



**PUTIN.**

VLADIMIR MILOV ■ ILYA YASHIN

**RESULTS.**

INDEPENDENT EXPERT REPORT

**2018**

*Current report is dedicated by the authors to the memory of Boris Nemtsov, the patriot of Russia, who sacrificed his life in the battle against the unscrupulous mafia, which has seized power in Russia for the better and brighter future of our country. Boris Nemtsov was the author of the idea of a series of reports on the factual results of Putin's reign, which the power propaganda is silent, and co-author of all previous reports in this series. There is no doubt that Boris Nemtsov's entire life – work, that was embedded in the struggle for truth and freedom for all the Russian people will be carried on no matter what.*

**VLADIMIR MILOV, ILYA YASHIN**  
PUTIN. RESULTS. 2018. INDEPENDENT EXPERT REPORT.  
FREE RUSSIA FOUNDATION

The official propaganda of Russia is trying to convince everyone that during the years of Vladimir Putin's rule Russia has «risen from its knees,» has achieved unprecedented success, influence and prosperity. The authors of this report demonstrate with figures and facts at their disposal that all of it is nothing else but a bluff: as in the last ten years there has been an increase in the social strata divide along with the growing corruption level in the country, the economic growth has stopped, and the social services sector has been degrading. The report will open your eyes onto the dramatic realities of Putin's political and economic model, the ones that you would never hear about in the broadcasts of the state television stations.



Free Russia Foundation is a nonprofit, nonpartisan, nongovernment organization with 501 (c) 3 status, which assists Russian pro-democracy forces, civil society and independent media, informs Western policy makers about current events in Russia and serves as a bridge between pro-democracy Russians and the West.

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# 1.

## Twenty lost years

Vladimir Putin is running for a new term. It is hard to use the words “he is being elected” to describe this act as there are no Presidential elections in place per se, since the Kremlin has not allowed any of the powerful opponents to participate in the elections. The usual distribution orders for vote casting are being sent down the entire administrative vertical of power to “ensure voter turnout,” along with the unanimous amicable voting for the incumbent ruler. They are telling us on TV about “stability,” and the “economic growth that has been underway,” and, naturally so about the “unparalleled geopolitical grandeur of Russia in the geopolitical connote.”

However, lots of our country residents do understand that, and are getting a feeling that there is something wrong going on with all of these things. The country is full of great riches, nonetheless, it is only a very narrow margin of the state officials, siloviki and some businessmen, who are closely connected to them, who are living well. The statistical data demonstrates that the inflation is declining, and there is economic growth.

However, for a very long period of time people have not seen any improvements in their living standards. One cannot cash in all the talks of “world grandeur” for some tangible benefits, however, the link between the drastic decline in people’s living standards, that has been happening in the last three years paired with the deteriorating relations with the developed countries is hard to miss. Hospitals and schools are being shut down. Teachers and doctors eke out a meager

existence with their starvation rate wages. The police is still as corrupt as it used to be and not capable of catching criminals.

The level of crimes committed is high. The roads are awful. Facilities of the communal infrastructure are still remaining in a worn down with use shabby conditions, but regardless of that the prices that need to be paid for their services are constantly increasing. There are always some sorts of new fees, such as the one for major structural repairs, that are being constantly imposed. Well, at least there are some areas in which Russia has really left the most of other countries behind: the number of billionaires, an unprecedented concentration of wealth in the hands of a small circle of those individuals, who are closely connected to the authorities. There is a shiny splendor of the Rubljovka area district, and the striking poverty across the rest of the country. There are brand new, shiny buildings of the state-owned monopolies at the center of any city in Russia, and there is a complete dilapidation of the surrounding areas. The palaces of the red tape are surrounded by barbed wire fences, and are rigorously guarded, but when some common folk residents try to protect the territory that is adjacent to their homes from yet another commercial hotspot facility grabbing developer, they get beaten up by the OMON Special Task Police Squad.

Take a look around, regardless of what they have been telling you about on TV, this is exactly the kind of Russia that Putin has built in reality during the last 20 years that he has been in power. In the meantime, we had a real opportunity



to build a completely different country during these past two decades.

Russia has been unbelievably lucky: it has been flooded with an unprecedented rain of revenues from the exports of natural resources. The oil prices have never been set up so high in its history. In the years of 2000-2017 Russia received \$3.5 trillion in revenues from the export of oil and gas, as well as for gas and petroleum refinery products (1). During the same period of time the budget received \$2 trillion in taxes from the unrefined oil and gas (2). With all that money it was possible to build a completely new country - with new roads, new housing, and a new social infrastructure.

All of it, however, has in some inexplicable way disappeared right into the thin air. And now with all the sky rocketing prices in the background, declining standards of people's living, and in the absence of any economic growth for almost ten years, we are being told that we need to tighten our belts and stay united around our leader of the nation.

Well, let us better tell you where did Putin funnel all these astounding sums of money into, and why is it that 20 years after his rule Russia is far and away from being prosperous, and why does it remind one more of some kind of third world criminal-oligarchic dictatorship. We shall describe how we have lost those twenty well to do years, during which Russia could really have effectively made a powerful breakthrough into the future, and ensure a truly decent life style for its citizens.

**The palaces of the red tape are surrounded by barbed wire fences and are rigorously guarded. When common folk residents try to protect the territory that is adjacent to their homes from yet another commercial hotspot facility grabbing developer they get beaten up by the OMON Special Task Police Squad.**

Our report is compiled based on the official numbers and the factual data, that are produced by the state agencies themselves. It is just that the data information is hidden in small print in thick statistical data volumes, they are not being shown on TV, where they prefer to talk about "grandeur." However, we shall dig out all that truth, which is so unpleasant for Putin, and pull it all right out and onto the surface, so that we can open the eyes of the Russian people wide, in order for them to see the full scale of the devastation in the country, the level of corruption, and the professional inaptitude of the Putin's clique lingering in power, while it has overstayed its welcome already. You have guessed about a lot of things yourself already, but do take a look at the real figures and facts. ■

# 2.

## Where did the money go, Vladimir Vladimirovich?

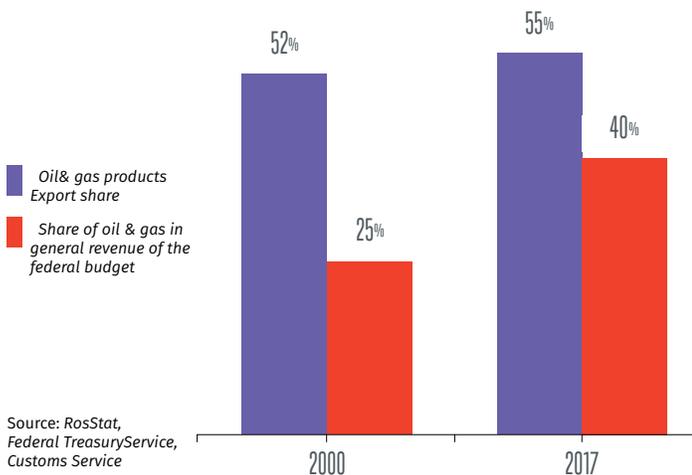
The state propaganda likes to boast that during his rule Putin has “improved the lives of the Russian people.” It really was true at the beginning of his rule: the level of income and the living standards of the people began to rise drastically. However, then something went awry. The first economic crisis broke out (2008 to 2009), then another one occurred (from 2014 and up to the present moment). Putin is used to pointing out at the world oil prices: purporting that they are either going up or falling down and there’s

nothing that can be done about it. In fact, the causes of crises root in the other reason - in the monopolistic-oligarchic model of the economy that Putin built, but we shall talk about this a little bit later. Even if we were to believe these standard excuses of Putin and his propagandists that it is only the oil price that is to blame for our economic troubles, but not Putin’s economic policy, then a simple question arises: why is it that in all the years of Putin’s rule, despite the constant chatter about «the development of high-tech sectors of the economy» the dependence of the country on the oil and gas exports under Putin has only increased? In the budget for 2000 the share of oil and gas products export was 52%, and in 2017 it was 55%. The share of oil and gas revenues in the federal budget of 2000 was 25%, in 2017 it was 40% (in 2012-2014 it was more than 50%) (3).

So, in the long run, it appears that the well-being of the people ceased to improve a while ago and began to rapidly roll backwards to the level of the 2000s. The chart below illustrates that in the recent years, the average per capita income of the Russian people, has collapsed from more than \$800 to \$450-550 per month, according to the Federal State Statistics Service (4).

Why are the numbers provided in dollars? That is because Putin has not developed the production of

### Russia's dependence on oil and gas exports



goods in Russia and after two decades of Putin's reign the country is still catastrophically dependent on the consumer goods imports. Be a judge for yourself: Russia imported \$230 billion worth of consumer goods for a retail market volume of \$500 billion in 2017 (5). We import machinery and equipment, food, agricultural raw materials, textiles, and footwear. There is a large import component in the price of each product, even if it is produced in Russia: raw materials, components, etc. That is why the prices have sharply increased in 2014-2017, when the ruble collapsed. And that is exactly why the purchasing power of the citizens rolled back to the level of the middle of the 2000s. Prospects of income restoration are not plausible. In December of 2017 Putin signed a law on a three-year federal budget for 2018 -2020, which stipulates that the real income of the population will grow by only by only 1-2% a year, even in the best-case scenario. (6). In other words, there is no growth at all.

However, not everyone's income is declining. Russia is breaking all records high on the number of billionaires and the concentration of wealth in their hands. Our country ranks only 12th in the world in terms of the size of the economy (nominal GDP), and 49th in terms of GDP per capita, but we are steadily entering the top five in terms of the number of billionaires: according to the list of 500 richest people in the world, compiled by the Forbes magazine annually, there are 96 billionaires in Russia (7). In

the economies that are comparable in size to ours: Canada, Australia, South Korea, Spain there's just one billionaire in the first hundred of the richest people in the world, in Russia there is a dozen. In Russia, there are about as many billionaires as there are in Germany, the economy of which is almost three times larger than ours.

For general comprehension: there was not a single Russian on the list of the richest people in the world Forbes in 2000.

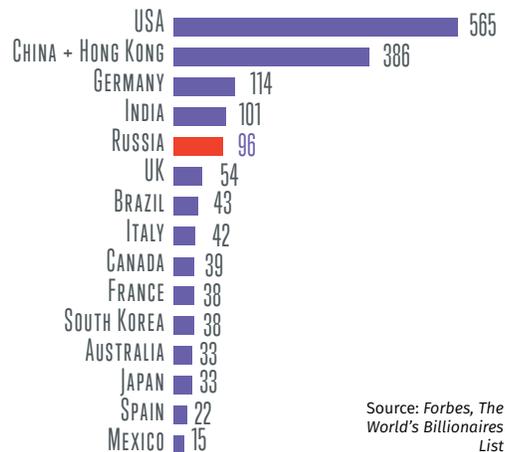
A characteristic detail: once upon a time Forbes has conducted a study in Russia on the origin of the capital of the super-rich Russians, and found out that out of the first hundred richest people in the country only 7 have built their fortunes with their own independent efforts and from scratch, such as: Sergey Galitsky (literally, in the process of this report being written the retail chain «Magnit» was bought by VTB State Bank from Galitsky), or Yuri Milner (Mail.Ru Group). The rest have made their fortunes by having received various raw materials assets or made themselves rich by the means of exclusive state procurement orders (we'll talk about those, who have become fairy tale rich later on, a handful of Putin's lucky ones).

