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Taking Stock of Putin's Promises at Last Forum

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Putin seen on a screen speaking at last year's forum in June 2012, a month after returning to the Kremlin. **Yekaterina Kuzmina**

Vladimir Putin took the stage to speak at last year's St. Petersburg International Economic Forum as president for a third time, having been inaugurated a month before, but facing perhaps the fiercest political opposition in his 12 years as Russia's top leader.

Despite the ongoing street protests, Putin focused his speech on steps the government would take to secure steady economic growth, a theme that will likely be central to his address to forum guests on Friday, amid a slowdown in Russia's economy that has prompted top officials to scramble for solutions.

Last year, along with routine statements on making Russia competitive for investors, Putin also made some unexpected promises, such as to create the position of business ombudsman, a person whose job would be to assist entrepreneurs in tackling the country's infamous red

tape.

The president also addressed the problem of corruption, declaring it one of the main obstacles to improving the business environment and vowing to crack down on it.

Many of the promises Putin made in his speech have technically been fulfilled. But most of the ultimate goals he set are still far from being achieved.

The government launched a high-profile anti-corruption campaign — although Putin's spokesman said it was routine investigative work — with top officials from at least six state agencies being fired or targeted in criminal inquiries.

The level of official corruption has not significantly dropped off, however, by many accounts. In Transparency International's 2012 corruption perception index, Russia ranked 133rd out of 176 countries and territories.

Like then-President Dmitry Medvedev in 2011, Putin also called for the state privatization program to be carried out, saying the government still intended to exit several industries. But only one large privatization deal has been completed since last year's speech, the sale of 7.58 percent of Sberbank last fall.

On the political side, both the government and the opposition seem to have dug in their heels. Federal investigators have opened criminal cases against several anti-Kremlin leaders, including corruption fighter Alexei Navalny, and the opposition has shown little appetite for cooperation with authorities.

One specific political task Putin gave parliament — to consider all public initiatives that garner at least 100,000 signatures — seems to have brought few concrete results.

Here is an overview of the main promises made by Putin at the previous forum and what's been done about them.

Promise: Putin ordered the creation of an ombudsman for entrepreneurs who he said would represent both foreign and domestic business people, enjoy a special relationship with the Prosecutor General's Office, and be able not only to represent investors in court but to go to court to block officials' actions that were harming investor interests.

The ombudsman, Putin said, would also be able to address routine problems that entrepreneurs face while doing business, such as corruption and red tape.

The president tipped Boris Titov, a liberal-leaning former politician, business lobbyist and sparkling wine producer, for the post. Putin promised to issue a decree for the appointment as soon as possible so that Titov could start working within weeks.

Result: A decree appointing Titov to the job was signed by Putin the day after his speech, and the position of business ombudsman was officially created three days later.



Boris Titov, appointed business ombudsman by Putin at last year's forum. (Sergei Porter / Vedomosti)

Titov's best-known and most ambitious initiative during his first year as ombudsman was to propose granting amnesty to thousands of imprisoned businessmen. He announced the idea a day after his appointment in an interview with Bloomberg, saying he intended to propose freeing 13,000 people jailed for economic crimes, including former oil tycoon Mikhail Khodorkovsky.

Yet after his statement gained attention by Russian media, Titov said that his words had been misconstrued and that, in fact, he had said that Khodorkovsky and other jailed businessmen could file a complaint with the Center for Public Procedures — Business Without Corruption, a nongovernmental group affiliated with Titov's state agency, and that he would come to Khodorkovsky's defense if it was found that his rights had been violated.

Khodorkovsky filed a complaint to Titov last August with a request to conduct a public inquiry into the second case against him, in which he was convicted of fraud and tax evasion. In a letter to Titov, Khodorkovsky said the charges brought against him and his business partner Platon Lebedev had become a model for other cases against businessmen in Russia.

Khodorkovsky and Lebedev have been in jail since 2003 on charges critics have called politically motivated.

In his response, Titov told Khodorkovsky to file an official complaint to Business Without Corruption, which Khodorkovsky did, but no action was taken by the group in response.

In early May, Titov said he planned to submit his amnesty initiative to the State Duma, asking to free more than 100,000 entrepreneurs on May 26 to coincide with Entrepreneur's Day, an unofficial holiday.

But Putin delayed the initiative, saying it needed to be refined before it could be carried out.

According to the ombudsman's website, over the last year at least 10 businessmen were released after they filed complaints with Titov's office and investigations against them were declared illegal. Most of them were still awaiting trial.

