and Krasnodarsky Krai gained new importance. Specifically, the Adygeya Slavs Union addressed the President with a request to review the issue of consolidation in order to facilitate economic growth, as well as to weaken the corrupting and clan influence on economics on the part of national elite. Implementation of this project could first of all become the next stage in the political career of Alexander Tkachev, the leader of Kuban, however, on the federal level the issue of consolidating these two subjects is not being discussed yet.

In conclusion it is important to stress that ***regional consolidation entails a great number of problems*** associated with budget financing of the territories and of the consolidation process. The actual consolidation, from organizing and conducting a referendum to setting up new authorities, is a very expensive endeavor. Furthermore, even though the consolidation process has already been launched, „rules of the game” in terms of allocation of federal budget funds are still unclear for the subjects. Thus in 2006 the new subject born out of the merger between Krasnoyarsky Krai and Taymyr and Evenki. Autonomous Area will receive 2 billion RUR, Kamchatka and Koryaksky Okrug – 600 million RUR, and according to Presidential orders in Permskaya Oblast the state will finance construction of a gas pipe line and a bridge, and in 2006 the Oblast will receive an additional 100 million RUR, the so called „balancing subsidies” (in 2004-2005 Permskaya Oblast has already received no less than 2.5 billion RUR). Pursuant to the Law on Establishing Permsky Krai, financing of the Komi-Perm Autonomous Area will be continued until 2009. Therefore, ***the framework law on consolidation of subjects regulates only the political and legal aspects of the consolidation procedure, but not its financial and economic aspects***. Against this background and in the framework of the intention of the Federal Center to reduce federal subsidies to economically dependent subjects (and at this time the majority of RF subjects are dependent), there is a threat of economic distress for the donor regions that may not be able to handle this support to the failure regions. The process of merging relatively large federation subjects inevitably brings about the issue of conflict of interests between the economic and business-interests of local elites, which is fraught with a large scale redistribution of the spheres of influence, growth of corruption etc. Another possible scenario is intensification of conflicts between nations, not only in the North Caucasus but also among the minority natives: for example, voiding the Komi-Permyaks of their rights to legislative initiative after liquidating their representation in the Federation Council has already caused protest among the population. Furthermore, it is important to note the ***cultural component of consolidation***: still unclear is further fate of the national cultural monuments financing of which is legislatively vested on the local budgets.

Special economic zones: „growth incentives” for the regions or bureaucratic conflicts of state officials?

According to the original plan of the government, another important vector of federal reforms in the Russian regions in 2005 was supposed to be implementation of a large-scale national project of developing highly technological industries that can

substantially contribute to overcoming of the resource dependency of the Russian economy. Implementation of this project will be regulated by the Law On Special Economic Zones.

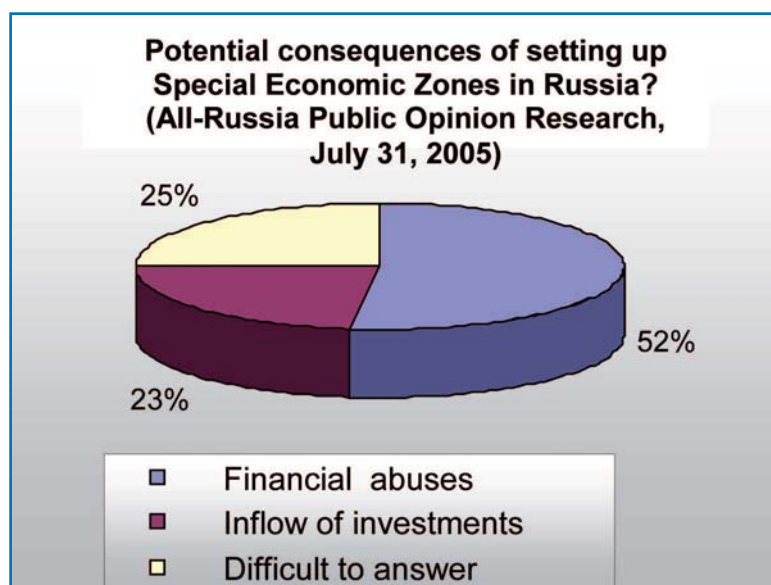
One of the main economic „growth incentives” was expected to be development of information technologies (IT): the meeting held by Vladimir Putin on January 11, 2005 in Akademgorodok (Novosibirsk) was dedicated to the problems of IT market development. During the same meeting the President approved a legislative bill proposed by the Ministry of Economic Development and Technologies, and supported by the Ministry of Information and Communications, involving setting up in the regions so called technoparks, i. e. conglomerates of information sector companies. However, the process of drafting and accepting the Law on Special Economic Zones demonstrated that *the efforts of „creating favorable conditions for high technologies development” in Russia for the most part turned into bureaucratic struggle of state officials in different departments for control over large-scale investment projects.*

The Federal Law On Special Economic Zones in RF was signed by Vladimir Putin on July 23, 2005. Pursuant to the Law, companies in the territory of the Special Economic Zone are granted customs and tax concessions aimed at stimulating entrepreneurial activities. The acting Federal Law suggests creating two types of zones that will function for 20 years: an industry and production zone (up to 10 square kilometers) and technology and implementation zone (up to 2 square kilometers). The law prohibits mining operations and metallurgical production, including processing of minerals and scrap of ferrous and non-ferrous metals, as well as production and processing of excise goods, with the exception of passenger cars and motorcycles. Furthermore, this law does not include the Kaliningrad and Magadan Oblasts, because they already have their own Laws on Special Economic Zones.

We have to mention that the concept of technoparks is not even mentioned in the law, therefore after it had already been accepted the State Duma in the first reading, the head of the Ministry of Information and Communications announced that he will prepare his own legislative bill. Therefore, efficiency of setting up a Special Economic Zone in terms of IT industry development does not cause much optimism. We can hardly ensure actual development of the IT-industry by implementing the Special Economic Zone practice considering the permanent apparatus war between the Ministry of Economic Development and the Ministry of Information and Communications, supported by the market participants. In general, the *language of the current law on Special Economic Zones is rather abstract.* Specifically, it does not include a clear definition of the main concepts of the industrial and production and the technical and implementation zones, and lacks developed criteria for determining

effectiveness of their operations. While there is a general goal, which is increasing the economic growth rates, there are no specific indicators that must be reached. From the economic standpoint, there is another underdeveloped aspect related to operations of companies in the Special Economic Zone. Thus, in the technology and implementation zone will be developed intellectual products, however, the law does not specify who will hold the intellectual property rights, how will be registered the trademarks, which implies setting up a „necessary infrastructure” in the framework of the Special Economic Zone etc. Furthermore, the law stipulates a favorable customs regime for the goods imported from abroad to the Special Economic Zone and exported from the Zone to foreign countries, however, goods transported from the zone to the territory of Russia are subject to all customs duties, VAT and excise tax, which hardly can facilitate growth of regional economic well-being.

This vague concept of setting up special economic zones allows us to make a conclusion that *theoretically a Special Economic Zone can be set up basically in any region*. In this context it is not surprising that the SEZ tender announced in October 2005 received 73 applications from 47 Federation subject. The actual *tender became only a stage in the course of a tough lobbying fight between German Gref, the head of the Ministry of Economic Development and Technologies, and Yury Zhdanov, Head of Federal Administration responsible for SEZ, for control over the financial flows allocated to setting up „special” zones.*



It is notable that unlike the aspects directly involved in production, provisions on administrative regulation of Special Economic Zones are given in the new law more clearly. At the same time, pursuant to the original project, administration of the special economic zones was vested upon the „authorized federal ministry”, meaning the Ministry of Economic Development. In other words, ***the main goal of the Ministry, headed by German Gref, who initiated the idea of setting up the Special Economic Zones, was not industrial development but increasing its own weight.*** This goal obviously was not reached, because control over setting up Special Economic Zones was handed over to the specially organized Federal Agency headed by Yury Zhdanov, a figure known to be close to power agencies. Thus failed an ambitious project of using the 70 billion RUR in the investment fund set up by the Ministry of Economic Development. This money was allocated by the Ministry of Finance in order to stimulate industrial development, and initially the plan was that all projects involved in this program, including applications for setting up SEZ, would have to pass through the Ministry controlled by German Gref. However, in the process of drafting the Law on SEZ, he had to agree that decisions on all large-scale investment projects will be in the competency of the government overall. Thus during the tender of regional applications for setting up SEZ, there were two mixed commissions (for industry and production zones and for technology and implementation zones), including government officials and representatives of federal agencies, as well as external experts. Therefore, Gref lost the first stage of this inter-department struggle involving control over allocating the investment fund resources.

In its turn, the regional elite demonstrated quite understandable interest to setting up special economic zones: in the conditions of increasing the load on local budgets due to implementing of social and municipal reforms, investments look almost like the only way to reduce the expected budget deficit. According to MEDT's calculations, one economic zone can attract Russian and foreign investments in the amount of approximately 9 billion RUR, which would allow to ensure an additional volume of production for a total of 6 billion RUR annually, as well as create in the region no less than 400,000 workplaces. However, it is important to remember that according to the project submitted by Gref's agency, ***financing of new industrial projects in the „special” economic zones is done by the Federal Center and by the regions on parity terms.*** In this aspect the initial idea did not go through substantial changes: let us remind you that it was intended to allocate 8 billion RUR out of the next year's federal budget for development of SEZ selected in the tender, and the same amount, according to Yury Zhdanov, can be obtained from the budgets of the federation subjects. We have to mention that according to data provided by the Ministry of Economic

Development and Technologies, setting one „special” zone costs approximately 3,5 billion RUR. Formally there are no investors at this moment, and we can hardly expect that they will appear soon. „If we manage to maintain the initial rates, by the end of 2006 we will see the contours of future zones”, – admitted German Gref. In other words, we will be able to talk about actual investments into regional Special Economic Zones no sooner than in 2007.

At the same time we must consider the fact that money is not the only thing that the regions must invest in this project. In order to create a Special Economic Zone, subjects and municipalities will have to provide their assets, carry an additional load in the social sphere, bear the potential unfavorable environmental effects and carry out a whole number of additional obligations. *As compensation the law suggests setting up a so-called „Supervisory committee”* „in order to coordinate activities of federal agencies of the executive power, executive agencies of the state power of the RF subject, local self-governance agencies, economic subjects developing the SEZ, control over compliance with the agreement on setting up SEZ, as well as planning of budget funds allocated for improving the territory, reviewing and approving SEZ development plans”. However, specific functioning mechanisms for the committee have not been defined yet, therefore *it would be premature to say that regional authorities have an actual channel of influence on the situation with the Special Economic Zones.*

Results of the SEZ projects tender were announced on November 28, 2005. MEDT recommended for approval projects of technology and implementation SEZ in Zelenograd (microelectronics research), in Dubna near Moscow (nuclear physics), in Saint-Petersburg (information technologies and analytical instrument-making), in Tomsk (nuclear and nanotechnologies). According to the tender results, industrial and production zones will be set up in Tatarstan (Yelabuga – production of spare parts for buses with participation of a number of foreign companies, as well as oil and chemical industry), and in Lipetskaya Oblast (production of consumer electronics with participation of Merloni Concern (Italy), as well as of furniture). As we can see, *this selection in the form of tender for setting up special zones hardly complies with the initial vision of SEZ as a mechanism for stimulating economic growth by developing non-resource based sectors.*

Nevertheless, the process of SEZ project development on regional level will continue: in the first quarter of 2006 the responsible agencies scheduled a new tender for setting up special tourism and recreation zones (appropriate legislative amendments are in the stage of review). Another project under review involves yet another type of zones – port zones, with free customs regime for maximum stimulation

of Russian exporters. Thus on January 27, 2006, Yury Zhdanov, the head of the Federal Administration responsible for SEZ management, announced that it would be possible to set up 3-5 SEZ in sea ports of RF subjects „in the nearest future”. *At the same time, the nature of SEZ set-up processes development demonstrates that priority is first of all given to the projects supported by the most powerful lobbying efforts*, while the „single transparent rules” and „open competition” between the regions remain no more than the ideas of the initial stage in the PR campaign that was never implemented.