Every year Bank Credit Suisse publishes its ranking of wealth concentration in various countries in the world: the "Global Wealth Report," and traditionally Russia had terrible positions there. According to the latest rating from 2017, the top decile

### Average per capita income dynamics of the Russian people



### Number of billionaires in the world



of the (10% of the richest) Russian society controls 77% of the total national wealth. Russia is lagging far behind the world median in terms of the number of people with real financial resources, however, it is way ahead of the world in terms of the number of residents whose assets are scanty. According to Credit Suisse evaluation the total amount of «wealth» (if one can even call it that) is 82% of Russians falls below \$10K (the world total of such people is only 70%), while only 1.3% of Russians make the mark of more than \$100K (generally, this is absolutely standard for the western middle class). There are more than 50% of the country residents with assets of \$100K in the UK, 40% in the USA, 53% in France, 56 % in Japan, 72% in Switzerland (8).

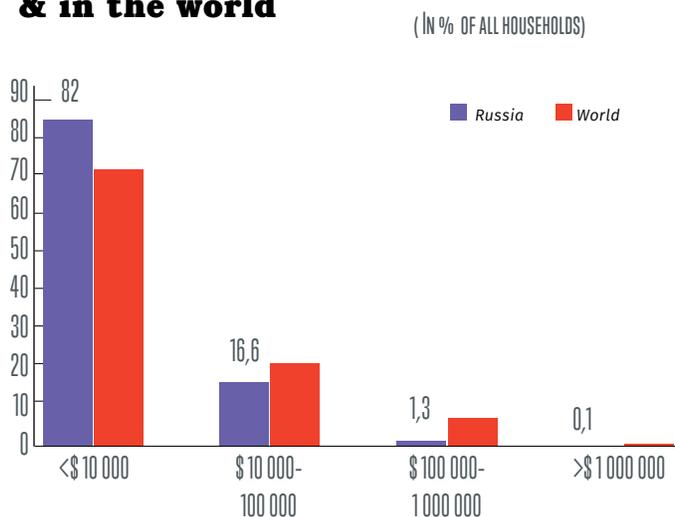
Even the official Russian statistics admit that Russians live in poverty, and that property inequality has drastically, according to the final results of the last twenty years of Putin’s rule. There are less than 4% of the people in the country with a salary of 100K rubles or more, which is quite an ordinary income for the middle class in developed countries. (9) The income ratio of the 10% of the richest Russians to the income of the 10% of the poorest ones (the so-called «decile operation ratio of funds») in 2000 it was 13.9, which was the same difference between the income of the 10% of the richest and the 10% of the most impoverished residents of Russia. In the last 10 years, this income gap ratio has fluctuated

within 16-17 times range (10). As you can see, Putin’s economic model has brought Russia a sharp increase in inequality.

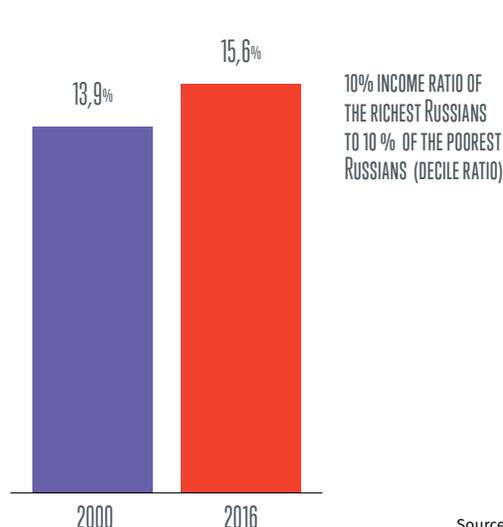
However, not all Russians live in poverty under Putin. Another result of his rule was a drastic increase in corruption level, and the enrichment of those people, who are close to Putin, mostly through the state procurement. Forbes magazine compiles an annual rating of «the Kings of the state procurement» (11). You can take look at it yourself it to make sure that the oldest of the Putin’s pals from St. Petersburg, who were just ordinary people without any outlandish wealth in 2000, made their biggest capitals on the state budget procurements, and the money that come from the state-owned monopolies. We are talking about Gennady Timchenko (4th place in the list of the richest Russians according to the Forbes version), or about the Rotenbergs family (Arkady Rotenberg ranks as 39th in the rating of the richest Russians, his brother Boris takes 94th place, the son of Arkady - Igor is ranked 145th) (12).

Corruption in the state procurements is a subject matter that is well known to all Russians and well understood. The dynamics of the situation under Putin is also quite obvious: Transparency International corruption report ranked Russia’s as 82nd along with Kenya in 2000, now we take 135th place, which we share with such countries as Honduras, Papua New Guinea, and Kyrgyzstan (13). As the size of the budget

### The size of households’ assets Russia & in the world



### The growth of inequality



Source: RosStat

pie has grown the corruption level has increased dramatically as well. Corruption is linked directly to the growth of inequality, and it is the largest source of it, because only a handful of people, who are close to official power are getting rich off the state procurements.

Putin's power is constantly inventing all sorts of redundant things and projects, which people do not need, in order to make his "in-crowd" clique even richer. For instance, lots of people heard about the «Platon» system, that was introduced in recent years in order to collect fees for the road use by the heavyweight vehicles. Perhaps, the readers have heard about the mass protests of long distance truckers – "long-haul truckers" against the introduction of «Platon» system across the country. Far less information is known about the fact that since "Platon's" system launch the prices for the heavy cargo transportation of the goods went up by 20-25% for the retailers, and for a number of other sectors as well (14), and that the increase is now reflected in the final price markup of the majority of consumer goods. The excise tax on fuel and the transportation tax were not lifted, but continued to grow only, so «Platon» became the third tax imposed on the road users. As for the roads in Russia, they continue to be all beat up, just as they were in the broken state before (later, we shall tell you more about it). However, the operator of the «Platon» system «RT-Ivest Transport Systems» company, whose main owner is Igor Rotenberg, is getting a concession fee in 10.6 billion rubles a year from the state. By the way, the state concession agreement with Igor Rothenberg's company is classified, Aleksei Navalny – a politician tried to force the authorities to publish it through the court system, but since the court was under Putin's control Navalny's lawsuit got thrown out, and the agreement remained a secret.

Let us remind you that Igor Rotenberg, is the son of Arkady Rotenberg, who is a sparring partner of Putin in judo in St. Petersburg city (they have known Putin since 1964). Not only are the Rotenbergs charging the truckers road usage fees, they, for example, also were the largest contractors of "Gazprom" for the construction of gas pipelines. During the years of Putin's reign Arkady Rotenberg bought from "Gazprom" its subsidiaries for drilling and field

development, and for the construction of the gas pipelines at a low price, and without any tenders being held. (If the assets were sold at a real price through the tender process, it would have increased "Gazprom's" profits, and, consequently, generate dividends for the budget in tens of billions of rubles, but it was decided to forgo the dividends for the budget for the sake of Rotenberg's profits). The former companies of "Gazprom" commissioned for the construction of the gas pipelines were merged into the company «Stroygazmontazh», owned by Arkady Rotenberg, which, for example, became the general contractor for the construction of the Sakhalin-Khabarovsk-Vladivostok gas pipeline, and the cost of which was almost half a trillion rubles. The money was spent, but the gas pipeline has for many years remained half empty due to the lack of demand, its workload

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capacity has not exceeded 40%. And, in 2016 the government made the data on the workload of this gas pipeline completely classified, in order to avoid any further uncomfortable questions (15). He also made himself richer with the construction of the infamous "Nord Stream" through Rotenberg's intermediary, the "North European Pipeline Project," from which "Gazprom" bought the pipes for the construction of the "Nord Stream" (instead of buying them from the pipe manufacturers directly). In 2008-2012 he received just from "Gazprom" contracts alone 27 billion rubles in net profits. Also, Rotenberg's firms received 900 billion rubles from "Gazprom" overall procurement orders for these years (16). And the «Nord Stream,» the «horrible Russian geopolitical weapon,» has all these years been idling away being, with usually only half of its operational capacity utilized. In 2012 it was underutilized by 67% of its working capacity, in 2013 by 57%, in 2014 by 35%, in 2015 by 29%. And



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it was only in 2016 -2017 that it has finally reached the workload of 80-90% (still not 100%, though) (17).

Also, there is yet another story about the gas pipeline to China: «Power of Siberia,» that is being built right now. “Gazprom” is adamant in its refusal to disclose the price of the future gas supply to China, however, in its request to the government it was asking to grant the «Power of Siberia» tax benefits, because it has admitted that without the complete zeroing of all the taxes (zero property tax for 20 years, zero tax for gas production for 15 years (18)) the project will not be viable. In other words, the state budget will not receive anything for supplying gas to China. Well, at least Putin’s friends Rotenberg and Timchenko will get something since they are the biggest contractors for the project construction and will earn a multibillion-dollar profit on it. That was the whole reason to initiate the entire Chinese project to begin with.

The total amount of revenue for just three contracted companies, which are owned by Rotenberg and Timchenko, that are working on the construction contracts from “Gazprom - Stroygazmontazh, ” “Stroytransneftegaz, ” and “Gazprom-drilling” is 461 billion rubles a year (according to the rating

data of the largest Russian companies “RBC-500” for the year of 2017 (19)). By contrast comparison: total federal budget funding for the health care sector is 460 billion rubles for 2018.

At the same time, they are building something that Russia does not necessarily need. In 2015, the “Vedomosti” newspaper summarized the excess construction costs of “Gazprom” in an article with a devastating title: “Gazprom” spent 2.4 trillion rubles on redundant projects»(20). That was the amount spent on redundant production and transport capacities, which had been created. Do we even have to repeat yet again that the key companies, which were rolling in cash as the result of all that were the companies of Putin’s old pals: Rotenberg and Timchenko?

Here is yet another story: the 74th place on the list of the richest Russians belongs to Kirill Shamalov - Putin’s son-in-law (married to Putin’s daughter Ekaterina). In 2015, he took out a loan from “Gazprombank” and bought a 17% stake in the Russian largest oil and gas chemical company “Sibur.” (Why don’t you try to come to a state-owned bank and simply request a cheap loan to buy a stake in a major state-owned company?) According to the analysts’ calculations, Shamalov paid back the interest on the loan just with the dividends he received on the shares



**According to Federal State Statistics Service after 2013–2014 the injection of the major funding for Sochi dropped down 7 times, salaries got reduced by 5-10%, and the volume of shipped industrial goods dropped by 30%.**

of “Sibur.” And, he sold this block of shares in 2017, gaining therefore more than \$2 billion according to market estimates (21). Great business on concessional loans from the state-owned banks, is it not?