Titov has had somewhat more success in his first year in office with less ambitious initiatives. Among other activities, he has helped to keep reduced rental rates for small businesses in Moscow and proposed the Red Button program, which would direct disgruntled business people from government websites to Titov's organization and provide instructions for filing a complaint.

Promise: Putin said the government's privatization program must be implemented, declaring it a top priority for the state to divest itself of a range of assets. He noted that foreign investors would have an opportunity to take part in the process.

Putin referred to a privatization plan first approved in 2010 and updated by Prime Minister Dmitry Medvedev and the Cabinet on the eve of Putin's speech. According to the plan, within 18 months Russia had to privatize 50 percent of shipping giant Sovkomflot, 7.58 percent of Sberbank, 25.2 percent of VTB, all of grain trader United Grain Company, 49.9 percent of Rosagroleasing, 10 percent of nanotechnology holding Rusnano and 25 percent of Russian Railways.

The president said regional governments had to approve similar plans and said that the sale of the state's assets must be fair and competitive and that the prices must be "realistic."

Result: In proclaiming privatization a priority for the government, Putin echoed his predecessor, Dmitry Medvedev, who in his speech as president at the 2011 forum made a similar statement yet few sales were carried out between the 2011 and 2012 forums.

Putin's 2012 promise also remains far from fruition, except for the sale of 7.58 percent of Sberbank last fall for $5.2 billion in what was Russia's largest privatization deal since the sale of 10 percent of VTB in February 2011 for $3.3 billion.

More than 95 percent of Sberbank shares were sold on foreign stock exchanges, as demand for it in Russia was low, even though observers said the price was fair.

Last November, then- Central Bank head Sergei Ignatyev said no further privatization of Sberbank was planned in the following two or three years. First Deputy Prime Minister Igor Shuvalov and Economic Development Minister Andrei Belousov later confirmed Ignatyev's words.

Market analysts and heads of the state companies that were set to be privatized said it was impossible to implement the program because the deadline set by the president was too soon and the prices too high to find good buyers. They also said that even if the program was implemented in time, it would disrupt the work of the companies.

Sovkomflot, Russia's largest shipping company, has to be fully sold off by 2016, according to the 2010 privatization program, but its sale has been delayed several times.

Last fall, 25 percent of the company was slated to be put up for sale on the London Stock Exchange, and Shuvalov said shares could be sold to a "strategic investor." But no offer to buy the shares was eventually made, and the deal was postponed until this spring, when Belousov said the privatization would be delayed indefinitely due to poor market conditions.

A stake in VTB, which is 60.9 percent owned by the state, was planned to be placed on the Moscow Exchange this year, Shuvalov said in March. But at an Economic Development Ministry meeting in May, Federal Property Management Agency head Olga Dergunova said 11 percent of VTB could be sold in 2015.

New plans were announced later, according to which the privatization of most state corporations will be postponed. Vedomosti reported Monday that a new privatization program was expected to be considered by the government on June 27.

The Federal Property Management Agency, which prepared the new plan, proposed revising the strategy for privatizing banks. In particular, the new plan proposes keeping a majority stake in VTB.

The new plan also proposes not selling Rosagroleasing and Rosselkhoz Bank but changing their legal status. A 25 percent stake in Russian Railways is set to be sold by 2016, according to the new plan, not by 2014 as it was before.

Despite the delays, the state still expects to bring in 427 billion rubles ($13.5 billion) from privatization this year. Finance Minister Anton Siluanov announced Monday that 17 billion rubles had been brought in from privatization in the first three months of this year.

Promise: Putin identified corruption as the biggest threat to Russia and said that new ways of solving the problem must be found, such as hiring new employees at government agencies.

"Of course, it's not easy to solve this problem ... but we will try new instruments, such as attracting to public posts people with other motivations — professional and effective managers," the president said.

Result: An unprecedented number of investigations into state agencies began last year, triggering the firing of several high-profile officials associated with or allegedly involved in corruption schemes. The string of inquiries has been seen by many observers as a planned anti-corruption campaign.

Officials from at least six state agencies have been targeted as a result of the investigations:

Former Defense Minister Anatoly Serdyukov was fired by Putin in November after investigators said that state-owned defense firm Oboronservis committed fraud related to real estate assets, causing losses of 7.5 billion rubles ($237 million). At least five criminal cases were opened involving officials at the company, including one against the head of the Defense Ministry property relations department, Yevgenia Vasilyeva.

Former Deputy Agriculture Minister Alexei Bazhanov and two accomplices were arrested in April after investigators said they organized the theft of $31.6 million in state funds.