Deferred Reforms: Local Self-Governance and Housing/Communities

Local Self-Governance Reform

Local self-governance reform in Russia was launched back in 2003, however, the reform designers on the regional level faced with numerous difficulties and the concept of the suggested innovations has since been corrected, and its deadlines extended many times. By the end of 2005, leaders of the majority of regions had already announced about their readiness for full-scale municipal transformations. However, this could be more attributed to the circumstances of the current political situation, because the governors were trying to improve their political image by making progress reports about federal initiatives. The only obvious achievement of the regional authorities for the two years became the administrative division of territories and conducting municipal elections resulting in setting up 25.5 thousand municipal formations (MF) with four types: rural and metropolitan settlements, urban districts and rural districts (with the exception of the territories of Ingushetia and Chechnya, where there are no divisions between the republics). In the end, according to the data of the Ministry of Regional Development, *starting from January 1, 2006 in 46 federation subjects (out of 88) the Law on Local Self-Governance was officially enacted*. At the same time, actual implementation of the reform first of all implies application of all powers legislatively handed down to the municipalities, and at this time this mission seems to be practically impossible.

Let us remind you that the Federal Law No. 131 On General Principles of Organizing the Local Self-Governance in the Russian Federation was approved by the State Duma in September 2003 and was supposed to be enacted on January 1, 2006. However, on September 21, 2005 during the final reading was approved an amendment pursuant to which enactment of the Law No. 131 was postponed from January 1, 2006 to January 1, 2009. For the same term was postponed enactment of

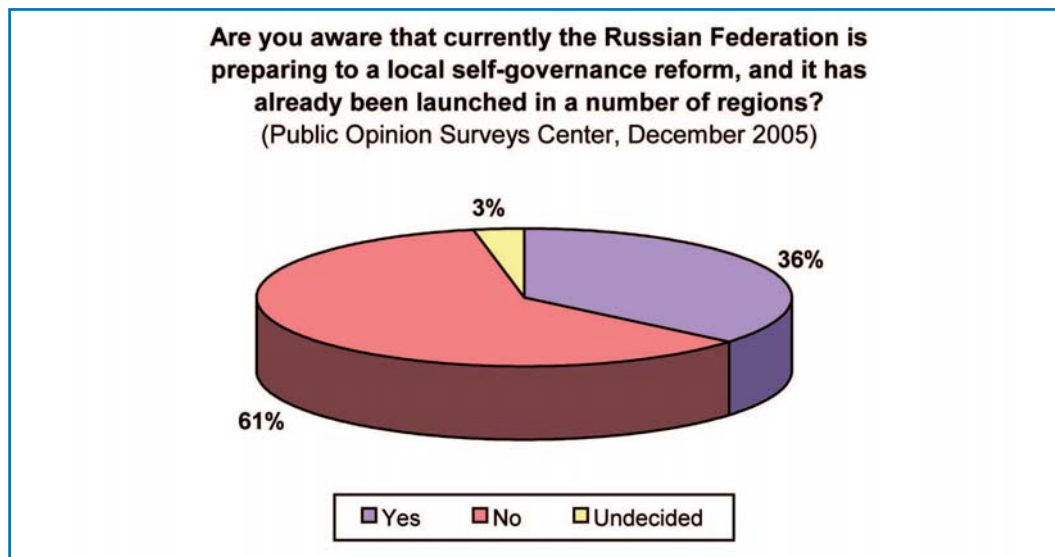
provisions of the Budget and Tax Codes regulating the inter-budget relations. At the same time, it was suggested that before January 1, 2006 the regions adopt legislation regulating the limits of authority to be handed down to the municipalities during the transition period, and budgets of the municipal formations will be generated according to the actual income and expenses instead of the local taxes governed by the appropriate legislation. Furthermore, division of property between different levels of authority is extended to the year 2008 (according to the law it is supposed to be divided until January 1, 2006), and during the transition period federal, regional and municipal authorities are allowed to use this property free of charge.

Analysis of the planned transformations demonstrated that ***the Local Self-Governance reform concept is still very raw and its local implementation creates a whole number of serious problems.*** First of all, we are talking about the lack of necessary normative base in the regions, in the form of by-laws establishing the criteria for allocating authority and property governed by authorities on different levels. Consequently, the vast majority of regional authorities that agreed to implement the reform (42 out of 46 regions) introduced limits on the authority of the local self-governance bodies during the „transition period” (from one to three years), and in Yaroslavskaia Oblast the new municipal formations did not get either their own budgets or authority, they are still completely dependent on the oblast authorities.

However, this situation remains to be typical: ***formally local self-governance authorities are vested with substantial authority, however, their taxation base is obviously insufficient for its application.*** Pursuant to the reform concept, local self-governance authorities must ensure functioning of the utility services, transportation and communications, as well as a number of health-protection institutions, elementary and secondary education etc. Municipal formations are supposed to finance these functions out of their own budgets at the expense of tax revenues that must be assigned to the local self-governance authorities. Currently this includes income tax for physical entities (34.4% of the amount of internal income in local budgets), property tax for physical entities (8.8% of the amount of internal income in local budgets), land and agricultural taxes, cash from municipal property lease and from setting up municipal unitary enterprises for trade and commerce. Considering that cadastral valuation of land has not yet been completed and the practice of charging the land tax has not yet been firmly established, it is quite logical that the amount of collected tax is twice lower than the expected 45 billion RUR. Therefore, the municipalities will certainly fail to collect a substantial part of the forecasted income. The newly introduced budget formation norm based on the actual income and expense also cannot become a solution of this problem. If we look at the list of expense authorities of the

local self-governance bodies, it is obvious that majority of municipalities will not be able to handle them without financial support of the respective federation subjects. In the meanwhile the regional budgets often cannot afford even to reregister the property, without which there is simply no sense to start the reform.

At the same time, representatives of municipalities regularly launch requests to make a number of amendments to the regional laws on relationships between budgets, correcting the deadlines for transferring subsidies, and to transfer assets and cash to the municipal level, as well as to change the taxation procedures. Specifically, Vladimir Mokry, Chairman of the State Duma Committee on Local Self-Governance, said that the issues of increasing the municipal share of income tax up to 40%, as well as the amendment on transferring the transportation tax to the local budgets, have already been posed before the RF government. However, the Ministry of Finance still has not prepared amendments to the Tax Code that are necessary for changing the income base of municipal powers. Therefore, *despite the legislative reinforcement of the role played by the local self-governance bodies, in the event of implementation of the existing concept reform, they inevitably will end up to be strongly dependent on the local elites and federal subsidies from the local standpoint.* In this situation, chances to obtain sufficient amounts of funds in this situation will first of all have those municipalities that fully demonstrate their loyalty.



A separate serious problem is entailed in the lack of a system for informing the population about the local self-governance reform. „Local self-governance body is a representative of state power in the regions”. This is an opinion of 41% of Russian

citizens, while more than 20% find it difficult to define this concept. As we can see, *the reformers actually left out one of the most important aspects of the local self-governance reform launched in 2003 – effective PR follow-up for the changes to be implemented.* All of this considering that motivating local population for active participation in managing the territories where it resides was named as one of the main goals of the reform on the federal level. This position resulted in a paradox: the powers are formally transferred, but there is nobody to apply them (residents of most of the regions simply don't feel the need for it), and to a large extent changes in the area of local self-governance lack any sense.

Setting up municipal bodies of the executive and legislative branch poses another problem. As we all know, the law stipulates setting up a separate municipal formation with elected authorities almost in every settlement. Therefore, in the process of cutting the borders of municipal formations, many settlements that never had any self-governance and were usually governed by the district authorities, now became municipalities. Now almost every large village (smaller ones are united into one municipal formation) must have its own parliament with no less than seven members, as well as a head of municipal formation. They are the ones that are supposed to draft charters for the newly set up municipal formations, generate and approve budgets, actively participate in property allocation. But where are they supposed to find staff? The municipal elections that were conducted in the regions, a significant share of the elected deputies does not have any basic legal background, and some of them are not even university graduates. The same thing is true for municipal officers, the number of which has also substantially grown along with the number of municipal formations (almost twofold across Russia). At the same time, *the reform concept does not foresee any options for effective control over the activities of new officers and deputies*, which in its turn creates a threat of unprecedented growth of corruption and general ineffectiveness of the regional administrative system.

Thus at this time the municipal reform is still largely a PR-project: without amending the tax legislation, extending the authority limits of local self-governance bodies is possible only on paper.

Reform in the Housing and Utilities Sector

Another example of a postponed regional reform is the project of modernization in the housing and utilities sector suggested in 2005.

Housing and Utilities Sector reform was launched several years ago, and during the design stage it was expected that the public will start paying the full fee for utilities

on January 1, 2005. At the same time federation subjects kept the right to subsidize a number of payments – these expenses were in their turn compensated to the regional budgets by the Ministry of Finance. However, from the beginning of this year the situation changed: the Ministry of Finance stopped reimbursing the regional losses, therefore tariffs that were growing by 26-28% during the past two years, while during the 8 months of 2005 they became by 30% more expensive. At the same time, collection of utilities, according to the data provided by the Federal Agency for Construction and Housing & Utilities, dropped by more than 10%.

Against the background of permanent struggle against inflation, the Ministry of Finance and the Ministry of Economic Development at the end of last year initiated a number of amendments to the legislation in order to avoid a sharp upsurge in the cost of utilities. They were suggesting achieving this by *transferring the functions of establishing the tariff limits for utilities from the regions (local energy commissions and municipalities) to the federal center represented by the Federal Tariff Service (FTS)*. After adopting of the appropriate legislative bill, the FTS, in addition to the government statute on federal standards in the housing and utilities sector, the State Duma established the limits on the rate of growth of tariffs for every region. Furthermore, the amendments stipulated implementing *federal control over the established tariffs*.

Let us remind you that Government Decree No. 541 issued on August 29, 2005 On Federal Standards for Payments for Residential Housing and Utilities establishes a federal standard for payment rates for the population at the level of 100% of economically valid expenses for maintenance and repairs of residential premises and for providing utility services. At the same time residents are not expected to spend on housing and utilities more than 22% of the total income in the family. Federal standard of the maximum cost of the housing and utility services provided per 1 square meter of the total housing area in 2006 on average across Russia should amount to 41.6 RUR. The RF Government also approved social norm standards for a minimum area of living quarters. Area of living quarters per person must be no less than 18 square meters.