Well, here is one more example from the list of instances of where Putin and his friends have buried the money: the Sochi Olympic Games. Somehow, they do not like to bring the topic up, especially after the doping scandal, as the result of which our team of Olympians lost its leading position in the final team classification. However, a record amount of money in the entire history of the Olympics was spent: \$50 billion, or more than one and a half trillion rubles. The 1.5 trillion put heavy burden on “Vnesheconombank,” which covered the costs of the Olympic projects, as well as the losses in the budget every year. Moreover, the authorities now do not know how to compensate for the Sochi projects budget deficit (22), and they are gradually shifting it upon the shoulders of the Russian taxpayers (in the recent years, “Vnesheconombank” has received 100-200 billion rubles of the federal budget subsidies annually.) (23). At the same time the Internet is full of reports on how the infrastructure built for the Olympics is idling away (24). Well, it was obvious that it would be redundant in a small resort town, and would get written off as a loss, we wrote about

this in the “Sochi and Olympic” report with Boris Nemtsov in 2009 (25). By the way, it all happened just as we have predicted it then: that the Olympics of 2014 would not provide the city of Sochi with the forecasted «developmental impetus.» All of it came true. According to Federal State Statistics Service after 2013-2014 the injection of the major funding for Sochi dropped down 7 times, salaries got reduced by 5-10%, and the volume of shipped industrial goods dropped by 30% (26).

However, Putin’s friends did great in making themselves richer on all those construction projects. This is the essence of the entire political-economic system created by Putin: the majority gets beggary wages, and a small circle of his in-crowd cronies gets the opportunity to get fabulously rich due to their close connections to state budget money. ■

# 3.

## The dead-end of the state monopoly

Now the time has come to talk about the fact that, as a matter of fact, it was not just a drop in the world oil prices that has led us to the current economic crisis and the decline in the standards of living of the Russian people with no foreseeable way of climbing out of. You have already realized how greatly a narrow in-crowd circle of Putin's pals have profited from being close to the utilization to the target allocations of the state budget funds, and from the state-owned monopolies investment programs. The biggest drama was rooted in the fact that this state-monopoly style of capitalism turned out to be not efficient. Even way back in 2013, when there was no decline in the oil prices (the average price of Russian Urals oil was \$108 per barrel), there were no sanctions in place, still the growth of the Russian economy had already equated to nothing: GDP increased only by 1.3% (primarily in the intermediary financial sector and with the real estate deals), the industrial production growth and the investments have practically been zeroed out (27). It was obvious that Putin's model is leading us nowhere. It was exactly at that very same time, when the budget investments at all levels and those ones of the 10 largest state-owned companies have grown to an all-time record sum for of almost 5 trillion rubles per annum (28). However, the growth has stopped. What happened? Indeed, have we not been always told that the state investments ought to become the «locomotive» of the economic growth?

The problem was, just as it had been forecasted, in the fact that the state investment turned out to be terribly ineffective.

Two hundred thousand seats at the stadium and an enormous amount of expensive infrastructure in the city of Sochi, the population of which was barely reaching less than half a million people. The asphalt was constantly replaced by some paving slab, that was later stripped off and replaced with the asphalt again, to only be switched to paving slab yet again, and so on. More than 100 billion rubles poured investments in the Moscow Central Ring metro system with its passenger flow of just a tad over than 300 thousand a day (the standard metro line transports a million passengers a day. With that amount it was possible to build a whole new metro line). The non-stop spending for the sake of any outrageously expensive “improvement” (amounting to more than 300 billion rubles in total per year across the country (29)), generating huge sums of money for all sorts of those entrepreneurs, who are close to the authorities. And so on, and so forth. All of those investments are on paper. And, as a matter of fact, they do not generate any growth effect whatsoever.

However, the system of the state monopolies, created under Putin is suffocating growth and curtails development in the key sectors of the economy. Their investments are not effective, the facilities built are often not in the demand on the market, and therefore are idling away. Earlier, we have already written how this is happening to the “Gazprom's” gas pipelines and the infrastructure facilities in the city of Sochi, also there are numerous of such examples in the real life. At the largest hydroelectric power stations in the Eastern part of Siberia



and in the Far East, which were commissioned and launched into operation during Putin's rule the ratio of their practical utilization is reaching only 30-40% of their installed capacity. In the monopolized electricity market (55% of it is owned by state companies, and if one were to take into consideration additional three large energy holdings of Oleg Deripaska, Viktor Vekselberg and Alexei Melnichenko and then add them all together one would get 73% (30)) one would get a huge surplus of generated power that nobody needs, which is paid by consumers (31). "Gazprom" has an enormous excess surplus gas producing and transmitting capacities (32), which are not being used, but nevertheless are also being paid for by the consumers of gas.

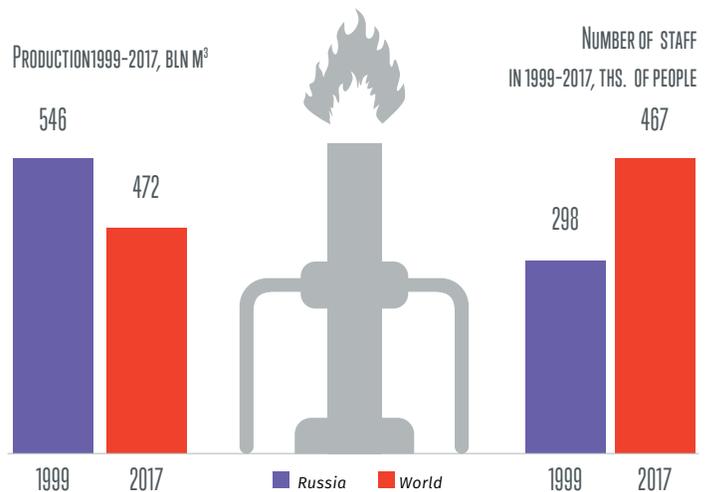
The state-owned monopolies have a catastrophically low labor productivity index. The average number of employees in "Gazprom" rose up to 467,000 in 2017 when compared to 298,000 in 1999, with the drastically increased share of the managerial personnel and the compensation for their «labor» increasing dramatically (33). At the same time the production of gas has dropped from 546 billion cubic meters in 1999 to 472 in 2017.

There are 760,000 people working in the Russian Railways network system despite the fact that in accordance to all the standards of the European, or North American railway companies there should be 200,000-300,000 people employed. Or let us take a look at the Federal Grid Company: since 2008 its volume of electricity transmitted has grown by less than 15%

and the number of its employees has increased by one third (34). Operational expenses and the risk-free margin of large state-owned banks (emerging as a result of nationalization and consolidation of the banking sector) exceed many times over the corresponding figures for European banks (35) (This is one of the major factors in the sky-high loan rates in Russia). The average production capacity of the oil wells in "Rosneft" has plummeted by a third in just three years (36).

Incidentally so, while building all these redundant capacities our state-owned oil and gas companies have managed to rack up giant debts to China, which is the

### «Gazprom» in just two charts



consumer of our oil! Frankly speaking, one cannot warp his mind around the entire thing: how is it even possible that Russia, the biggest producer of oil and gas in the world has emerged after a decade long record high world oil prices with a debt amounting to dozens of billions of dollars to China, its oil importer?! As of today, the debt to China for oil and gas is almost two times more than the loans Russia got in the 1900s from the IMF and the World Bank (37). Also, it is quite dangerous because of abrupt tendencies in electromobilization sector, and the record growth of shale oil production in the USA. We most definitely are not bound to see those super high prices on oil again, and it is not clear how our future generations will be able to pay off that debt to China in the future. In all honesty, all of that just reeks of direct betrayal of the national interests of Russia by Putin and his inner court clique.

And in the long run, it is me and you, who are the ones, who pay for all this insane inefficient frenzy of the state monopolies. In the chart listed below we demonstrate the growth of domestic gas prices for “Gazprom” in the last decade (38). Our government has been rigorously implementing the program of a sharp price increase for the Russian consumers in any kind of weather conditions.

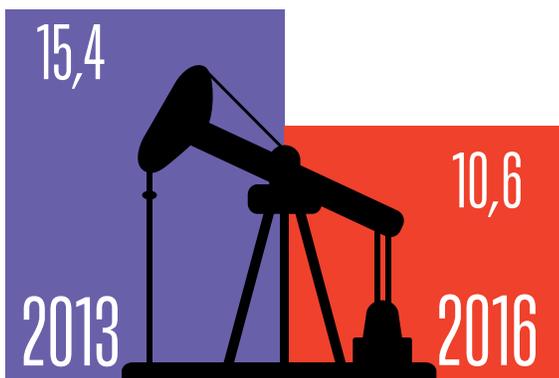
“Gazprom” is the largest prices growth generator in Russia. In Russia 50% of electricity and 68% of heat are generated with the natural gas. Electricity is a substantial expense item in the water delivery system (as it ensures the operation of water pumps). Two thirds of your utility bills payments are comprised of electricity, heat and water. In the last years, that sharp increase in those payments

that you have seen was all the courtesy of “Gazprom”, as it had obliged you with them. All these years “Gazprom” along with the other monopolies acted as the generator of high inflation rate in the country. Thus, when in March of 2012 in conjunction with the «Presidential elections,» the traditional increase of the monopoly tariffs was delayed from January 1 to July 1, the inflation rate turned out to be record low. Once again, we had the opportunity to make sure that it is, in fact exactly the monopolistic structure of the economy, that results in a constant drastic price increase (39). And that high inflation rate creates the majority of our economic problems: excessive interest rates that are being imposed on loans, devolving of the savings, low interest on behalf of the investors and as a result of that no jobs are being generated, and the failure in building an accumulated pension system, etc.

Not so long ago, even Vladimir Vladimirovich Putin himself was compelled to make some complaints to his ministers at the Presidential Fuel and Energy Commission meeting in the Kremlin about the excessive cost of domestic gas prices, and about the fact that in the US gas is cheaper (because there is a competitive gas market in place and there are no state monopolies, and, the largest producer company generates 3.5% of the national gas production, and one should keep in mind that in terms of natural gas production “Gazprom” is lagging behind the US as its gas production is higher one and a half times). In Russia 50% of electricity and 68% of heat are produced by natural gas.