The 2014 Sochi Olympics have been named the most expensive Olympics in history, with

an estimated cost of more than $50 billion, and the Interior Ministry says 45.5 million rubles ($143,628) have been stolen during the construction of Olympic facilities. Whistleblowers have put the figure much higher, up to $536 million. In February, Putin fired the deputy head of Russia's Olympic committee amid cost overruns and reports of corruption.

A senior Perm region official — Roman Panov, speaker of the Perm region legislature and a former deputy head of the Regional Development Ministry — was arrested last November on suspicion of stealing almost $3 million in budget money intended for last year's Asia-Pacific Economic Cooperation summit in Vladivostok.

Investigators announced this week that three men were charged with stealing of $3.4 million in state funds from Russian Space Systems, a public corporation that operates Glonass, Russia's answer to the U.S. Global Positioning System, or GPS. Earlier, a criminal case was opened against an unnamed senior official at the agency, accused of stealing $2.7 million.

In winter, an investigation was opened into Skolkovo, the state-owned innovation center, and in April, Skolkovo Vice President Alexei Beltyukov was charged with embezzling $750,000. Investigators said Beltyukov gave the money to opposition figure and State Duma Deputy Ilya Ponomaryov, who has denied wrongdoing and said the payment was legal.

The Investigative Committee announced in February that more than 1 billion rubles ($33 million) of budget funds were misused by high-ranking officials in the Federal Prison Service, including former head Alexander Reimer and former deputy head Nikolai Krivolapov, who was dismissed from his post by Putin on Feb. 25.

Promise: Putin said the country's dependence on the oil price was its Achilles' heel and ordered the government to institute a new budget rule according to which spending and long-term state investments wouldn't be pegged to the current oil price.

Result: Amendments to budget laws were approved by the State Duma last fall, and the 2013 budget was drawn up using the new rule, which says the budget must be based on the average oil price over the last five years. In the future, the government plans to use the average price over the previous 10 years.

According to the rule, the Reserve Fund must be filled with funds equivalent to 7 percent of GDP, while all other money from oil and gas profits should go to infrastructure projects.

In a budget speech to the government and the Federation Council last week, Putin hinted that the rule could be tweaked, however, saying that funds intended for infrastructure must be used to cover a deficit in the Pension Fund.

In April, Economic Development Minister Andrei Belousov said that in 2016 or 2017, the budget rule proposed by Putin last year was unlikely to be used, due to an expected drop in oil prices.

The Economic Development Ministry expects that the average annual price for Urals oil used in budget calculations will be $105 per barrel this year and $100 per barrel in 2016. Observers have said the rule must be adjusted depending on the circumstances.

Promise: In order both to attract more foreign investors to Russia and to make it easier

for Russian entrepreneurs to enter international markets, Putin said a special entrepreneurial commission consisting of both business people and officials would be created to implement a National Entrepreneurial Initiative, which would work to improve conditions for business people. As part of the initiative, the government was supposed to create road maps for eliminating administrative and customs barriers for businesses.

He also said anti-monopoly legislation should be revised.

Result: The special entrepreneurial commission was not created, nor was anti-monopoly legislation amended.

But within a week after Putin's speech, the government issued a decree ordering the creation of a road map to alter customs rules aimed at simplifying procedures for entrepreneurs.

Thus far, the National Entrepreneurial Initiative seems to have been implemented mostly on paper. Earlier this month, Economic Development Minister Andrei Belousov said the road maps were not implemented because none of the state agencies paid proper attention to carrying them out. In response, Prime Minister Dmitry Medvedev proposed appointing specific state agencies to implement particular road maps within the initiative.

Promise: Amid unprecedented opposition street protests, Putin said that the state must be open to dialogue with society and that authorities should protect the interests of minorities. He said people must be confident that the government was legitimate and defended their interests.

Putin also said the public must be allowed to take part in law-making, proposing that parliament consider all public initiatives that garnered at least 100,000 signatures.

Result: After last year's anti-Kremlin demonstrations, dozens of activists have been arrested on various charges, prompting opposition leaders to accuse the authorities of using force instead of entering into a dialogue.

Numerous laws unpopular with the opposition have also been approved, including a ban on U.S. adoptions of Russian orphans, which led to a protest in January attended by tens of thousands of Muscovites who were against the measure.

Opposition-leaning newspaper Novaya Gazeta collected more than 100,000 signatures on a petition protesting the ban and submitted it to the Duma, but lawmakers decided not to consider reversing the legislation.

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