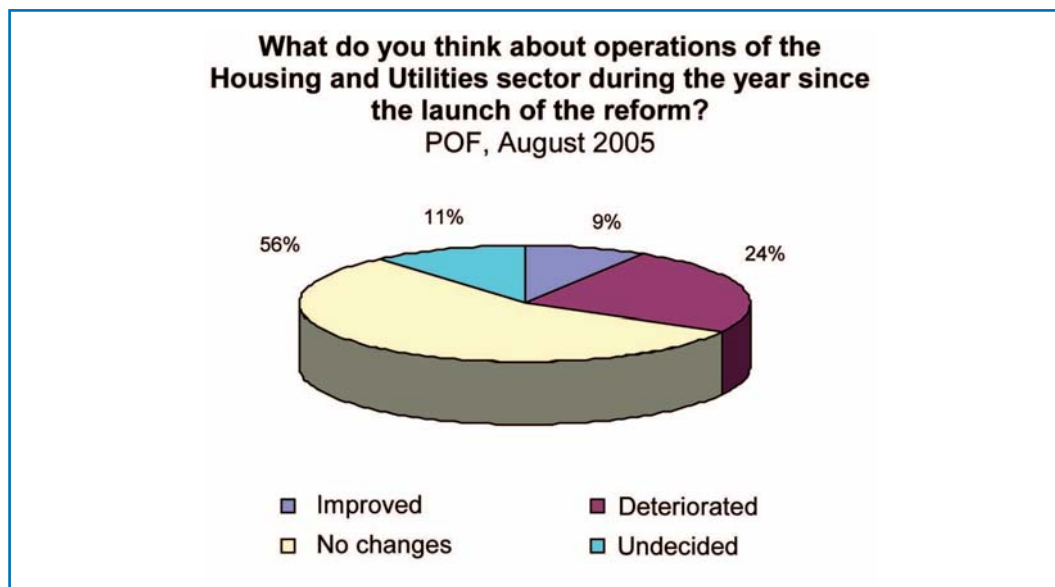
At the same time, *the main idea of the implemented utilities reform plan is for the housing and utilities sector to get an inflow of cash for resolving numerous problems in the sector* (the most important of them being the ware of infrastructure, in certain regions reaching 70%). Thus, according to the policy of „centralized” tariffs, the established standards determine the norm according to which residents must pay for housing and utilities, and the regional authorities are supposed to issue subsidies (the state transfers the authority to issue subsidies to the social security agencies).

However, a closer look at the system demonstrated that *so far this mechanism has not been actually functioning*.

The main problem is a lack of financial resources and proper legislative base to support the new powers granted to the municipalities. For example, the statute that is supposed to regulate granting subsidies to low-income categories of residents for housing and utilities payments in the framework of adopting a new Housing Code, has not yet been drafted by the government. Furthermore, according to data provided by the Ministry of Regional Development, only 10-15% of municipalities are being financed by their own income. Based on this data the President signed amendments to the Law on Transition Period in Implementing the Local Self-Governance Reform until the year 2009. The majority of regional budgets are also deficit due to the tax policy applied by the federal policy strictly limiting opportunities for applying local taxes. This situation results in inevitable growth of debts in utilities payments. Back in the end of August, Sergey Kruglik, Head of Federal Agency for Construction and Housing/Utilities, commented on the sharp decrease in the amount of collected utility payments during the period from the beginning of the year and said that in the current year „there were no budget allocations and the costs of utility services are met only at the expense of residents”. In this context it is not surprising that during the period from the beginning of the year accounts payable of utility companies increased by 28 billion RUR while the consumers’ accounts receivable increased by 46 billion RUR. Total outstanding liabilities amounted to 335 and 314 billion RUR respectively, however, the government still does not have any solutions for restructuring it. Finally, the main problem in monetization of utilities is that enforcement of the 100% payment norm is not accompanied by an actual structural reform in the housing and utilities sector. There is still no sign of stimulating competition in the utilities sector, therefore, in the nearest future we should not expect any reduction in their cost, and the opposite is much more likely to happen.

Financial aspect of the reform is also very important. According to the Ministry of Regional Development, modernization of the Housing and Utilities Sector requires more than 2 trillion RUR. Certainly, the Federal Center is not capable of managing this task on its own, therefore there was made a decision to attract large international loans, first of all under the program of the International Bank for Reconstruction and Development (IBRD). According to Leonid Chernyshev, Director of the Construction and Housing/Utilities Sector at the Ministry of Regional Development, ***in 2006-2008 Russian regions will receive from IBRD 200 million US Dollars for implementing a housing and utilities reform***. Pursuant to the program, IBRD will issue the loan to the RF Government in three stages, and the government will later on give these funds

to the participating regions in the form of non-returnable loans (grants). The first tranche in the amount of 50 million US Dollars will be paid in 2006, the second one in the amount of 100 million Dollars in 2007, and the third one in the amount of 50 million US Dollars in 2008. Obligations of the government under the loan agreement with the IBRD are included in the 2006 budget.



Regions for the project will be selected according to the methodology, which is currently being designed at the Ministry of Regional Development of the Russian Federation. This methodology includes a number of strict conditions for the RF subjects, including the following requirements: implementing a tariff policy complying with the normative base adopted on the federal level, setting up proper conditions for developing initiative and private competition in managing the housing sector, availability of a technical audit in the system of engineering infrastructure, solved energy savings issues etc. However, we have to remind you that starting from 2002 several Russian regions have already been using two loans issued by the IBRD, aimed at improving the housing and utilities sector. The first one in the amount of 125.5 million Dollars was supposed to be used for reconstruction and upgrading of the water supply facilities, and the second one in the amount of 85 million US Dollars was supposed to be used for financing upgrading of the heating supply system. However, there is no trace of any present or potential results, because there is no effective system of control over the allocated funds, neither on the federal nor even more so on the regional level.

In this context it is a very logical trend in the process of regional development ***that protests among the population are growing***. These protests are caused by increases in the rates of housing and utilities tariffs (on the average in January this growth amounted to 20-30%). During the first month of 2006, mass protest rallies with 500 to 1000 participants were held at the same time in 15 regions of the Central, Privolzhsky and Sibirsky Federal Okrugs. At the same time it is becoming a typical tendency for the representatives of regional administrations to control the scale of rallies by making promises to „correct the problematic areas”. At the same time, such tactics is obviously ineffective even in the short-term perspective. Since federal transfers still constitute the most stable inflows into the budgets of majority of subjects, it is impossible to say that local authorities are capable of fully compensating the growth of tariff rates. During this stage it is only possible to forecast further escalation of social tension in the regions, especially considering that by now not all residents have directly faced the consequences of introducing the 100% rate of utility payments. As to „prevention” measures aimed at limiting the growth of tariff rates, suggested by the RF government at the end of last year, in practice turned out to be ineffective.

Therefore, ***considering the level of development of the mechanism for implementing the necessary transformations, right now the housing and utilities sector reform is still at the stage of political declarations***. Actually it is frozen until the „Problem-2008” is resolved, however, the escalation of protests conditioned by massive negative expectations for the reform project overall, along with the rising tariffs and responsibility place on the regional budgets, can only facilitate large-scale social and political destabilization.

9.2. Controlling Resources: opposition of Nomenclature-Political Alignments on the regional level

One of the defining tendencies in the course of developing the regional political processes in 2005 became ***consistent implementation by the federal center of a policy of limiting the autonomy of regional elites***. Right now the only salient aspect of this process (considering that the political „power line” has already been completed, after introduction of the procedure for appointing governors) is increasing of federal control over the regional financial flows. In this context, an important component of the conflict between the „power” and „liberal” nomenclature and political structures (NPS) is ***the struggle over control for resource-intensive territories as a part of the***

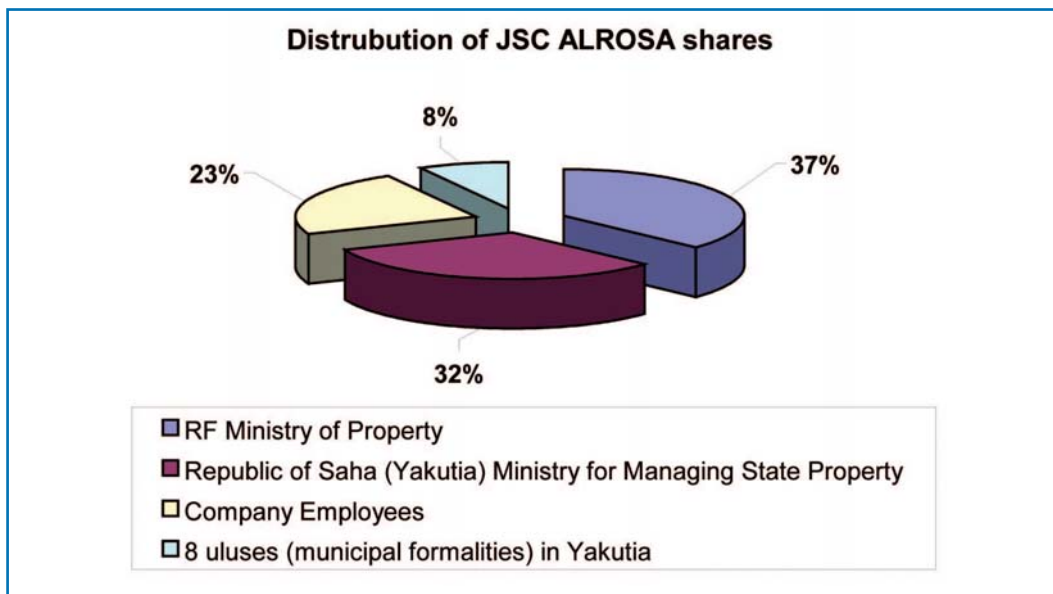
asset consolidation process prior to the federal elections of the next electoral cycle.

There are two typical examples in this case, the situation around two projects strategically important for the elite groups, one of them involving returning to the state the main asset of the liberals – a major diamond production company ALROSA, and the other one is development of the new oil and gas fields in East Siberia and construction of the East Siberia – Pacific Ocean Pipeline (ESPO).

Struggle for Yakutia: Liberals against Power agencies

At the end of last year the old discussion about returning the diamond monopoly to the state was practically put to an end: on November 8 during a closed conference where of German Gref (Minister of Economic Development and Technologies) and Alexey Kudrin (Minister of Finance), Vyacheslav Shtyrov (President of Saha (Yakutia) Republic), and Alexander Nechiporuk (President of AK ALROSA) signed a protocol defining the framework of a procedure for federalizing the company. This became the final victory over the almost four-year long resistance of the regional elites in Yakutia against implementation of the presidential initiative plans. This resistance can be attributed to the fact that ALROSA was providing more than 60% of the republican budget and at the same time was used by the local administration as a sort of a „political ace” in their stance with the regional opposition, as well as in the process of political negotiations with the Center in the issue of allocation of powers. Now, considering the dependence of local elites on the federal compensation of budget losses, loyalty of the Yakut government to the Federal Center is guaranteed.