The list of problems generated by the alliance between the monopolies and state officials connected to them can

### Average productivity of Rosneft oil well



### Wholesale prices of Gazprom for Russian consumers

RUB. FOR 1000 M<sup>3</sup> (INCLUDING VAT)



Source: Gazprom reports under IFRS



**Gazprom is the largest generator of price growth. 50% of electricity and 68% of heat in Russia are produced on natural gas**

be run indefinitely on. The banking sector, that has been monopolized by state-governed banks gets record high profits: the Central Bank is expecting to receive one and a half trillion rubles by the end of 2018 (41), meanwhile, the economy is not moving forward, and the state banks are not in any hurry to reduce interest rates loans. Putin has imposed an embargo on imports of foods from the Western countries in 2014, but as a result of it the prices have increased drastically (42).

The only ones to benefit from the “import substitution” were mostly the large agro-holding companies that were closely connected to the authorities and the offshore companies that own them (43). Is the sky-high cost of housing making you unhappy? This is all happening

because the state officials are holding onto land parcels reserving them for «the in-crowd» firms and are squeezing their competitors out of the market, as a result this leads to a slowdown in the rate of construction growth and drives the prices up: «in “Yekaterinburg construction developers are expressing their dissatisfaction with the land allocation policy of the city administration. In their viewpoint, there has been a vicious circle created in the business - the companies that are close with the municipal administration get good land parcels allotted to them. Meanwhile, the rest of the developers get only leftovers, and even that is pegged with serious problems. In the result of that going on the developers, who are not desirable for the city administration, are inclined to finish up their housing construction with delays.»(44)

One would like to especially point out the problems, that are caused by the state monopoly and corruption in the road construction sector. Everyone is well aware of the problem of the inferior quality of the Russian roads. And at the same time, there is a lot of money being pumped into this field. In 2017, for example, the expenditures for the road maintenance sector out of the consolidated budget reached a record high sum of 1.5 trillion rubles (45). At the same time, there is a lot of money allocated to this field: in 2017, for example, the expenditures of the consolidated budget for the road sector amounted to record high 1.5 trillion rubles (45). How many new highways can be built for 1.5

«YOU KNOW ABOUT THIS DISCUSSION WITH OTHER SECTORS OF THE ECONOMY, WHEN OUR COLLEAGUES TELL US:» IF THIS IS GOING TO HAPPEN, THEN YOU ARE ENCOURAGING THE EXPORT OF PRODUCTION TO OTHER SITES, IN PARTICULAR, LET’S SAY, INTO THE STATES «<...> BECAUSE IT IS CHEAPER IN THE US. SOME INDUSTRIAL MANUFACTURERS IN THE FIELD OF MECHANICAL ENGINEERING ARE TELLING ME: «IT IS CHEAPER FOR US THERE.»

(VV PUTIN, MEETING OF THE PRESIDENTIAL COMMISSION ON FUEL AND ENERGY COMPLEX, JUNE 4, 2014) (40)



**Everyone is well aware of the inferior quality of the Russian roads. And at the same time, there is a lot of money being pumped into this field. In 2017, for example, the expenditures for the road maintenance sector out of the consolidated budget reached a record high sum of 1.5 trillion rubles.**

trillion rubles? Based on the average cost calculation of 100 million rubles per kilometer of a new road that would be 15K kilometers of highways introduced annually. In 25 years China, for example, has managed to build an unprecedented network of high-speed highways from ground zero in 1988 to more than 130,000 kilometers in 2017 (46).

Do you know how many new federal highways are built ready to operate in Russia every year? About 200 kilometers (47km) (and in addition about 2,000 km in regional and local roads a year). Do you know how many new federal highways are added in Russia in the great superpower? There are only about 5 thousand kilometers of high-speed highways in the great superpower (48). There are about twice as many of those in Finland. In almost two decades of his reign, Putin and his minions were not even capable of finishing up the construction of a high-speed highway of merely 684 km long from Moscow city to St. Petersburg, the very city from which they all had moved into the capital. At the time when this report is being written, there have only been some segments of the track built for the 2018 FIFA World Cup that have been open, the entire track is not going to be completed on time. By the way, Arkady Rotenberg, whom we have already mentioned, made a killing on the construction of this road, as he was one

of the beneficiaries of the «North-Western Concession Company» that have received some part of the contracts of this project. The construction of that particular section of the highway was connected to mass protests of the Khimki district residents, who were opposed to chopping down of the Khimki forest. The forest was cut down, nonetheless there are grave problems with the route that was built in its place as there it is not in demand because of Rotenberg's outrageously high appetites for the costs users have to pay for that route. Even Putin himself had to express his disapproval:

In general, under Putin's rule the new roads launches have dropped from 8 thousand km a year in 2000 to 2-2,500 km in the last years (50).

In order to conceal the lack of progress in the country's highways and road network development, from 2012 Russian Statistics Agency started including the length of

**“NOW IN MOSCOW THEY BEGAN BUILDING A ROAD IN THE DIRECTION OF ST. PETERSBURG, ONE SECTION OF IT WAS PUT INTO OPERATION, SO NO ONE GOES THERE, AND THEY'VE INFLATED THE TOLL PRICES SO MUCH THAT IT IS IMPOSSIBLE GO THERE.”**

(VV PUTIN. MEETING OF THE INTER-REGIONAL ONF FORUM (49))

the city streets in the total length of the country’s highways and roads. That indicator has never been included into the total roads and highways length tally count before.

So why is it, that with those ginormous amounts of money so very few new highways and roads are introduced in operation? It is all quite simple: because of the monopoly system being in cahoots with the state officials. According to the Federal Road Transportation Agency data, the bulk of the department’s budget is spent on maintenance and repairs of the roads and highways. The costs of those repairs are more than two times higher than the costs of building and reconstruction of the federal roads (51). You yourself are perfectly aware, that the Russian roads repair works commence almost immediately after they have been opened for business. And that is happening because the contractors, who are from the incrowd and are closely connected to the state officials intentionally violate the technological process and are stealing, so that they can immediately get granted new contracts for road repairs and get money allocated for those purposes as well. And they inflate their pricing through cartel fixing agreements, something that they get caught on doing all the times at (52).

So, is it really necessary to talk about the fact that these are the very same people who earn big bucks on the budgets of all of these monopolies, who can also be found on the exclusive list of the Russian billionaires, who have consolidated the wealth of the entire country in their hands? At the same token, the development of the rest of Russia is held back by the iron grip of the state-monopoly octopus of capitalism, nurtured and raised by Putin. It

is because of them that we completely “ate through” our Reserve Fund, which has ceased to exist as of January 1, 2018 after being completely spent. At its peak (in 2009) the reserve funds of the state had \$225 billion. Now there is only the National Welfare Fund left with less than \$40 billion as its liquidity (the currency on the accounts, not including certain long-term investment projects (53)). Due to the inefficiency of the state-monopoly model, Russia is sliding down the slippery slope to the periphery of the global economy as our share in world GDP has dropped from 3% in 2013 to 1.85% in 2017 (54).

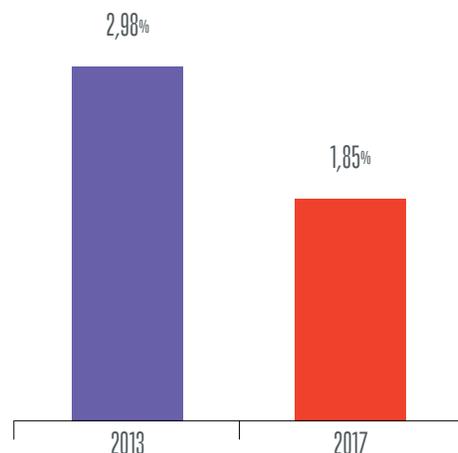
And the roll back to the periphery of the world economy will go on in the years to come since our country’s GDP is forecasted to only increase by 1-2% a year. Meanwhile, the world average GDP growth rate is forecasted to be 3.5%. Our lagging behind the rest of the world will continue. Recently, Putin’s Ministry of Economic Development has produced a long-term forecast of socio-economic development up to the year of 2035, indeed a very sad document, which concludes that our economy in the 20 upcoming years will grow approximately at the rate that is about 1.5 times lower than average in the world. Therefore, Russia will continue to move closer to the poor countries (55).

These are the inglorious results of the Putin’s rule. ■

### Introduction of hard-surface roads in Russia



### Russia’s ‘share in the world GDP



# 4.

## Pillage of the regions

According to the Constitution Russia nominally (de jure) is a federal state. And it could not have been any other way around with the country that is stretching out from the Baltics to the Pacific Ocean, and from the Arctic to the subtropics. Each and every region out of the dozens of regions in its composition has its own specific identity, its own way of life, its competitive advantages and its own infrastructure problems. Each region of Russia should have sufficient opportunities to live its own life, and to determine its own developmental strategy independently, and the task of the Center is to resolve the federal level problems: ensure the security

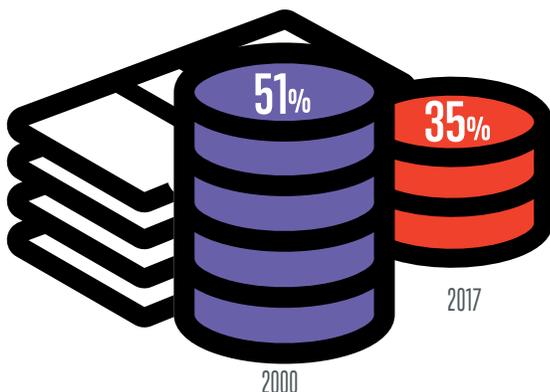
of the country, provide the lead in foreign policy, and develop the infrastructure.

Nonetheless, one of the tragic results of the Putin's regime was the total destruction of federalism in Russia. Regions are brought to their knees and stripped of their economic and political independence. The decisions on all more or less serious issues are made in Moscow. The governors have turned into pitiful beggars, whose key duty is to pass away their time by sitting in the Kremlin, and at the White House, in the Ministry of Finance building on Ilyinka St. in Moscow city, nagging for the money for their regions. It makes no sense to develop regional economy because the lion's share of the taxes will go towards Moscow. This is yet another reason why our country has plummeted in the economic stagnation for such a long time.

At the time of Putin's coming to power in 2000 the share of the budget revenues of the constituent territorial entities of the Russian Federation in the total sum of revenues of the consolidated budget of the entire RF was 51%. In accordance with the report of the Federal Treasury it was only 35% for 2017 (56).

Putin has embarked on the liquidation of fiscal and economic independence of the regions immediately after his "United Russia" party has received a constitutional majority in the State Duma: the corresponding amendments to the Budget Code on the redistribution

### Budget revenues of the territorial subjects in the consolidated budget of the Russian Federation



Source: Rosstat, Federal Treasury



of taxes in favor of the center were signed by Putin on August 20, 2004 (57), and three weeks later Putin announced about the cancellation of the election of governors. Thus, once the regions were deprived of their financial base it became possible to begin stripping their political power away as well. There was a horrible terrorist attack in Beslan in between these events, which was used by Putin for the justification for the abolition of gubernatorial elections. It is not our wish to speculate on the conspiracy theories surrounding Beslan tragedy, however, it is evident that it was merely an excuse, while the systematic work to weaken the independence of the regions has been underway for a long time, in expectations of some outstanding event to happen in order to justify it, and amendments to the Budget Code that were signed into power right before the Beslan event were only the tip of that iceberg. At the time when the terrorist attack in Beslan took place the legislative framework for the abolition of gubernatorial elections has already been prepared and catapulted to its approval in no time by the end of 2004.

