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Why Russia Is Struggling to Build Putin's Grand Dream

It has the money, but bureaucrats are too scared to spend it on the 12 "national projects."

By Leonid Bershidsky

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Kirill Zykov / Moskva News Agency

Russian President Vladimir Putin's so-called national projects — spending plans meant to restart economic growth in Russia — appear to be stuck. Surprisingly, money isn't the problem: There's cash to fund them, but the Russian bureaucracy won't spend it, apparently fearing responsibility for bad outcomes.

The projects envisage a total outlay of 25.7 trillion rubles ($400 billion) until 2024. They aim to boost Russian quality of life in the broadest sense, from providing better health care and schooling to making Soviet-built cities more livable. Putin has noted his sliding popularity, and he's out to prove to Russians by the end of his current presidential term, which ends in

2024, that he's good for more than a muscular foreign policy. But the program, first announced last year, has gotten off to a slow start.

Earlier this month, the Accounting Chamber, Russia's budget watchdog, published a report on the state of federal spending in the first nine months of 2019. According to the document, while total budget spending reached 62.9% of annual allocations (the lowest at this time of year since at least 2010), spending on the 12 national projects, plus a related plan to modernize Russia's "backbone infrastructure" such as ports and railroads, only reached 52.1% of what's been earmarked for the year. On some of the projects, in particular the effort to boost Russia's digital economy, barely any of the available funds have been spent. And the total spending on the procurement part of the projects, as distinct from other forms of spending such as subsidies or transfers to regional authorities, has only reached 14% of the planned amount for the year.

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Russia regularly fails to spend its entire budget in a given year. At the end of 2018, 778 billion rubles ($12.1 billion) was left over. This year, Accounting Chamber head Alexei Kudrin expects 1 trillion rubles to be left, in large part because of the underspending on the national projects. Kudrin, a former finance minister, is the most prominent of Russia's "system liberals," Putin loyalists who favor more progressive government policies. He said this to the Russian parliament on Wednesday:

Why aren't we spending 1 trillion rubles, or 1% of GDP? Of course one can't say we have too much money and that's why we can't spend it. I think it's because of low-quality government.

In 2017, Kudrin and fellow economist Alexander Knobel published a paper arguing that Russia was spending too much money on programs where expenditure is weakly or negatively correlated with economic growth, such as defense and security, and too little on those that drive expansion, such as education. The national projects are at least partly Putin's response to Kudrin's and Knobel's thinking.

Kudrin's statement to parliament implies that bureaucrats simply don't know how to run growth-friendly projects. It's more likely, however, that they're merely scared of spending the allocated money in ways that could land them in trouble. Because the national projects are Putin's personal plan, they enjoy the attention of the president's increasingly powerful and well-funded enforcement apparatus. Putin wants to make sure the allocated money won't be stolen.

That, however, is not easily done. As Sergey Aleksashenko, a former deputy central bank governor and now a Putin opponent, tweeted earlier this week, the requirements for spending budgetary funds are written so that they're "impossible to execute without breaking rules. When an official asks himself if he wants to deal with the prosecutor's office, the answer is obvious — to hell with these national projects!"

A select group of Putin's friends can still profit from government spending. For example,

earlier this week, the chief executive of a company owned by Putin's judo sparring partner Arkady Rotenberg said the government-funded construction of a bridge between mainland Russia and Crimea would be merely a break-even project. But not long ago, Rotenberg sold one of the companies involved in the construction to the state-controlled natural gas producer Gazprom for a reported 75 billion rubles; he'd bought the five firms he merged into that company for 8.3 billion rubles in 2008 — from Gazprom.

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Of course, not everybody can pull of such schemes. Russian bureaucrats and subsidy recipients are regularly arrested and sentenced for misspending government funds even when they have achieved satisfactory results. Kirill Serebrennikov, a prominent theater director and darling of the Moscow intelligentsia, spent 19 months under house arrest on charges of embezzling government money, though he was able to show videos of the performances for which the funding was used in strict accordance with the contract. He still hasn't been fully cleared.

Earlier this month, the Prosecutor General's office announced it had found 2,500 different irregularities in the administration of the national projects, mainly involving the distribution of subsidies and procurement. Some of these will end in criminal cases; no wonder the procurement budget was only 14% spent by the end of September.

The creeping nationalization of Russia under Putin, and the accompanying empowerment of enforcement agencies, has created a dilemma. There's not enough private initiative and private investment to boost growth beyond 1% to 2% a year, but not even Putin believes in the efficiency of government spending because of endemic corruption. As a result, government money still goes to players with good enough connections to avoid prosecution, but it's being withheld elsewhere. Russia's unique mixture of a grasping state, a graft culture and excessive centralized control continues to keep it from realizing its economic potential.

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