In this context a much more salient aspect of relationships between the center and the regions is the issue of further use of Yakutia’s substantial resource potential. Earlier Alexey Kudrin, Minister of Finance supervising the process of „federalizing” the monopoly, had announced several times that only final completion of this process would give grounds to setting up a national mining company on the basis of ALROSA, which would „not only develop the production of diamonds, but also effectively implement the state policy in the area of developing other minerals, both in the territory of Russia and beyond its borders, for the benefit of the shareholders, Republic of Saha (Yakutia) and the entire Russia”. Actually, we are talking here about ***a project of setting a multifunctional facility operating in several energy markets, and implementation of this process would allow the „liberal” part of the federal elite to consolidate resources for reinforcing its positions in the conflict with the power agencies branch.***



Alexander Nichiporuk, President of ALROS, publicly announced that in the framework of diversification the diamond monopoly is planning to enter new sectors, oil and gas and coal, back in the summer of last year. On December 27 Supervisory Committee of JSC ALROSA approved suggestions of the company Board of Directors on acquiring three oil and gas assets in the Republic of Saha (Yakutia). This includes 50.4% of the JSC National Oil and Gas Company Sahaneftegas, purchasing subscriber companies participating in the additional issue of shares of JSC Yakutgasprom (Slavia Ltd, Vega Trade Ltd, Groteskstroy Ltd and Expertneftegas Ltd), and 75%+1 share of JSC Yakutskgeophysics, as well as a purchase of a part of liabilities of JSC National Oil and Gas Company Sahaneftegas, which reduces the risk that the company assets may be arrested pursuant to the creditor's claims. Therefore, the long struggle with participation of ALROSA and of the regional administration (which had been in court with YUKOS from 2003) ended with victory of the liberals. At the same time, the very *fact of making ALROSA a party in the fight for the Yakutia oil and gas assets, is very revealing* – this strategy demonstrates the desire of the liberals for expansion into the area traditionally considered a priority area by the power agencies elite, and thus for escalation of the conflict within the elite. Although the purchase of the controlling block of shares and shares of Sahaneftegas subsidiaries by the diamond giant will not have a cardinal impact on the distribution of powers in the Russian oil and gas complex, acquiring control over this asset may turn out to be important for further expansion of the „liberal” resource base in the region.

Let us remind you that besides diamonds and precious metals the key natural resources in Yakutia are oil, gas and coal. Considering that currently not all of the fields are being developed on full scale, the elite groups have great opportunities before them to fight for redistribution of the spheres of influence.

The most significant Yakutia asset of the power agencies group is the largest in the Republic Talakan Oil and Gas Field. JSC Surgutneftegas holds the license for its development. Acquiring control over this asset would allow the liberals not only to reinforce their influence in the oil and gas sphere, but also to ***resolve the strategic task of setting up on the basis of ALROSA a sort of a counterbalance to the government-owned Rosneft.*** However, this course of events is hardly plausible today, largely due to the very active support provided to the management of Surgutneftegas by the Yakutia President Vyacheslav Shtyrov. Thus, ***the only reason for reducing the influence of the power agencies branch in the oil and gas sector of Yakutia economics may be only a decision of the President to balance the positions of the conflicting groups.***

As to the gas industry, a tender for Chayandinskoye Field was supposed to be held last year, however, it was cancelled. In Yakutia the main reason is considered to be procrastination of the process by the Federal Center: the gas production part of the development mechanism of the oil and gas complex in Siberia and Far East has not yet been approved on the federal level (the issue was reviewed by a special government commission headed by Khristenko, Minister of Industry and Energy, but the final decision has not yet been made). Among the possible candidates for developing Chayandinskoye Field Vyacheslav Shtyrov named Surgutneftegaz, ALROSA, as well as Renova Company. By the way, the Yakutia government has already met with management of these companies. However, we should not forget that the final decision regarding issuance of the license will be made on the federal level, and it will largely depend on lobbying efforts of the power agencies and of the liberals. Nevertheless, ***ALROSA's desire to participate in the fight for this large gas asset also demonstrates that representatives of the liberal group have intensified their efforts in building up resources on the threshold of the federal elections decisive for further development of the political system.***

Finally, a significant Yakutia asset in the coal industry is Elginskoye Field, the largest undeveloped field in Russia, and if it starts operating as scheduled by the year 2010 it would produce up to 30 million tons of coal annually. During the last conference on January 6, 2005, the President named setting up an international consortium as the most effective form for implementing this project, while maintaining the leading positions of the Russian strategic investor. However, a list of

participants in the Elginskoye Field development has not yet been finalized. We can only note that the most active participant in this process is JSC RZhD controlled by a power energy businessman Vladimir Yakunin. Therefore, ***the coal industry in Yakutia is viewed as a potential asset for expanding the resource base of the power agencies in the region.***

In conclusion we would like to note that the internal struggle of the elites for a substantial part of Yakutia resources is far from being over. At the same time, the fact that the largest diamond production company is returned to the federal government can be viewed as substantial success of representatives of the „liberal” nomenclature-political group (NPG) in their struggle for strengthening their political influence.

Eastern Siberia: construction of pipeline is postponed

Situation with the oil pipeline Eastern Siberia – Pacific Ocean (ESPO) is much less clear. ***There are no doubts that this project must be implemented due to economic reasons:*** the favorable conditions in the international oil market that has been shaping up since 1999 facilitated a sharp increase in the oil production volumes in Russia, which, considering the stable internal demand, led to a substantial growth of oil export. However, oil is first of all exported through pipelines, which is 3-6 times less expensive than other forms of transportation (railroad and river). In the meanwhile, by now export oil pipelines are loaded to full capacity and in order to further increase oil production it is absolutely necessary to build additional capacity, otherwise oil production will stabilize at the level of 450 million tons, and stagnation processes will lead to deceleration of economic growth in general.

Therefore, from the economic standpoint construction of an Eastern pipeline could have resolved several problems at once. First of all, ***development of transportation infrastructure would have provided a substantial economic incentive for development of the Eastern Siberia and Far East, and facilitated economic integration of the Eastern and Western parts of Russia. Furthermore, implementation of the ESPO project would have allowed the country to explore new directions of the Russian oil export and ensure surplus growth in the Russian oil companies.*** We are talking about the fact that currently European countries are using their position as the main consumer of Russian oil and purchasing oil from oil companies at low prices: for example, actual subsidizing of Eastern European neighbors costs to Russia about 8 billion dollars per year. Therefore the export market for Russian oil is very secluded and it is very unprofitable to work in it compared to

the dynamically developing markets in the Asian and Pacific Regions, and especially considering the US market..

The state signed a decree on constructing the Eastern pipeline back on December 31, 2004, however, there has been made any substantial progress in implementation of this project. First of all this can be explained that ***the ESPO project is a focal point of conflict between the economical and political interests of competing elite groups***. At the same time, positions of „liberal” and „power agency” nomenclature-political groups are conditioned by various external policy priorities: the first ones are focused on Western partners, the most important of them being the USA, and the second ones are oriented on the countries of the Asian-Pacific region, and first of all on cooperation with China (one example is, on one side, intensification of Gasprom’s efforts in constructing the North- European gas pipeline and implementation of the Shtockman project together with Norwegian and American companies, and on the other side the increase in gas deliveries to China and agreements with Rosneft and Sinopec company on joint participation in Sakhalin-3). Therefore, the power agencies are actively lobbying construction of a branch of the pipeline in the Eastern direction, while the liberals are actively trying to prevent this: commercial operations in the Eastern Siberia fields are scheduled to start in 2008, and prior to that point there is simply not enough oil for the new pipeline. In its turn, the state is planning to resolve this problem at the expense of oil produced in the Western regions, which will bring about a reduction in export from Western Europe, and also leads to extending the route from 4.5 thousand kilometers to 6 thousand kilometers, making the oil pumping in it practically unprofitable. ***By now none of the nomenclature-political groups has reached final success in the conflict about the ESPO project:*** the President’s position still plays the defining role in changing the inter-elite distribution of powers.

In this context it is important to mention that at the end of October 2005, after various state officials headed by Michael Fradkov have visited China, Vladimir Putin ordered the government to accelerate the work on approving the necessary documents for starting construction of the oil pipeline. This can be viewed as a result of effective lobbying efforts of Igor Sechin, Presidential Administration Power Agency representative (and at the same time Chairman of the Board at Rosneft). At the beginning of November the Ministry of Industry and Energy submitted a feasibility study for the project along with an implementation schedule.

In the pipeline construction documents submitted for government were determined the following stages of construction of the pipeline system. The first stage (with capacity of up to 30 million tons of oil per year) entails construction of a pipeline from Tyshet (Irkutskaya Oblast) to Skovorodino (Amurskaya Oblast) and an oil-

loading terminal in Perevoznaya Bay (Primorsky Krai). The first stage of construction is scheduled to begin after completion of government examination, complying with all procedures applicable to tender-based selection of contractors and materials and equipment suppliers. Feasibility study of the project was already prepared, and the full set of documents was submitted to Rostekhnadzor, Glavgosexpertiza of Russia and other supervisory bodies for conducting an environmental expertise. At this all documents were been approved on the regional level as well. Furthermore, the integrated operation schedule of the Ministry of Industry and Energy establishes specific deadlines for approving documents and construction stages. According to the schedule, the first launch facility of the Eastern Siberia – Pacific Ocean pipeline system will be commissioned in 2008. Functions of the client for designing and construction of the ESPO pipeline are performed by JSC AK Transneft.

At the same time, it is important to note that the feasibility study submitted by the Ministry of Industry and Energy stated the final deadline by which the government was supposed to develop, review and approve all the documents necessary for construction of the pipeline (December 30, 2005). However, there is no information whether these deadlines have been met. This looks quite understandable, *besides the political problems, construction of an Eastern pipeline will inevitably meet with substantial technological difficulties*, therefore, generation of a feasibility study requires much more time. For example, because of very complicated landscape conditions, presence of seismic zones and unfavorable temperature regimes, specific cost of ESPO project is still unknown. Therefore, there has not been determined a tariff on oil pumping, and without it regional economic actors cannot make decisions on launching massive investments in Eastern Siberia. Finally, the issue of constructing a branch from Skovorodino (Amurskaya Oblast) to the Chinese border. China is very interested in increasing the supply volumes of Russian oil, and it is trying to push in construction of the Chinese branch of the pipeline between the first and the second stages of project implementation. In the future, this would allow China to import 30 million tons of oil per year, which more than twice exceeds the existing export volume. However, the Russian government still has not reached a consensus on this issue. Finally, a serious problem presents the fact that most of the Eastern Siberia fields are oil and gas fields, therefore their development assumes parallel production of oil and gas. Therefore it is obvious that the Eastern pipeline must be supplemented by a gas pipeline, otherwise development of high-potential oil fields will turn into actual pillaging of natural resources, because the associated gas amounting up to 50% in every Eastern Siberia fields will be simply burned.

However, the government started talking about a project of constructing a gas pipeline in Eastern Siberia only in the end of 2005, when it was mentioned by

Vladimir Putin in one of his interviews. Thus we can assume that the largest Kovyktinsky gas condensate field will be developed. Currently a development license to this oil field is held by TNK-BP, however, the company may lose this license if it does not start development works by the end of 2006. This scenario looks quite plausible. The main competitor of TNK-BP in their fight for Kovykta is JSC Gasprom, which earlier had suggested freezing the project until 2010, and at the end of last year announced its intention to gasify the Irkutsk Oblast (after gasification of regions becoming a new national project). This way the Gasprom management actually announced its desire to assume control over Kovykta starting from 2007, which in the future will allow the company to substantially increase its export to the external markets. In its turn, gaining of grounds by this concern representing the liberals' interests in Eastern Siberia may turn into a new stage of conflict within the elite regarding the ESPO pipeline.