When the idea of fiscal and political centralization of control over the regions has just been conceived and implemented, the main arguments in its favor were not the needs to create equalization of economic conditions for the regions, nor the fight against corruption at the regional level, circa good officials from Moscow will

step in and preclude the local princes from pillage in the region. As of today, his kind of justifications still can be heard. It has been almost 15 years since Putin's super-centralization happened, one can dwell on the results of that experiment: there was no equalizing, and theft at the local level is exactly the same as it has been before. However, there is something else that has changed.

- Regions lost the aspirations for the economic development in most of the cases. The bulk of taxes that form the budget such as: VAT, insurance deductions, contributions to the payroll fund, environmental and natural resources taxes are now funneled to the center in the total amount of 100%. From of the total amount of corporate taxes collected the regions they get to keep only the corporate enterprise tax on profit, but it is difficult for them to reduce its rate for the sake of the investors, because regional budgets already are hardly making the ends meet as it is, so there is no wiggle room left.

- There are no incentives for any further development not only in the fiscal area, but in the political one as well: the abolition of the elections for the governors, and the switch in the system to have them appointed by Moscow have created such a system, under which the appointees from the center do not bother themselves with the regional interests, the only one

incentive they strive to obtain is to get the “approval” mark from Moscow for a job well done (in most cases for the falsification of electoral vote in favor of the “United Russia” and Putin during electoral campaigns), and when that is done they either move higher up in the hierarchy, or run away abroad with the stolen capitals. Approximately one-third of the incumbent gubernatorial corps, or in their own words those 26 people are the political appointees, who have no connections to their regions whatsoever, and the other 9 have some merely nominal ties with their regions (were born there, or have worked in the region for a while). Only very few and far in between out of the total number of the governors have gone through a truly competitive popular election process, in which case these are mostly the old-timers, who are bound to retire soon. The current gubernatorial institution has completely lost its independence in defending the interests of its regions, those regional governors are nothing more than the stewards of the federal government and its financial and industrial enterprise structures.

- There is no economic development, the salaries and wages in the regions are low, the amount of the personal income taxes collected to go into the budgets of the regions and local municipalities is insufficient.
- There is not enough income generated, so the debt of regions increases the budget deficit continues to grow. In early 2018, the head of the Federal Treasury, Roman Artyukhin, announced the transfer of the first two regions - Kostroma Oblast and Khakassia to the

actual external financial management system from the center for accumulated debts (58). Well, it truly is easier to declare a unitary state, and why not, after all?

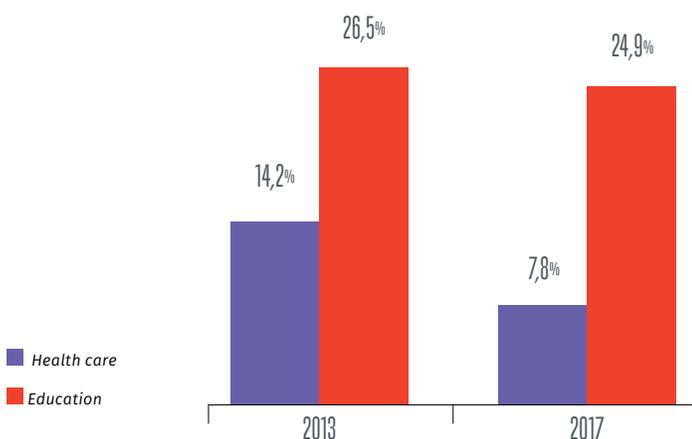
- Not having any money, the regions are actively cutting their social programs and the infrastructure development funding. These are exactly the important budget spending items that the federal center has relinquished its responsibility of and pushed the burden onto regions, which are barely making the ends meet as it is. These budget expenditures of 82% for education expenses, 63% for the road construction costs, 35% for the medical expenses now are imposed on the regional budgets, despite the fact there is no sufficient tax base to provide expanded funding for these items of budget expenditures in the regions. However, taking into account the inflation rate and the catastrophic devaluation of the ruble, they have been depreciated. In 2017 the total regional budget spending on health care sector has decreased by 32% in comparison with the year of 2013, and as far as the education expenditures are concerned, even despite the growth of 15% in this area, one understands perfectly well that it does not even make up for the devaluating plummet that has taking place for the last 4 years. The steep and steady decrease of the share in the budget expenditure on the healthcare sector and education in the total volume of regional budgets is demonstrated in the chart on this page (59).

- The regions get nothing from the exploitation of their territories for the sake of hydrocarbon raw materials extraction. As of today, there are 30 Russian regions that are producing oil and in the long run their number may grow to be well over 50. The map of the oil-producing regions in recent years has been actively expanding due to the addition of some new regional territory subjects of the Russian Federation, first of all, due to some areas in the Eastern Siberia and the Far East. Nonetheless, they hardly get anything from their natural resources exploitation, despite the fact that they are the ones to carry a serious environmental impact burden as a result and that is not a joke. All their profits from the taxes on the extraction of commercial minerals and the export duties are going straight into the center as 100% federal fees.

That is, they introduced centralization under plausible pretexts, and the results turned out to be the most lamentable. In fact, the only reason why it was

## Health Care & Education spending

IN SHARED EXPENDITURES OF THE CONSOLIDATED BUDGETS OF THE TERRITORIAL SUBJECTS OF THE RUSSIAN FEDERATION





done that way was to concentrate all political power and control over the majority of budget inflow in the hands of a narrow circle of federal officials and in Putin's hands personally. The time has come to pay the regions back their overdue revenues as without doing so it is not possible to secure the development of their economy, human capital, the implementation of the fulfillment of social obligations towards the Russian people. However, it is obvious that Putin is not going to do it.

The situation with local budgets is by far even more disastrous. The fiscal foundation local self-governance in Russia has been practically destroyed. As well as the political one as well for that matter though as the elections of mayors of cities and the heads of municipal bodies have been abolished almost completely across the country (with a very few individual exceptions), and the Kremlin has for a very long time been appointing its stewards to those elected officials' positions. Just as we have stated previously in our report when we depicted the situation with the governors, the appointed leaders of the municipal bodies are completely devoid of any incentives to take care of the interests of the citizens of their localities, as they only follow the higher orders coming from above to control the cash flows.

There are sounds of pompous talks of the need to «develop local self-government» coming from Putin's high podiums with impressive regularity. However,

**In exchange for the financial pillage of regions, Putin has allowed the authorities of the constituent entities of the Russian Federation to profit from the robbery of municipalities.**

here is the reality: the share of municipal tax revenues of municipal bodies in the funding of the local budget expenditures is less than 30%. The share of the local budget input in the consolidated revenue budget of the RF is 3.5% (60). Two-thirds of the expenditures of the local budgets are represented by the so-called «protected articles of the budget» (wages and utility payments), there is no money left for development at all.

Russian municipalities have been totally robbed by the Putin's regime. In exchange for the fiscal pillage of the of the regions Putin has permitted the authorities of the constituent entities of the Russian Federation to gain profit from robbing the municipal bodies. All over the country, the municipal assemblies, that are under control of the «United Russia» are following the instructions to unanimously make decisions to surrender their revenues and profits in favor of the regional budget and transfer them there. And the State Duma, which is controlled by



“United Russia,” has adopted the draft of the Budget Code in accordance with which the municipalities are left with only some meager crumbs of the collected tax revenues (a tiny share of the personal income tax, land and property taxes, the fees from which are puny).

So, you are perplexed by the fact that the problems of your city have not been resolved for so many years? The streets have not been cleaned, the public transportation system is bad, and the tariffs are on the rise? There is not enough money for kindergartens and schools? Well, how about the following explanation for you: it was Putin’s reign that has deprived you of your chance to influence the local authorities through the course of the free elections and muffled by the TV rambling noise of propaganda about the «geopolitical grandeur» of Russia and the «approval of the Presidential policy.» Local governments have been overtaken by the hordes of the “United Russia” political appointees, whose only task is to vote obediently for the redistribution of cash flows from the local level all the way up down the federal vertical line of power. In the long run all that money is accumulated in the Ministry of Finance, and school teachers and kindergarten teachers are left behind in poverty.

Putin’s experiment on taking the money away from the regions and stripping them of their political power along with the municipal authorities all in favor

of the Federal Center has ended with a devastating collapse. There was no «equalizing» of the subjects of the Russian Federation. The regions and municipalities have been robbed. Money is chronically lacking for the healthcare sector, education, roads, urban and village infrastructure development. Well, at least the Ministry of Finance is involved in the redistribution of the huge cash inflows. This unfair system must be terminated, and we need to return to a just distribution of tax revenues using the 50-50-50 ratio (50 and 50 between the federal center and the regions, and the 50 and 50 between the region and the municipal authorities inside the consolidated budget of the constituent territorial entities of the Russian Federation). We have many detailed proposals on how to arrange that. In all of the regions, these ideas have already been discussed for a long period of time under the motto: «It is enough feeding Moscow already.» Nonetheless, it is perhaps not entirely true as far as the Russian capital goes, as it does suffer itself from the overpopulation and excessively high prices driven by the oversaturated cash flows. It would be more accurate to say that it is high time to stop feeding Putin’s clique and the entrepreneurial crooks that are close to it: our taxes should finally go toward the development of our living environment all over the country, and not get concentrated in the hands of Putin’s in-crowd circle.

Well, and naturally so people do need to get their full-fledged right to elect their government back. Throughout all the years of the Putin's reign, the Russian people have never agreed to the abolition of the governors and mayors, all of the sociological surveys, even those ones conducted by the Kremlin's own court public opinion polling centers, have always demonstrated that the overwhelming majority of the Russians have always been, and remain to be in favor of the direct elections of the regional and local government. And without any sorts of «filters» with the help of which Putin's rule provides protection to its appointees against the truly popular among people candidates (perhaps, the most disgraceful story of that sort was with not letting Yevgeny Roizman, who had been elected as mayor of the city of Yekaterinburg by the popular vote, to participate in the election race for the position of the governor of the Sverdlovsk region, since the local deputies of the "United Russia," while being controlled by "United Russia" party have not allowed him to run for the top seat in the region).