Thus, *none of the problems involved in construction of Eastern Siberia-Pacific Ocean pipeline was resolved in 2005*. Therefore we can imagine that *implementation of such a large-scale project is likely to be postponed until resolving the „Problem-2008“*: the final decision made earlier by the President on this issue will inevitably disturb the system of weights and balances created by Vladimir Putin within the elite, which may threaten stability of the political system in general. An important role here is played by the factor of undefined external political orientation of the Russian elite, a lack of a clear course in this area serves as an obvious obstacle for solving salient issues of infrastructure development, which is directly related to export of oil products.

9.3. Electoral processes in Russian regions

Development of electoral processes in the RF subjects in 2005 was determined by several main tendencies. First of all it is important to mention *domination of representatives of the so-called ruling party – „Yedinaya Rossia“, in the vast majority of regional legislative assemblies elected last year*. Last year local parliament elections were held in 20 federation subjects, party lists of this party did not get a majority vote only in Amurskaya Oblast (they lost to the block „We are for development of Amurskaya Oblast“, set up with participation of the Russian Party for Life and of „Yabloko“, gaining 17.7% votes against 16.6% for „Yedinaya Rossia“), and in Nenetsky Autonomous Area (here they lost to CPRF that got 25.9% against 23.5% for „YR“). In general, during the regional elections, out of the total number of mandates distributed across party lists, „Yedinaya Rossia“ got only one half – 48%. However,

considering their victories in the majority of one-mandate circuits, Yedinaya Rossia is currently in control of all of the newly elected legislative assemblies. CPRF managed to place into the regional legislative assemblies 72 senators according to the proportion system (19.3%), LDPR – 38 senators (10.19%), Rodina – 27 senators (7.24%). Share of SPS and Yabloko, representing the rightists in the political specter, turned out to be insignificant – the democrats received no more than 5%.

Elections to the local self-governance authorities that were held in most of the regions also turned out quite well for Yedinaya Rossia. At the same time, analysis of actions of Yedinaya Rossia members in their towns allows to identify a „typical” approach to overcoming party difficulties. ***Problems that Yedinaya Rossia faced at the regional elections can be first of all attributed to the fact that local leaders do not know how to effectively use their administrative resources, and firing of staff is considered to be the main means for improving the situation.*** To a certain extent these measures could help resolve the conflict of interest between different groups of local elites within Yedinaya Rossia and reduce the level of tension within the party. However, difficulties that the party has to face, first of all on the level of municipalities in large cities, first of all are related to the actual absence in its arsenal of other resources of electoral support, besides administrative („Presidential rating” can be included in this group). Therefore, there must be far more substantial measures to improve positions of the party, considering that experience shows that effectiveness of administrative resource deteriorates with time. The situation is aggravated by the escalation of protest activities in the regions. ***Current development strategy of the party might lead to the fact that as the next elections are approaching, efficiency of Yedinaya Rossia will steadily decrease, and presidential administration will have to apply more and more efforts to neutralize its potential competitors.*** Last year the Russian Party of Retirees has been quite a successful candidate for this role.

Finally, as a separate factor in development of electoral processes in the Russian regions we should single out the Moscow City Duma elections campaign, when Yury Louzhkov, Moscow City Mayor and one of the leaders of regional opposition, managed not only to maintain his current positions, but also to secure expansion of his influence in the Center. While criticizing federal initiatives, he is actively using the advantages of his status as Mayor of the Russian capital, with voters amounting to almost 10% of the entire Russian electorate. At the same time, as political practice shows, ***compromises in the federal policy with respect to such political heavyweights as Louzhkov (another example is Mintimer Shaimiyev, President of Tatarstan) mainly cause only to intensification of their political activities.***

Victories and Defeats of Yedinaya Rossia

YEDINAYA ROSSIA PARTY DURING THE 2005 ELECTIONS TO THE REGIONAL LEGISLATIVE ASSEMBLIES

Date	Federation Subject	Number of Votes	Number of votes „Against all candidates”	Minimum vote	Voter turnout
23.01.05	Taymyr (Dolgano-Nenetsky) AA	31.16%	20.1%	7%	44.4%
06.02.05	Nenetsky AA	23.5%	9.6%	7%	60.1%
20.03.05	Vladimirskaya Oblast	20.55%	17.9%	7%	29.9%
20.03.05	Voronezhskaya Oblast	31%	11.9%	5%	45.9%
20.03.05	Ryazanskaya Oblast	22.19%	12.2%	5%	37.1%
27.03.05	Amurskaya Oblast	16.6%	13.5%	3%	37.9%
27.03.05	Yamalo-Nenetsky AA	59.23%	14.2%5%	44.7%	
22.05.05	Magadanskaya Oblast	28.89%	15.9%	7%	37.9%
16.10.05	Belgorodskaya Oblast	52.75%	7.1%	5%	33.05%
30.10.05	Aginsky Buryatsky AA	68.73%	5.4	–	66.1%
27.11.05	Republic of Chechnya	60.65%	1.5%	5%	68.8%
04.12.05	Moscow	47.25%	–	10%	34.5%
04.12.05	Ivanovskaya Oblast	32.1%	9.6%	4%	42.5%
04.12.05	Kostromskaya Oblast	29.9%	10.2%	4%	39.3%
11.12.05	Khabarovsk Krai	40.99%	12.5%	5%	34.4%
11.12.05	Novosibirskaya Oblast	33.12%	8.8%	7%	35.5%
18.12.05	Tverskaya Oblast	33.23%	8.2%	5%	34.3%
18.12.05	Tambovskaya Oblast	40.52%	6.6%	7%	48.9%
25.12.05	Chelyabinskaya Oblast	52%	10.4%	5%	32%
25.12.05	Chukotsky AA	69.2%	12.4%	5%	52.9%

The main factor ensuring success of Yedinaya Rossia in the regional elections was its actual monopoly on using the administrative resource. At the same time, the negative side of this process *became escalation of conflicts within the party, as well as aggravation of controversies between the interests of Yedinaya Rossia management and regional elites*, especially in the economic sphere. A typical example in this case is the election campaign in Belgorodskaya Oblast, accompanied with loud scandals, which actually turned into a confrontation between two ruling parties, the local Yedinaya Rossia headed by the Governor Yevgeny Savchenko, and a part of Yedinaya Rossia members devoted Yury Louzhkov, the Moscow Mayor, represented by Inteco Company from Moscow. In the meanwhile, we cannot say that in this conflict federal administration of Yedinaya Rossia supported the „Louzhkov group”: shortly before the elections the official site of the party published a public statement that Yedinaya Rossia is still supporting the regional leader Savchenko, heading the list of party candidates to the Oblast Duma. During a press-conference that followed this announcement, the Yedinaya Rossia members from Belgorod reminded Yury Louzhkov about party discipline. Yury Seliverstov, a member of the political council at the Belgorod branch of Yedinaya Rossia, „Yevgeny Savchenko is heading the list of Yedinaya Rossia, so he is the one to be supported”. Therefore, elections in Belgorodskaya Oblast demonstrated quite obviously that the so-called spiral in the structure of the main presidential party is present only in the formal sense of the word.

Analysis of the election campaign in a whole number of subjects (Novosibirskaya and Kostromskaya Oblast, Khabarovsky Krai etc.) demonstrated that one other tendency in development of electoral processes in the regions has to do with the fact that *one of the main system problems within Yedinaya Rossia is vagueness of its ideological personality*. Continuously declared orientation on support of the current power represented by the President became a significant factor only in order to attract to the party majority of Governors in the country. However, this is not a sufficient condition to reinforce positions of the party itself in any federation subject. *Regional leaders and local elites are trying to secure their own interests out of the party resources, which is the main explanation of regular failures of the party management in the area of reinforcing the internal power vertical*. If this tendency continues in the future, it will only lead to intensifying of the internal conflict potential of the party and, consequently, deterioration of its political effectiveness.

In this context it is quite understandable that having easily won the struggle for the Governors’ block, *Yedinaya Rossia met with substantial resistance on the municipal level of power in the federation subjects*. In the meanwhile, the main struggle here was about control over the legislative assemblies of the largest Oblast

centers where electoral support of Yedinaya Rossia is much weaker than it is in the hinterlands. In this field, the most important means of political struggle used by Yedinaya Rossia, which is the administrative leverage, often fails them. Thus, the City Duma elections held on October 16, 2005 in Nizhniy Novgorod became the first example of a protest vote of the deputy core at the Oblast center, against a representative of the „administrative leverage party” (the State Duma deputies refused to approve Alexander Meleshkin, the Vice-Mayor and a candidate from Yedinaya Rossia, as a speaker). This demarche was caused by the fact that due to inter-elite negotiations initiated by the local YR administration, Nizhniy Novgorod Mayor elections became actually non-competitive. In Samara Yedinaya Rossia engaged in a stiff confrontation with its opponents. Here on October 25 on the central square of the city was held an unprecedented by scale protest action, about 25 thousand city residents spoke up against the general elections of the City Mayor initiated by a group of local Yedinaya Rossia members (headed by Alexander Ishuk, Vice-Governor of the Oblast). In the City Duma of Samara there were 15 Yedinaya Rossia deputies, and representatives of the party participated in both conflicting groups, and the federal administration of Yedinaya Rossia failed to express a clear opinion of the Samara events and is actually in the position of an outside observer. The situation was aggravated by the fact that population became involved in the open conflict between the part of the local Yedinaya Rossia cooperating with Rodina and CPRF, and the other group of Yedinaya Rossia members that are closer to the federal administration of the party.

Problems with Yedinaya Rossia on the low level of authorities in the regions, typical for regional elections, allow us to draw conclusions about certain significant tendencies. First of all, ***the effectiveness of applying administrative leverage during the Yedinaya Rossia election campaigns is dropping.*** A rather high percentage of protest votes demonstrates that political parties with better annunciated ideology and more clear positions in the elections are more relevant than Yedinaya Rossia. The recency effect that played its role in the success of Yedinaya Rossia in 2003 is starting to disappear, however, the ruling party is still not capable of offering anything in exchange. However, the 2007-2008 election campaign actually has already started, and maintaining these negative tendencies not only creates additional prerequisites for internal party conflicts, but can also lead to a gradual contraction of the YR electoral base on the federal scale, and in this case even the presidential rating might not be enough for success of the main Russian Party.

Russian Party of Retirees: the Third Power in the Regional Elections

It is also important to mention that *opposition is becoming more and more successful in large Russian centers and megapolises*. Considering the high level of social activity of urban residents, in the future this fact may threaten the power by increasing political tension. A good example in this context is the defeat of Yedinaya Rossia in the Tomsk City Duma elections on October 9, 2005, where the Russian Party of Retirees acted as the „third power” in the election campaign. Voting results by party lists looked were as follows: RPR became the leader gaining 19.42%, and YR with 17.85% occupied the second position. Yedinaya Rossia came second during the elections of city mayor of Seversk, a satellite of Tomsk, hosting the federal state unitary enterprise „Siberian Chemical Plant”. In that town the current mayor Nikolay Kuzmenko got 58% of votes, while Grigory Shamin, vice-speaker of the Oblast Duma, deputy chairman of Yedinaya Rossia regional branch.

This distribution of power may be called rather symptomatic: results of regional election campaigns in 2004-2005 demonstrate quite a successful performance of the Party of Retirees, its candidates have already been elected into legislative assemblies of 14 federation subjects. For example, in Sakhalin it has 7%, in Kurganskaya Oblast 10%, in Tulsкая 6%, in Vladimirsкая 10%, in Mariy-El Republic – 13%, in Koryaksky AA – 11%, in Amursкая Oblast – 8%, in Irkutskaya 5%, in the Republic of Hakasya – 7%. The record results RPR achieved in Magadanskaya Oblast elections, with 20.59% of votes, and in Magadan itself the retirees became indisputable winners with about 26% of votes. Therefore, we are talking about a „third political power” in the federation subjects elections. By the way, according to the analysis of electoral statistics, not all RPR voters belong to the group of „traditionally disciplined voters”: at the regional elections „retirees” gather voices of a part of CPRF and Rodina supporters and of Yedinaya Rossia voters, as well as a certain share of the protest electorate. Finally, it is not a coincidence that judicial authorities started paying very close attention to the RPR. In the course of a triumphant for the retirees campaign in Magadanskaya Oblast, the electoral roll of the party was almost withdrawn from the elections, but the party leaders managed to appeal this decision and resume registration. Recently the Moscow City Court intervened into an internal party conflict and decided to review the results of the spring 2004 Congress (although prior to this ruling the conflict had been going on unsuccessfully for almost a year). Let us remind you that at that time the party leader was Valery Gartung, and RPR started demonstrating impressive results in regional elections to the legislative assemblies. Finally, in the spring of 2005 a whole number of oblast election committees refused

to register RPR's lists for participation in the elections to the regional legislative assembly (Oblast Duma) pursuant to the aforementioned decision of the Moscow City Court. This active stance of the judicial authorities first of all demonstrates that the Federal Center is treating RPR very seriously and views it as a rather capable competitor of Yedinaya Rossia, especially on the level of Federation subjects.

Analysis of the election campaign in Tomsk demonstrated that at the time when the campaign was going on, the local housing authorities practically failed to start the heating season in time. Under these conditions the Party of Retirees, claiming that its main goal is to protect the rights of pensioners and other low-income categories, acquired a wide field for its actions. Considering that growth of popularity of the party in the regions was to a great extent related to its public statements against monetization of benefits (winter 2005), it is quite understandable that people were once again disappointed with the actions of the municipal authorities and supported the RPR. Such course of events is rather typical for other Federation subjects as well: in most regions housing and utilities sector is in a very poor state, and the local administration (often represented by members of Yedinaya Rossia) only demonstrates to the voters its inability to handle the situation. The result is quite natural: ***the population is losing trust towards managers on various levels in the regions, and thus it is gradually withdrawing its support from Yedinaya Rossia, associated with the authorities.***

Finally, the Tomsk City Duma elections results can be viewed from the standpoint of „federal” perspective: RPR, for the first time outstripping Yedinaya Rossia in voting under the party lists, during participation in the regional elections already managed to position itself as a capable political force supported by the voters disappointed both with the ruling party and with the opposition. At the same time, the struggle for leadership in the party between Sergey Atroshenko and Valery Gartung does not in any way affect the voters’ preferences, neither one of them is a recognized charismatic leader. Thus in the case with RPR voters are first of all voting for a Center-Leftist party, while their main priority is a strong social policy protecting first of all retirees and other low-income groups of population. This is the ***secret of success of RPR – a well-designed brand and a stake on development of a regional network of party organizations against the background of growing protests allowed the party to become a significant political force on the regional level.***

On the threshold of the future election campaign to the City Duma, this gives to the Party of Retirees a rather realistic chance for successful promotion, furthermore, the recency effect will also play its role, because the voters would not have the time to have been disappointed in RPR by 2007. However, it is very important that today RPR is trying to shake off the role of CPRF or Rodina’s spoiler, the party is trying to

manage an independent political game, which, in its turn, inevitably leads to direct competition with Yedinaya Rossia. The regional elections demonstrated that Yedinaya Rossia should not expect an easy victory against the RPR, considering that the ruling party lacks a clear ideology and the society has exaggerated expectations for it. The further we get from the Yedinaya Rossia's triumph in 2003, the more the population will be interested in a political force that would be an alternative both to the ruling party that voted for monetization of benefits, and to the traditional opposition.

Elections to the Moscow Parliament: regional opposition continues

Being one of the leaders of the regional opposition, Yury Louzhkov, the Moscow Mayor, is traditionally trying to play an independent political game and often ventures to openly oppose the central authorities. *Last year Louzhkov criticized the Federal Center for the contents and implementation on the regional level of the „anti-people” Law No. 122 on Monetization of Benefits.* Therefore, the Moscow Mayor managed to solve several politically significant issues. First of all, we are talking about supporting your own electoral popularity by focusing the focusing attention of public opinion in the capital on the paternalist nature of the social policy implemented by the Moscow government. (let us remember that this was Louzhkov's only ace in his struggle for political sympathies of the Muscovites). A rather successful implementation of monetization in Moscow against the background of massive protests in a whole number of Federation subjects helped him reinforce his image as an effective manager on the federal level.

Further on, criticizing the FC policies, the City Mayor made a number of skeptical comments regarding Presidential initiatives, specifically, he expressed his doubts that the Mayor is being realistic in his suggestions about developing a mortgage system. He used the most irrefutable arguments related to the need to protect the interests of Muscovites (it was especially important for Louzhkov to distance himself from unpopular policy measures implemented by the Federal Center, right before the December elections to the State Duma). Finally, a conference of representatives of the left opposition at the end of August in the Mayor's Office turned into an open political demonstration, with discussion of issues related to removal from power of the „Putin's rotten regime”.

Furthermore, *a formal membership in Yedinaya Rossia did not prevent Yury Louzhkov from regularly criticizing the federal party leaders.* Thus, the Moscow Mayor has announced on numerous occasions about responsibility of the ruling party leaders for deficit of new ideas, and for Yedinaya Rossia „still does not have its own ideology”.

Another blow was made during preparations to the Moscow Parliament elections: being the co-chairman of the Highest Counsel at Yedinaya Rossia, Yury Louzhkov bluntly accused the Yedinaya Rossia leaders of falsification of the charter and demanded to delete from the Charter a norm according to which party lists of candidates to deputies during the regional elections are approved by the federal party leadership. Finally he lobbied the Higher Council of Yedinaya Rossia to decide that approval by the federal party leadership of the candidates nominated by the regional conference, will be more of an informative nature (let us remind you that later on during the 6 Federal Congress of Yedinaya Rossia this norm was applied to all regional branches of the party).

Therefore, by correcting the Charter of Yedinaya Rossia, the Moscow Mayor obtained an opportunity to maximally control the process of nominating senator candidates. Louzhkov personally headed the Yedinaya Rossia's election list, which facilitated his efforts to this purpose, considering that the issue of his premature resignation and taking up a job in the Moscow City Duma was not even discussed in the management of Yedinaya Rossia. Louzhkov actually won the elections, securing a very high (more than 47%) result for the Moscow list, and, respectively, continuity of his policy, therefore we can forecast that he will maintain his status at least until the end of his term (December 2007). Moreover, considering that the President and representatives of most of the nomenclature political groups (especially the liberal ones) are not interested in the slightest destabilization in Moscow on the threshold of federal elections, Louzhkov's influence on the federal scale may only expand.

9.4 Political situation in the North Caucasus

From the beginning of the 1990's the issues of politicizing ethnicity and related to it phenomenon of „Islam renaissance” in the North Caucasus started actively developing, and now the situation in the region is one of the main sources of potential threat to stability of the entire system. At the same time, *the main components of the „explosive potential” of the Caucasus include, as strange as it may sound, inadequate measures of regional policies implemented by the Federal Center.* Staking only on the power agency resource is less and less justified, however, the Center is not yet ready to suggest a more effective way of solving numerous problems in the North Caucasian republics. One could imagine that this is the reason why all federals represented by power agency structures are so eager to find more new enemies: after their conditional victory over the separatists this role was taken up by

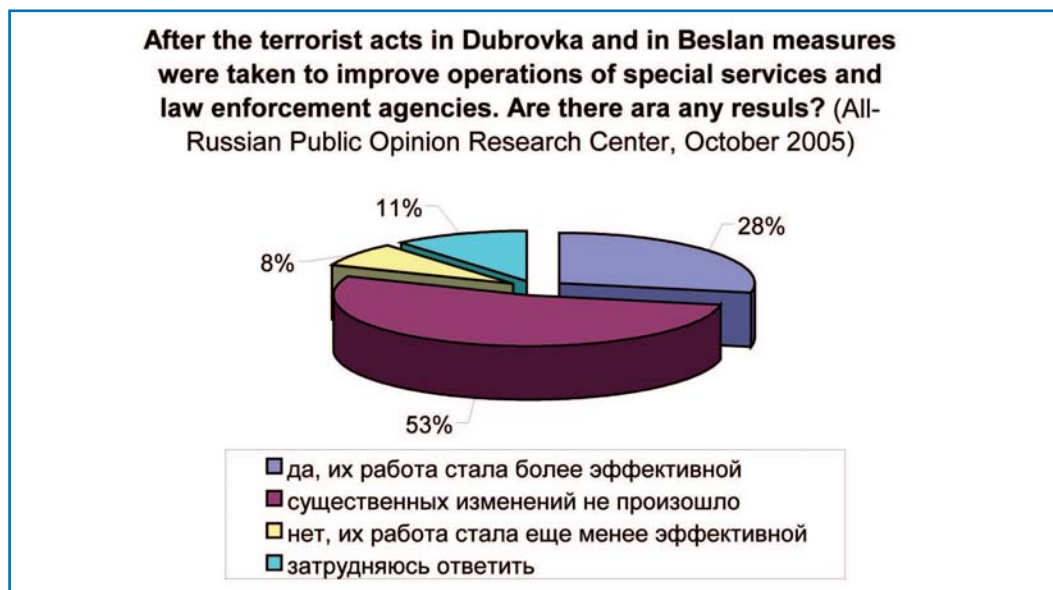
the so-called Wahhabites. However, the main result of such policy implemented by the Federal Center was the expansion of the social base of radical Islam ideology in the North Caucasus. The future of power methods in the war with Wahhabites looks rather vague, economic measures not sufficiently developed, staff decisions – ineffective, and the only visible achievement of the FC policies in the region is relative stability, and it is becoming more and more unlikely.

„Forceful” Stabilization: opportunities corridor for the federal center

Tragic events in the Northern Ossetia town of Beslan (1-3 September 2004), as well as a raid of a group of militants to Ingushetia became a catalyst for substantial reinforcement of the power agencies” position in the region. First of all, this implies a number of adopted tactical decisions, such as an urgent transfer of an additional military contingent to the most explosive from the standpoint of terrorist threat republics in the North Caucasus (KBR, Dagestan and Ingushetia). Furthermore, it is important to mention that in every subject of South Federal Okrug was set up a group of operation management (GOM). Kabardino-Balkaria GOM substantially helped prevent a worst-case scenario during attack of the power agencies in Nalchik. We must admit that special services are becoming more and more effective in liquidating the most famous leaders of extremist groups. During last year they terminated Aslan Maskhadov (Chechnya, so-called President of Ichkeria), Rasul Makasharipov (Dagestan, leader of Jennet jamaat), Alikhan Merjoyev (Ingushetia, commander of the jemaat Halifat, which organized the attack in Beslan), Muslim Atayev (Kabardino-Balkaria/Chechnya, leader of Yamuk jamaat), Abu-Dzeyit (an Arab mercenary coordinating the attack on Beslan by Halifat jamaat), a number of other Islamists, including foreign mercenaries. Furthermore, it is important to remember that the lengthy investigation of the terrorist act in Beslan complicated not only the relationship between the center and the regions: it instigated quite a realistic danger of escalation of the old Ossetia-Ingushia conflicts. In this situation the fact that power agency representatives managed to prevent escalation of international conflicts against the background of investigating the terrorist act, can be considered a certain success can be considered as a certain success of representatives of this group.