However, not all of the regions are equally deprived of the Federal Center's attention. It is worth to dedicate a special discussion to the relationship between the Kremlin and the Russian republics of the Caucasus region. These regions, while formally recognizing the Constitution of the Russian Federation have retained in most parts, their own traditional way of life: the clan system, nepotism, the rule of the religious standards prevailing over the federal laws. The clans in the North Caucasus have a stern hierarchical organizational structure, which includes the leader, his close «inner circle» (mostly comprised of the leader's kin), and red tape and the law enforcement officials and entrepreneurs, all of them being controlled by members of the inner circle. The major factors that identify someone's position in that hierarchy from the very beginning are his personal ties with those people of high rank and station within it. In the Northern Caucasus region, the position of the head of the clan is by far much more important than any «formal» ranking.

The principle of «secular state» is not exactly applicable towards the Northern Caucasus region. Ramzan Kadyrov, the leader of Chechnya explicitly declares that the Sharia law in the Caucasus is by far much more important than the Russian laws, and that

the enemies of Islam must be physically destroyed (61). The Islamization of the Northern Caucasus region, mostly of Chechnya, is happening at the accelerated pace. At the same token, religion is to a great extent a political influence instrument. For instance, an expert at the Carnegie Center of Moscow - Alexei Malashenko considers that «first and foremost, religion channeled by the assistance from the mosques enables Kadyrov to control the population» (62).

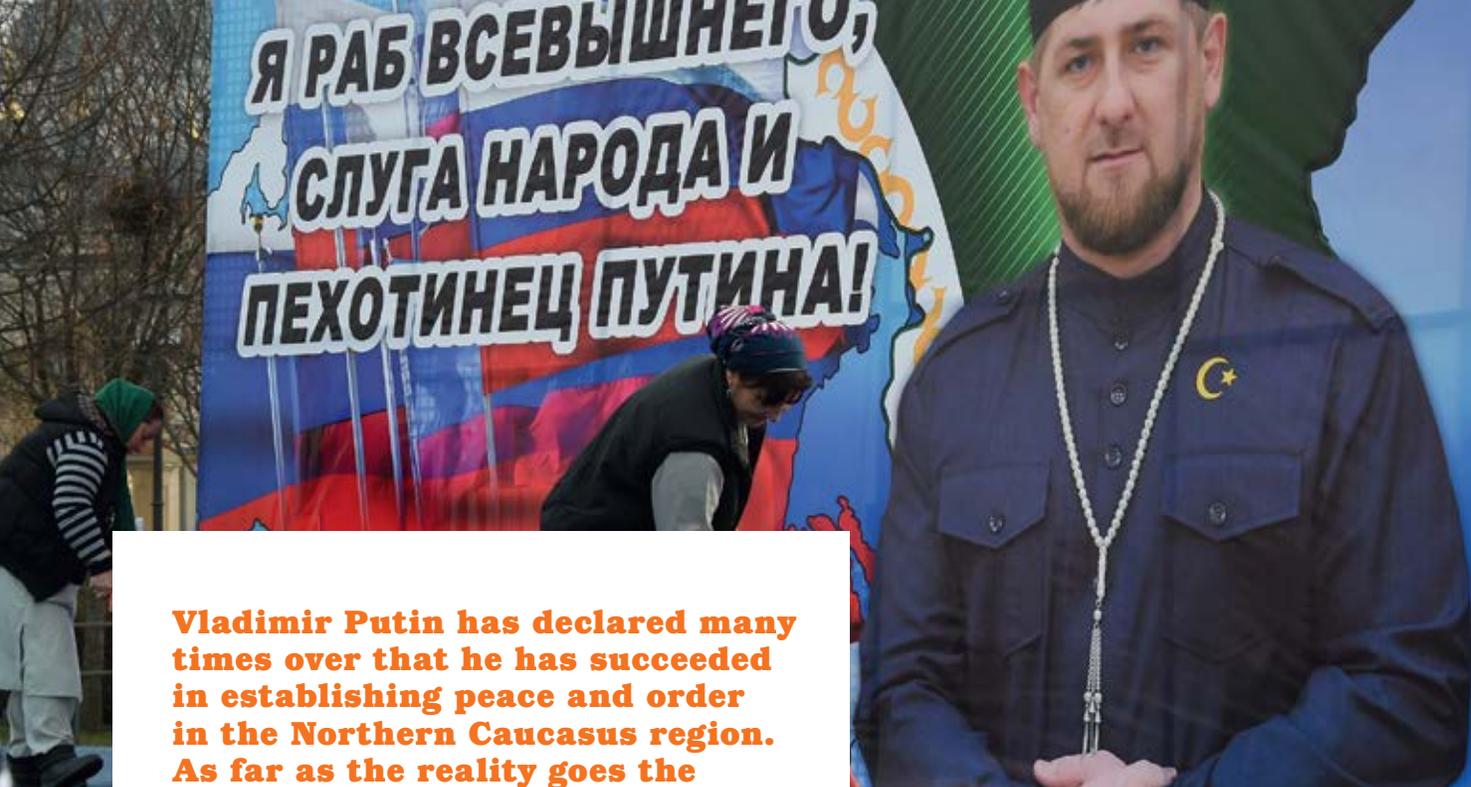
The policy of Islamization of the Russian Caucasus region has yet another important effect: its involvement of the young people into the radical Muslim movement. It is estimated that as of today there are approximately 4,000 of the Russian citizens (64) (65), who are fighting in the ranks of the ISIS (63), mostly these are the former residents of the Caucasus republics.

The isolation of the Caucasus does contribute into the rise of corruption in the region. The overall situation

**The head of Chechnya, Ramzan Kadyrov, explicitly states that the Sharia law in the Caucasus is more important than Russian laws, and the enemies of Islam should be physically destroyed.**

with corruption in Russia has significantly worsened in the recent years. Nonetheless, even against the generic backdrop the republics of the Caucasus are standing out prominently. There is no scale of corruption that would be similar to that of the Northern Caucasus in any other region. That fact is admitted even by the "Russian National People's Front," which a strictly pro-governmental organization, that was created by the incumbent President of the RF (66). Vladimir Putin has acknowledged this problem himself, we are quoting him again:

«THE SOLUTION FOR THESE IDENTIFIED PROBLEMS IS COMPLICATED BY ... THE HIGH LEVEL OF CORRUPTION. WE ARE TALKING ABOUT THE FACT THAT WE DO HAVE THIS BIG PROBLEM IN OUR COUNTRY IN GENERAL, HOWEVER, IT LOOKS PARTICULARLY DRAMATIC IN THE CAUCASUS. NAMELY, THERE WERE MORE THAN 1 THOUSAND AND 600 OF CORRUPTION RELATED CRIMES THAT HAVE BEEN DISCOVERED IN THE REGION IN THE FIRST HALF OF THIS YEAR, WHICH IS EQUAL ON AVERAGE TO ALMOST TEN CRIMES BEING COMMITTED EVERY DAY. THE EMBEZZLEMENT OF THE BUDGET FUNDS INFLICTED A MAJOR



**Vladimir Putin has declared many times over that he has succeeded in establishing peace and order in the Northern Caucasus region. As far as the reality goes the Northern Caucasus Federal District is by far the most unstable unprotected socially most extremely corrupt and the most dangerous part of Russia.**

DAMAGE ON THE ECONOMY. THE SECURITY AGENCIES ALONE HAVE UNVEILED THE FACTS OF EMBEZZLEMENT IN THE AMOUNT OF ABOUT 6 AND A HALF BILLION RUBLES IN 2013. THE MOST HIGHLY CRIME SATURATED AREAS REMAIN THE SAME, THEY ARE CONNECTED TO THE STATE PROCUREMENT ORDERS, CREDIT LOANS AND SUBSIDIES, CONSTRUCTION, HOUSING AND UTILITY SERVICES, AS WELL AS THOSE ONES HAVING TO DO WITH THE LAND. AT THE SAME TIME, THE FEDERAL LEGISLATION REQUIREMENTS ARE OFTEN BEING IGNORED BY THE REGIONAL STRUCTURES, FOR INSTANCE AT THE TIMES WHEN ORDERS FOR THE SUPPLY OF GOODS AND SERVICES ARE BEING PLACED.»

(VLADIMIR PUTIN, SEPTEMBER 9, 2013 (67)).

The residents of Dagestan, for example, name corruption as the most burning problem in their region (68). According to Salikh Abdulmanapov, an economist from Dagestan 70% of its economy is in the shadows (69).

For the duration of the last 15 years there has been a corruption scheme in place in Chechnya, in accordance with which the funding allocated from the Russian budget is being redistributed amidst the representatives of the various levels of regional state authority institutions. Even the money, that has been provided to compensate those members of the Chechen families, who had incurred sufferings from the war and

natural disasters is being stolen. It is not customary and acceptable in the republic to lodge complaints about the facts that the specially allotted compensation does not reach the addressees (70). The system that has been set up creates a colossal social stratification in the republic: Ramzan Kadyrov lives in a luxurious estate, owns a motorcade of expensive cars, a whole army of guards and even a personal zoom as well, his entourage is swimming in luxury and is packing gold pistols. Meanwhile, as far as the rate of unemployment in Chechnya is concerned it is losing only to Ingushetia, the republic with the most detrimental situation in the country when it comes to the provision of the sick patients with hospital beds and nursing staff, and the place with the longest waiting lists for the kindergartens placements in Russia. That republic lacks schools, and only 19% of the working people have higher education degrees (71).

Vladimir Putin has declared many times over that he has succeeded in establishing peace and order in the North Caucasus region. As far as the reality goes, the North Caucasus Federal District is by far the most unstable, socially unprotected, the most extremely corrupt and the most dangerous part of Russia. The level of violence here remains high (72). In attempting to resolve the problems of corruption, Putin reshuffles the elite groups and arranges radical arrests. In 2015 in Dagestan, for instance, the former mayor of

Makhachkala and the founder of the local branch of the “United Russia” party - Said Amirov was sentenced for life in prison for committing especially gruesome crimes. His successor - Musa Musaev, the head of the city was arrested three years later for the abuse of power and in the company of the chairman of the government of Dagestan, as well as the other high-ranked red tape officials went behind the bars.

Nonetheless, all these mass arrests in the recent years have not resulted in the resolution of the problems in the republic. Generally, in Chechnya Putin turns a blind eye to any kind of law violations by the local leaders, headed by Kadyrov. The kidnappings of people, outstanding grand budget embezzlement, the creation of a private army in the republic, which is following Kadyrov’s command lead – all of that is perceived by the Kremlin as an acceptable form of compensation for the loyalty of the leadership of the republic and for the absence of the military operations there.

However, all of these methods, are extremely unreliable and they do not provide the permit to the republics of the North Caucasus to return into the legal terrain of Russia. The Caucasus was a painful trigger zone in the country when Vladimir Putin came to power and it still remaining to be that painful trigger zone.