In this context it is quite logical that in 2005 ***one of the main goals of federal policy towards the events in the Caucasus was to create a positive image of the power agencies, while the leading topic of information in the mass media became stabilization of situation in the region.*** In the framework of this policy the mass media was regularly publishing news about arrested militants, discovered hideouts with

weapons and ammunition, prevented terrorist acts etc. (there is no reason to deny that operations of power agencies have become more effective), and events on October 13-14 in Nalchik were explained as a successful special operation that ended in liquidation of 60 militants. At the same time, an investigative report about this case still has not been published, and as to measures for preventing similar attacks, they are focusing on intensification of legislative activities. Specifically, the government is planning to introduce new legislation on prevention of terrorism, on participation of residents and public organizations in law enforcement, as well as on protection of personal data and on use of weapons in the RF. According to Valery Trushkin, member of the Defense and Safety Committee at the Federation Council, a special committee at the upper chamber of the Parliament analyzed the norms stipulated by the current antiterrorist legislation and is about to prepare amendments to the Law on Criminal Investigations. It is expected that these amendments will substantially expand authority of the police and of the Federal Security Service in the „hot spots”.



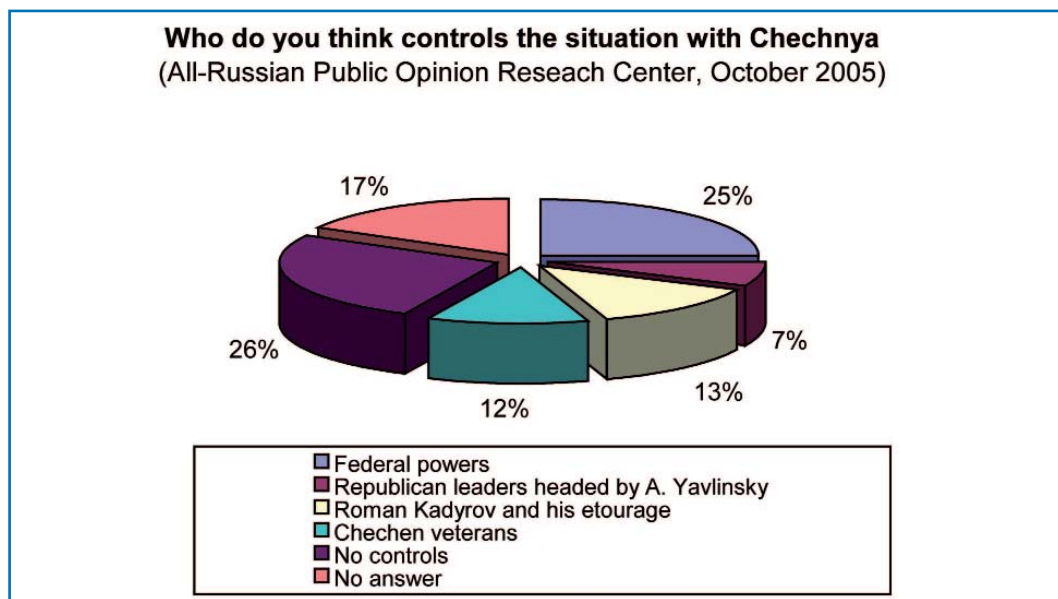
Finally, *one of the most significant achievements of federal politics in the Caucasus in 2005 became the elections to the legislative assembly of the Chechen Republic*. This helped to successfully resolve one of the main strategic tasks of FC in the region – results of the elections campaign were actually admitted by the international community. Exactly for this purpose there was a number of ex-separatists that were permitted to participate in the elections, for example, the former Ministry of Defense in Ichkeria Mahomed Hambiev, number two in the SPS list, and Ibragim

Shulygov. By the way, Ibrahim Khulygov was nominated as an independent candidate from Vedensky District. Finally, the federal strategy entailing a notably democratic election campaign in Chechnya brought realistic results. Although there was its share of criticism, in the form of a request to the Russian authorities to check all electoral violation noted by international observers.

In this context it is very important to mention that the finalized parliament became the first fully legitimate legislative body of the Chechen Republic from the standpoint of federal legislation. Voting results were quite easily predictable: Yedinaya Rossia, representing interests of the First Vice-President Ramzan Kadyrov, gained only 61% voices, and this result will allow this party to control the situation. The Parliament also includes representatives of Chechen system opposition, CPRF and SPS (11.99% and 10.96%, respectively). Limited competitiveness became one of the main specifics of the election campaign in the Chechen Republic: well-known for tough suppression of opponents Ramzan Kadyrov practically did not leave any space in the electoral field to a politically capable opposition. For example, Bislan Gantamirov, former Mayor of Grozny who has certain influence in Chechnya, had to withdraw his candidature from Rodina's voter roll. Chechen politicians well-known outside of the Republic but independent from the Kadyrov's clan, for example, the „Moscow” Chechens (one of the brightest representatives of this group, the CEO of the Milan Concern, Malik Sandullaev). The list of SPS, the main opposition to the Chechen Yedinaya Rossia, was headed by Magomet Hambiev, who was personally supported by Kadyrov due to the clan relationships (they both belong to the same teip – Benoy”. SPS's campaign was financed by an influential in the region affiliate of RAO – Nurenergo. Therefore, the parliament elected in Chechnya turned out to be very loyal to the current First Vice-President of Chechnya. This is especially relevant considering that ***the parliament elections completely legalized the Chechen administration***, where the leading positions in the structure are taken by Kadyrov's clan representative. In general, the election campaign completely changed the inter-elite distribution of authority in the Republic. If earlier, according to the informal „table of ranks” of Chechen elite, Kadyrov was the first among equal, but now, having a Parliament controlled by devoted supporters of the parliament, his authority in Chechnya was almost perfect.

Thus in the process of resolving the problem of ensuring stability in the Chechen Republic, the stakes were placed on clannish succession. However, ***in the current conditions of legitimacy of the Chechen authorities, there are no guarantees that supporters of the „latent separatist” Kadyrov will not take a tough oppositional stance against the Federal Center***. Considering that there are certain assumptions for realization of this scenario.

In this context a number of recent initiatives introduced by the current acting Prime Minister of the Republic of Chechnya. For example, Ramzan Kadyrov announced his intention to expand the territory of Chechnya, and this problem was named as a priority issue for the newly elected Chechen parliament. „Both in the neighboring regions and in Chechnya itself it is very well known where there used to be a border prior to merging the subjects and where it is supposed to be after the demarcation,” – said Kadyrov in an interview to mass media. „We don’t want other people’s money, we want to be owners of our own land”. Pursuant to this logic, territorial claims of the Chechen leaders to their neighbors may involve, first of all, the boarder regions of Ingushetia, as well as a part of Stavropolsky krai. It would be hard to overestimate the danger of another international conflict in the Caucasus, because the borders between almost all of the peoples residing in this region are substantially different from the historical ones, and the smallest excuse for aggravation of these controversies can lead to a large-scale armed conflict and immediately destroy the illusion of stability. Furthermore, the requests of the Chechen government for withdrawal of troops from the federal group, which „are only impeding establishment of law and order” in the Republic – in the end of last year in Chechnya were organized several state-approved anti-war meetings. Against this background the chances of further radicalization of requests launched by the Chechen elites are very high, considering that after the death of the first Chechen President Akhmad Kadyrov, his son Ramzan’s policy is already tending to distance from the most moderate powers in the Republican government that were the „nucleus” of his father’s team.



In general, the active PR campaign of FC's regional successes facilitated solution of two tasks. *On one hand, it created a massive impression of stability (first of all, in Chechnya), which is important for supporting the rating of the RF President, on the other hand, it provides representatives of the „power agency” group with additional opportunities of positioning themselves as a single operating force capable of maintaining control over the situation.* At the same time, these measures have almost nothing to do with numerous problems brought about by the situation in the Caucasus.

As to the aforementioned events in Nalchik, one can imagine that from the political standpoint they can be viewed as another defeat of the federal authorities in the protracted partisan war, considering that the current leader of KBR, Arsen Kanokov, is perceived by the local elite as the Center's protege. This logic can be applied to analysis of situation in the North Caucasus overall. Loyal to the center appointed heads of Subjects often turn out to be incapable to find solutions to the numerous social and economic problems (average level of unemployment in the North Caucasus republics is about 50%), as well as maintain political control in the territories entrusted to them, which is confirmed by regularly committed terrorist acts. This means that *yet another success of the power agencies in their struggle with the „Wahhabist underground” will not have any serious consequences on reducing the potential explosiveness in the region.*

Islamic factor in political process development in the North Caucasus

Modern Islamic movement in the North Caucasus is characterized by lack of uniformity and is represented by a number of social and political entities that often protect the interests of local elite groups only formally having anything to do with religious issues. In the beginning of the 1990's fell apart the North Caucasus Muslim Religious Board, the single institutionalized Islamic organization located in Mahachkala, the capital of Dagestan, and in all republics in the region appeared independent Muslim Religious Boards, many of which are currently competing with each other. In this context it is very important to note that *the massive retreat of the population from the typical for the majority of North Caucasus republics traditions of moderate Islam is to a great extent conditioned by the crisis of the official Islamic structures.* They are concentrating on the fight with their ideological opponents (first of all with the so-called „Wahhabites”), and are becoming more and more political, and thus lose authority among the population.

The most critical out of these conflicts is the fight for influence between representatives of various schools of the Muslim cult in Dagestan. Contradictions

between the traditionalists, followers of religious orders (tarikats), and fundamentalists („Wahhabites”) in the region is complicated by tensions between the religious leaders of traditional Islam, representing different ethnic groups – Avars (the dominating ethnos) and Dargins, to which belongs the current President, Magomedali Magomedov.

Similar to the „Chechen problem”, the Federal Center attributes growth of the number of terrorist acts in Dagestan with dissemination of religious extremism. In this context it is important to note that *due to the massive redistribution of powers that occurred when Magomedov came to power, Dargins control all of the significant authority positions, while the Avars are in charge of „ideology”, as they are holding the majority of seats at the Muslim Religious Board of Dagestan (MRBD)*. In Dagestan have always coexisted several religious schools: Sufism, the Shafiit schools and Salafiya (fundamentalists). The most influential in the republic is Sufism, represented by three tarikats and in essence bearing the status of the state religion. Actually, almost the entire staff at the Muslim Religious Board of Dagestan (MRBD) consists of Avars, followers of a Sufi Sheikh Said Afandi Chirkeyev (Atsaev) who is very influential in the region. In their turn, followers of Sufism are actively using their influence to discredit the unofficial branches of Islam, by announcing them all to be Wahhabites. Back in 1999, the Dagestan Sufi sheikhs launched a request to outlaw Wahhabism as the main competing branch of the Islamic doctrine, and the Republican legislative assembly accepted this legislation. However, since the language of the Law on Wahhabism does not contain a legally clear definition of the concept of Wahhabism and extremism, enforcement of this law only made the situation worse. Actually, *the Law on Wahhabism approved in Dagestan became an instrument for the Magomedov clan, which is currently in power, to destroy the competitors that have a claim to resources*.

The situation in Kabardino-Balkaria is quite similar. Here it is important to note that while the majority of former Chechen separatists has successfully adapted to peaceful life, on the federal level it is considered that the main threat to stability in the Caucasus comes from Wahhabites, specifically members of Kabardino-Balkaria jamaat. Accordingly, among the main suspects in the Nalchik case were named KBR jamaat members Musa Mukozhev and Anzor Astemirov. They are currently on the wanted list.

We should note that in Islam jamaat is a commune that is governed by a commander (amir) and has a hierarchical structure assuming absolute compliance with orders of the organization leaders. On a regional scale jamaat is a network structure, for example, according to the Muslim Religious Board (MRB) there are 20

branches of it in Kabardino-Balkaria. Ideologically jamaat in KBR is based on the radical sect of Salafits propagating return to the true and „pure” Islam freed of historical distortions. Members of jamaats are usually young Muslims from 18 to 30 years old.

Members of jamaat and traditional Muslims complying with the KBR Muslim Religious Board are in a state of permanent conflict. Supporters of „pure” Islam think that people that work at the Muslim Religious Board do not have fundamental religious education because they went to school back in the Soviet times. In the 1990’s, when young people got the opportunity to study Islam in foreign universities, it turned out that there is a great number of contradictions between the well-known traditions and the „true faith”, and representatives of the „official” Islam started to rapidly lose their authority in the eyes of the new generation. First of all there was a question of bringing religious rituals in compliance with the Islam norms, imams supported by MRB charge the faithful for prayers, for burial rituals, for Islamic wedding rituals, which is a violation of Koran. What is even more important, the KBR employees are appointed by the government, i. e. depend on secular authorities. Moreover, representatives of MRB maintain close contact with KBR power agency structures, for example, they generate and submit to the Republican Ministry of Internal Affairs lists of „unreliable” parishioners that the power agencies call no less than „Wahhabites”. It is important to note that this tendency is typical for other North Caucasian republics as well: *in fighting with their opponents, representatives of official Islamic structures tend to lean mostly on the local executive authorities, including its repressive establishment. However, as political practice shows, this policy first of all results in strengthening of unofficial Islamic structures, including the radical ones, and deteriorating authority not only of traditional Islam, but of regional administration that supports it.*

Federal forces are using all available means in their struggle with the Wahhabites. For example, starting from 2003 in Nalchik have been gradually closed all mosques that were independent from the Religious Directorate of Muslims, and the „wrong” Muslims were being subjected to repressions, from actual veto on employment to massive arrests, often without sanctions of judicial authorities. However, *large-scale application of force often results in reverse effect.* Besides escalation of tension between nations, even the quite loyal religions communities respond to violence applied by law enforcement officials by picking up weapons. Thus in their report on investigation of the attack in Nalchik, the heads of the Ministry of Internal Affairs and of the Federal Security Service actually admitted that the capture of Kabardino-Balkaria capital was actually an armed mutiny aimed against representatives of the

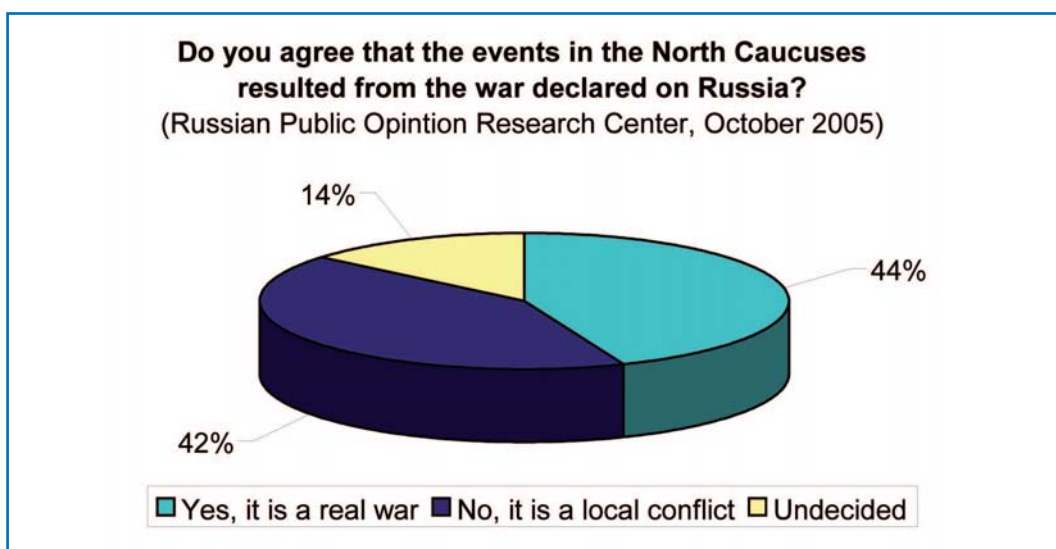
local power agencies, rather than a terrorist act. Dagestan opposition also blames the Federal Center for aggravation of the situation in the region, because the FC supports the acting President of the Republic and the local law enforcement authorities.

We should also mention *the specifics of struggle with Wahhabite jamaats in the Northern Caucasuses*. First of all these specifics have to do with the organizational structure of the enemy: territorially differentiated groups usually have very limited active fighting group of 10-15 people. Most of the organization members are militants, quite legally residing in their villages. At the order of their commanders they are ready to immediately join the fighter group of the jamaat and perform the tasks at hand. There is no doubt that termination and arrests of terrorists may to a certain extent reduce the amount of financial aid coming from other countries and reduce the scale of their subversive activities. However, radical Islamic structures have substantial regeneration capabilities, furthermore, their forces are constantly replenished with young people actively perceiving the ideas of radical Islam. For example, the place of Aslan Maskhadov was taken by Ahmet Fayruz sheikh Abdulhalim Saydullayev, known as one of the leaders of Chechen „Wahhabite underground”, involved in training of suicide bombers (in Ichkeria hierarchy he is currently occupying the position of the Chairman of State Committee of Defense at Mejlis-ul-Shura, Chechen Republic of Ichkeria). Therefore we can imagine that *in the future effectiveness of power methods in the struggle with religious extremism in the North Caucasuses will also be limited by local operations*.

Situation dynamics in the North Caucasuses

One of the main tendencies of the situation in the North Caucasuses is *a gradual acceleration of prerequisites for a full-scale social and political crisis*, which can be attributed to a number of key factors. First of all, *besides the promotion of radical Islamic ideas among the young population, it is important to note the changes in the nature of terrorist acts*. Terrorists extended their activities beyond the former limits of their operations. Today the „Separatism Zone” includes not only Chechnya, but more or less the entire region, first of all Ingushetia and Dagestan. Moreover, according to the Ministry of Internal Affairs, only in Chechnya the dynamics of events is positive: in 2004 there were registered 214 terrorist acts against 492 in 2003, in 2005, according to preliminary data, this tendency will be maintained. In all other republics the situation is exactly the opposite. A bright example is Dagestan, in its territory in 2004 were registered 30 terrorist crimes, while in the nine months of 2005 the number of terrorist acts exceeded 100. This leads us to a conclusion that the actual

figures planning and executing terrorist acts in the region are representatives of other North Caucasian peoples, even though they are supported by the Chechen militant leaders. They are using methods of terrorism without a specific address, which means that they perform terrorist acts in places of massive gatherings of people, mostly civilians. Another important factor is the role played by foreign mercenaries and emissaries of Islamic structures providing substantial financial support to the extremists in the Caucasus. According to the experts, in Chechnya even the groups that are led by ethnic Chechens (for example, Basaev's detachment) are actually controlled by foreign Islamic organizations. However, *the main factor determining further development of the situation is that terrorism in the North Caucasus is evolving as an „internal” phenomenon, with substantial social support.* Religious extremists first of all gain major grounds because of the complicated mixture of social and economic problems in the region, very low living standards of the population, „shadow” economics and actual lack of infrastructure, as well as an unprecedented level of corruption and unemployment. There is no way to resolve these problems with the methods used by the power agencies, and at this point we cannot say anything positive about the economic solutions suggested by the Federal Center (cutting down federal target programs, introducing direct federal management in a number of subjects in the region (Ingushetia, Dagestan). Making the Wahhabites into the main „enemy” of regional stability can only make the situation worse, provoking new inter-ethnic conflicts. In this case the worst-case scenario may be that the situation in the Caucasus goes out of control of the federal authorities, and then *separatist leaders with radical Islamic ideology will come to power.*



In this context we must mention that the „power agency resource” still has key importance for the Caucasus policies, and from this standpoint in a number of cases the „distribution of powers” right now does not seem to be in favor of the Federal Center.

First of all, this involves the „peaceful” Chechnya, where the Chechen Ministry of Internal Affairs and the Antiterrorism Center (former security service of the President of Chechen Republic that used to be under the command of the current 1st Vice Prime Minister while his father was still alive), controlled by the „latent separatist” Ramzan Kadyrov, are much more numerous than the federal divisions (special team battalions „East” and „West”, a military base in Khankale). Furthermore, the Chechen power agencies keep busy the former militants, according to Alu Alkhanov there are 7 thousand of them only in the Chechen police. Their status, in its turn, directly depends on their loyalty to Ramzan Kadyrov and to a great extent implies personal loyalty to the possible future President of Chechnya. Therefore we should realize that considering that Kadyrov Junior is actually building a personal regime, it will become harder and harder for the Federal Center to negotiate with the new Chechen Administration, considering that *any attempts of concessions in order to prevent massive destabilization in the region the Chechen elite perceives only as demonstration of weakness of the federal powers and as grounds for further escalation of their demands*. At the same time, according to data provided by the Ministry of Internal Affairs, only in Dagestan there are more than 2 thousand militants „that declared a real war on the power agencies”. In the conditions of massive unemployment among the young people constituting the majority of local population, this figure seems far from being final. Saygidpashi Umakhanov, Mayor of Hasavyurt and one of the leaders of an opposition group „Northern Alliance” said in one of his interview that only in his town the number of armed young men ready to „fight for their rights and their Islam”, can reach 20 thousand. Finally, we have to remember that Umakhanov maintains close contact with the Vice-Premier of Chechnya, Ramzan Kadyrov, and, if necessary, can count on military support from his allies.

Considering the abovementioned tendencies, *it seems that we can talk about a system-wide power crisis in the North Caucasuses*. To a great degree this has to do with the staff policy problems of the Federal Center in the region. Having ensured loyalty and relative manageability of the regional elite (the exception here is the new administration in Chechnya), the Center, nevertheless, failed to set up here an effective system of control over the situation in most of the North Caucasuses republics. Attempts of applying HR solutions to the elite’s internal conflicts in a number of subjects (Karachaevo-Circassia, Ingushetia, North Ossetia) also did not bring about any

significant results. Currently the power agencies are sustaining relative stability in the region, however, there are no guarantees that they will be able to maintain this status at least in the medium-term perspective. *As the social base of the supporters of radical Islam is expanding, forceful methods will inevitably operate less and less effective.* In its turn, *weakening of the FC positions in the region will become a catalyst not only for development of separatist tendencies but also for aggravation of numerous „internal” conflicts,* both the „traditional” (between the Chechens, Ossetins and Ingushs), and the relatively „new” ones (for example, between the Kabardinians and Balkars or Karachais and Circassians) Considering the tendency for politicizing and using the Islam doctrine, the price of implementing this scenario may be too high for the political system in general very soon.