At the same time, Putin’s policy in the Caucasus is costing the Russian citizens a lot. In 2018 alone Dagestan and Chechnya received approximately 130 billion rubles from the federal budget in the form of direct state aid to the region (73), which is 15% of the total volume of federal financial assistance to the regions (87). Chechnya has received almost 40 thousand rubles of the federal state aid money on a per capita yearly basis, Dagestan gets around 25 thousand. At the same time the average sum of financial aid for all of the other regions allotted from the federal budget across Russia is less than 6 thousand rubles per capita per annum. The budget of Chechnya relies on the federal subsidies for 83% of its total amount, in Dagestan it is 75% (73) (87).

From on an objective point of view it is hard to provide any explanation to that excessively high aid allocation rate of the federal assistance funds to Dagestan and Chechnya since the population of the republics is young and is of ample working age, there are few pensioners, they both enjoy excellent geographic locations and are rich in numerous natural resources (just to mention

the very same hydrocarbon shelf in Dagestan, which is evidently underexplored). As a matter of fact, there could be just one explanation given to all of it: it is a factual recognition of the fact that Putin’s policy of building his tiny «vertical lines of power» in the Caucasus based on the same model he has applied to the erection of a rigid authoritarian vertical power structure in the entire country, has resulted only in a paralysis of the economic development, out of control corruption, forcing the economy in the shadows, and at the same time the problems of security have not been resolved, there is the rule of anarchy there, and the investors fear the region as a wild fire.

Practically, Putin’s policy in the Caucasus has been reduced to the cajoling of the local elites and procuring their loyalty at the cost of disproportionate funding from the federal budget (with the exception of Dagestan in the recent years, perhaps). That direction is dangerous for the country for as soon as there are interruptions with the money supply in the local republics there will inevitably be a risk of intensifying separatist sentiments, based on the isolation of these regions from the rest of Russia. And it is most definitely not worth it for the residents of the Northern Caucasus to wait for the standards of their living to improve under the Putin system. ■

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### Federal subsidies per capita in Dagestan, Chechnya and the rest of Russia



# 5.

## The country of Red Tape and Siloviki

In the last 20 years, a great deal of our readers has already experienced by themselves to what great extent the mighty power of the social class of the state red tape and people in epaulets has grown in Russia. They factually are residing in different country as they are not subjected to the same laws as the ordinary citizens, they own luxury real estate in elite prestigious areas, that are surrounded with the barbed wire fences, in places where common citizens are barred from. Their children go to school in some expensive educational institutions, quite frequently abroad. Their relatives own profitable businesses that enjoy preferential treatment from the state. Courts rule in their favor and the police always makes decisions to support them. All this is out of reach for the ordinary Russians. As a matter of fact, Russia has created a hushed up «apartheid» system for one class of its people: the red tape and siloviki, who have access to the unprecedented benefits and riches, and they are covered by the special protection of the state apparatus, while the rest of the country is doomed to exist in some extremely modest living conditions and is abandoned to face lawlessness anarchy all by itself.

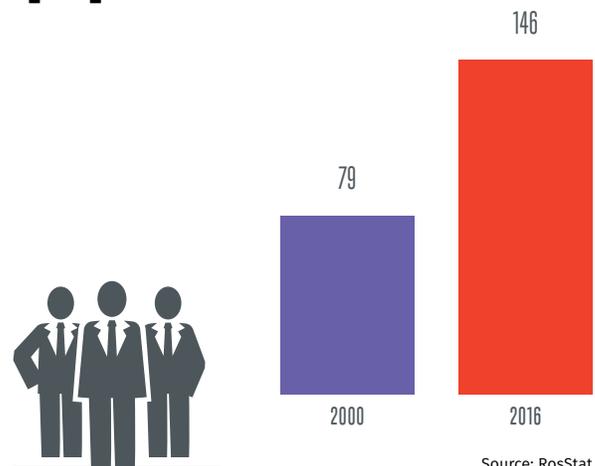
Although, you can see all of that perfectly well for yourself, we, armed with the numbers in our hands still wanted to inform you about the overgrown red tape and siloviki tumor, which is growing on the body of Russia. Perhaps you would get stunned by certain numbers. For instance, the number of the state officials per 10,000 people

in Russia has more than doubled since the year of 2000 growing from 79 to 146 bureaucrats. This is the official data provided by the Russian Federal State Statistics Service (74). The number of red tape officials per capita in Russia of today is nearly doubled in its size since the Soviet times (75).

The champion among the federal agencies as far as the number of their staff is concerned is the Federal Tax Service, with about 150 thousand people working there. By comparison: in the USA the Internal Revenue Service employs less than 80,000, at the same time the US population is 2.3 times bigger than Russian, and the US tax

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**Number of red tape per 10K people**



Source: RosStat

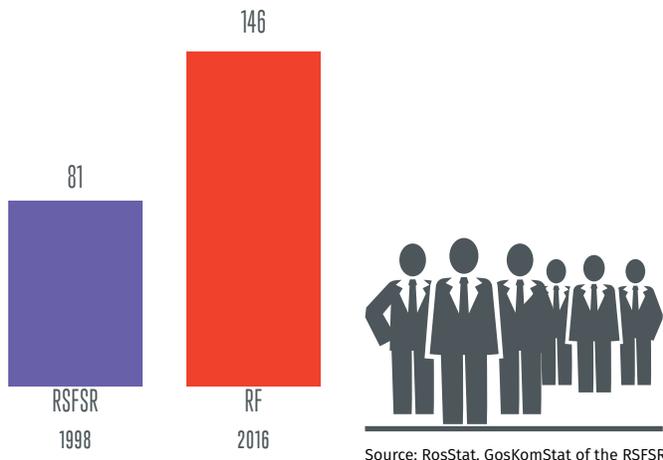


system is by far much more complicated, yet the taxes are better collected. There is one tax bureaucrat per every one 1,000 of people in Russia, in the US it is 0.25.

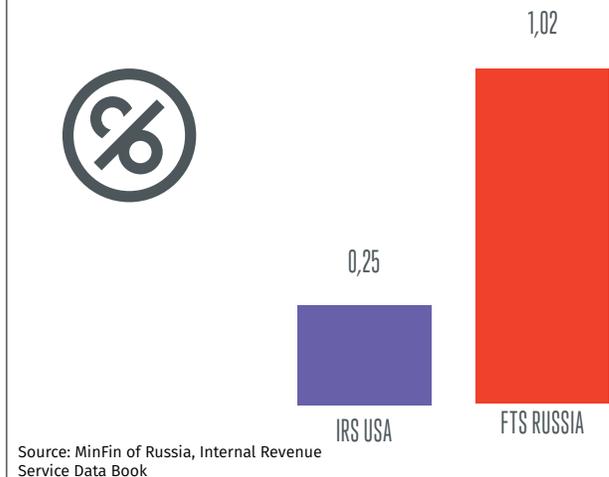
The tax service is not the only instance of the state being generous enough not to worry about its spending for the upkeep of the ginormous state machine to keep the population and entrepreneurs under control. Here are some of the other examples: the Federal Bailiff Service (75,000), Customs (about 50,000), the Prosecutor's Office (54,000), the Investigation Committee (20,000) (76). Under Putin's rule the independence of the judiciary system

has been completely destroyed, according to the World Economic Forum (Global Competitiveness Rating 2017-2018) rating Russia takes 90th place in the world, falling below Guatemala and Swaziland (77) in the ratings of the world system based on the evaluation of the independence of the courts. In Russia instead of having the judges appointed by the Parliament, or in the course of the open elections they are being appointed by the Presidential decrees. Thus there is no big surprise in the fact that the overwhelming majority of judges appear to be from the siloviki corps. Demonstrating their full solidarity with colleagues in the

### Officials in the Russian Federation and the RSFSR



### Number of tax officials in Russia and the USA



law enforcement and security agencies, those «judges» obediently put their stamps on all the papers that they get from the authorities, as a consequence there is an incredible accusatory bias present in the activities of the Russian courts. Russian people practically stand no chance to win against the authorities in courts and to defend their rights. The ratio of the accusatory court bias is staggering (78):

- In 2016 there were more than 98% of the defendants, who were found guilty by the courts in all of the cases examined, and only 1.6% of the defendants were acquitted. The 21% of cases were dismissed on basis of the absence of any grounds for recovery, which stipulates the admission of the guilt and, although they do not represent a criminal record, nonetheless, they generate a formal entry in the databases of the Ministry of the Interior, entailing that the citizen was implicated in a case in the criminal justice system (in other words, this is not an acquittal).

- On average a Russian judge rules to acquit only one time for every period of seven years.

- In 2016, the judges approved 96.4% of the formal requests for the home search warrants, 97.6% for secret audio tapping during the ongoing investigation, and 90.2% of the warrants were approved for pre-trial detention.

The accusatory bias of that magnitude was unheard of even under Stalin’s rule: in the years of 1937-1938, the «people’s courts» of the USSR had the acquittal rate of 10-15% for all of the cases. The apologists for the Putin’s system say that one should take into consideration the number of cases that do not get to trial not shown in these statistics, citing this excuse ostensibly as a factual «justification» for the situation. In reality, it is not so: according to the Ministry of Internal Affairs almost half of the criminal cases get

suspended at the stage of investigation and do not get sent to court for the trial because it is not possible to locate or find a suspect (the so-called «dead-end investigations,» or «cold cases»). Thus, do not succumb to these false arguments as there is nothing being said about the acquittals.

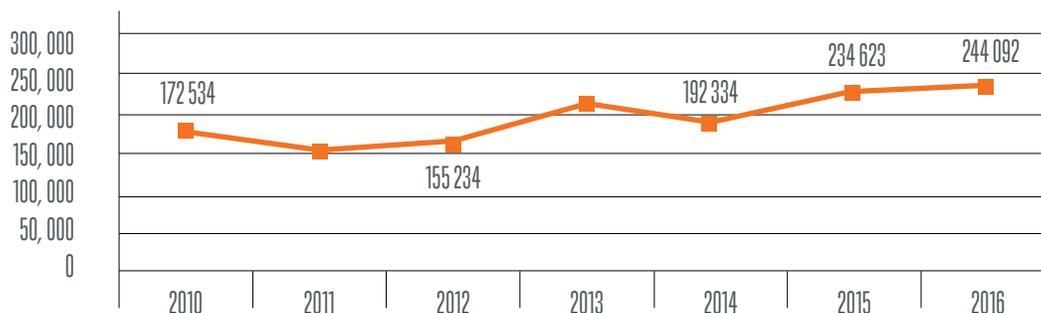
The army of the siloviki special agencies that has multiplied under Putin, and the judicial system completely under his control are actively engaged the mugging of the Russian entrepreneurs. According to Boris Titov, who is the authorized representative of the President of the Russian Federation on the Rights of Entrepreneurs, the number of criminal cases initiated in economic cases has reached almost a quarter of a million in 2016, and the percentage of acquittals in all of them was only 0.4% (79).

Do read on the report of Boris Titov on the criminal anarchy against entrepreneurs, it will make your skin crawl when you learn about the scale of the racketeering they are up against (79). May we remind you, that Titov is not some kind of «State Department agent» getting foreign grants for slandering his own native Motherland, but is an official employee of the Presidential Administration, who works there and gets his salary paid by it. The lawyers, whom we know have shared with us that the demand for retaining their services in commercial disputes in court representation has catastrophically dropped as entrepreneurs opt not to file lawsuits at the courts, but simply to bribe an investigator to initiate criminal proceedings to «submerge in nightmares» the counter party.

Another misfortune that Russia is pegged with, namely a huge army of prisoners stems directly from the judicial arbitrary anarchy. And we have more than 600 thousand of prisoners, we are the leaders among all European countries

## Number of criminal economic cases

NUMBER OF CRIMINAL CASES FILED OF ECONOMIC CRIMINAL BASE: ARTICLES ART. ART. 159-159.6, 160, 165, 169-199.2 CRIMINAL CODE OF RF



Source: RF Presidential Special Rep for the Protection of the Entrepreneurs’ Rights. Report for the President of the Russian Federation: “Business under the criminal pressure. On the use of the Criminal Code legislation in the Russian Federation to regulate entrepreneurial activity,” 2017.

when it comes to the numbers of prisoners per 100,000 people (according to the report of the Council of Europe on the conditions in prisons in the member countries, which is produced by experts from the University of Lausanne annually (80)). A great number of people is jailed as either the result of unfair sentences, or for the offenses that do not represent any danger to the general public particularly, for cases in which a fine would have been a sufficient punishing sentence, or confiscation of property, or a house arrest, or correctional labor, and where some other measures could work instead of imprisonment. In order to keep this army of prisoners in jails, Russia has a huge correctional facilities staff working for the Federal Service for the Execution of Punishment (FSEP) which has more than 225,000 employees. An obscene amount of money is spent on its support and maintenance. There are 260 billion rubles in the federal budget for 2018 set aside for running and maintenance of the Federal Service for the Execution of Punishment, which is equal to 60% of the federal funding for the health care sector.

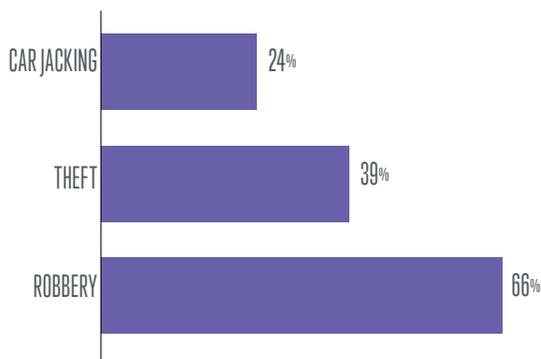
Another security agency monster is the Ministry of the Interior. Russian police is legendary when it comes to its inefficiency and corruption. Sadly, a lot of Russians, had to confront this personally - from the fabrication of the criminal cases, the extortion of bribes, along with the aggressive protection of merchants, land seizures for «hot spot grabbing» construction developers, and so on and so forth. And despite the fact that the public opinion polls conducted by the sociological centers closely connected to the Kremlin showing indications of a record high level of

trust towards the police, all it takes is just a brief chat with the Russian folk to make sure how ridiculous that sounds.

As far as fighting crimes in Russia goes in the recent years, there has been, indeed, a positive trend with the number of murders dropping from 30 thousand and more a year in 2000 to 10-12K in last years, the authorities report a record number of open murder cases - over 90%. Nevertheless, there are still way too many murders committed: Russia has made it to the top 50 countries of the world in terms of the number of murders committed per 100,000 people, according to the data of the UN Office on Drugs and Crime, and it at the same level as far as the number of murders committed with the countries of Africa and Latin America. We are the only European country, with the exception of Lithuania, which is also in the top 100 in terms of the number of murders committed per every 100,000 people. Also, there are times when we get way ahead, and when this indicator increases

**Another Russian misfortune : a huge army of prisoners stems in the judiciary system lawlessness and bias. We have more than 600,000 of prisoners. We are the leaders among all European countries when it comes to the numbers of prisoners per 100,000 people.**

### Crime-solving rate for the most common crimes in 2017.



Source: Ministry of Internal Affairs of Russia, "Crime Status in Russia for January-December 2017"

several times over and we leave the developed countries of Europe and North America far behind (81). Thus, there truly is nothing to be particularly proud of. And as for the other types of crimes are concerned the situation is much worse. The crime-solving rate for such numerous types of crimes such as car theft, theft and robbery in the year of 2017 was only 24%, 39% and 66%, respectively (82).

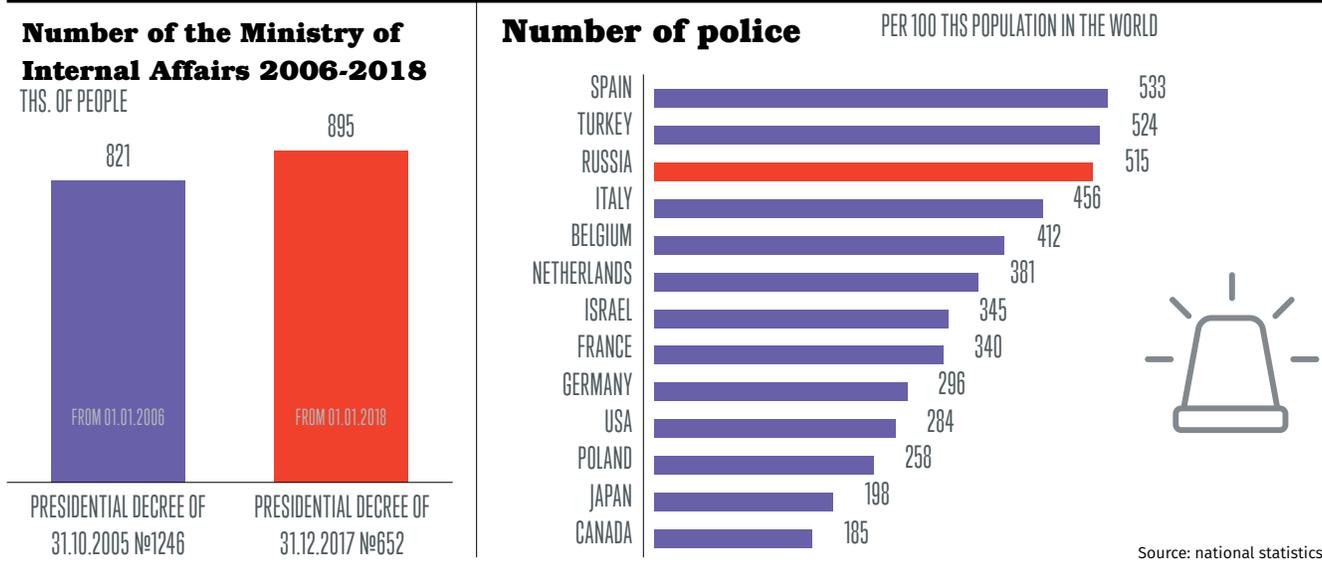
For years on end the authorities have been pushing hard for the so-called «reform of the Ministry of Internal Affairs.» However, it is not very clear what that was all about, except for renaming of the "militia forces" into the police ones. The structure of the Ministry of Internal Affairs has remained the same: the regional police stations are poorly equipped, they are understaffed and underfunded. Nonetheless, the country maintains a huge centralized police machine, and there are about 400 police generals

in Russia, centralized City Directorate of Internal Affairs is doing great. The downsizing of the Ministry of Internal Affairs did not yield any results. You can judge for yourself: Putin has established by his decree that starting from January 1, 2018 the maximum number of the internal affairs units will hit the mark of 895 K. At the same time, we are going through the Presidential Decree No. 1246 issued on October 31, 2005 on “Establishing the Maximum Number of Staff units for the Internal Affairs Agencies of the Russian Federation,» which reads: «To establish, as of January 1, 2006, the maximum number of internal affairs institutions ... in the total amount of 821,172.» In other words, the today’s amount is short by almost 75 K, and there you have it, they were downsizing and downsizing again all those numbers within the Ministry of Internal Affairs, however, they are still bigger than they were in the 2000. As far as the per capita number of police officers is concerned, Russia is by far way ahead of the developed countries in this respect as we have more than 500 police officers per 100,000 people, meanwhile in most developed countries of Europe and North America this number is 200-300 police officers per capita. And do we have to mention that the crime rate there is much lower than in Russia? (83).

And with such indicators at hand, we are not even talking about any particular efficiency of the Ministry of Internal Affairs. For such an extremely high number of crime cases in Russia the efficiency rate for the crime solution of the most common types of criminal cases is unacceptably low.

And naturally it is not possible to have a full picture without the paramilitary forces that are necessary for the

suppression of the public uproar among the Russian people. At the height of the economic crisis, when the clusters of public uproar were starting to manifest all over the country due to the lack of any socio-economic improvement prospects, Putin made a decision to create the «National Guard» on the basis of the Interior troops of the Ministry of Internal Affairs, the OMON (special riot police units), and some other structures of direct military suppression - clearly in preparation for the future imminent protests of the citizens against the incompetent authoritarian regime. The Federal National Guard Troops Service was established in April, 2016, and already in the fall of 2017 its head Viktor Zolotov reported to the Federation Council that its might was twice as powerful than that one of the former Ministry of Internal Affairs Troops (namely the 170,000 people as opposed to no less than 340 K people listed in the Federal National Guard Troops Service) (84)), and also that there was a plan to increase the number of the National Guard Troops by yet another third by 2021 (85). In other words, the number of the Federal National Guard Troops Service will reach over 400 thousand people, which practically will constitute a whole army, which was created to fight with its own population and not the external enemy. When it comes to the Federal National Guard Troops Service the authorities spare no expense as there were 224 billion rubles allocated from the federal budget to support it (which is more than a half of the federal health care sector funding), with the stipulated further increase in spending for its work and maintenance (86).



Source: national statistics

In general, maintenance costs for red tape officials and security agencies / “siloviki” make up to 40% of the entire structure of the federal budget, and is 20% more than in the consolidated budget of the country (that includes regional budgets and the state extra - budgetary funds such as pensions, healthcare insurance fund, etc.) For the sake of comparison: the cost of the healthcare and education funding combined is only 7% less in the structure of the federal budget, and 19% in the consolidated budget expenditures (according to the results of 2017). One can see what it looks like based on the example of the federal budget for 2018, which is illustrated in the chart below. Putin’s priorities are clearly understandable (87).

The largest item of the federal budget spending on the security forces is the army. Right now, Russia’s military spending make up approximately 3 trillion rubles a year. At the height of the war with Ukraine they have reached 4 trillion rubles. There are no doubts that our country needs to have a capable army, in order to protect us from the external threats. However, it is obvious that Putin has not been creating that.

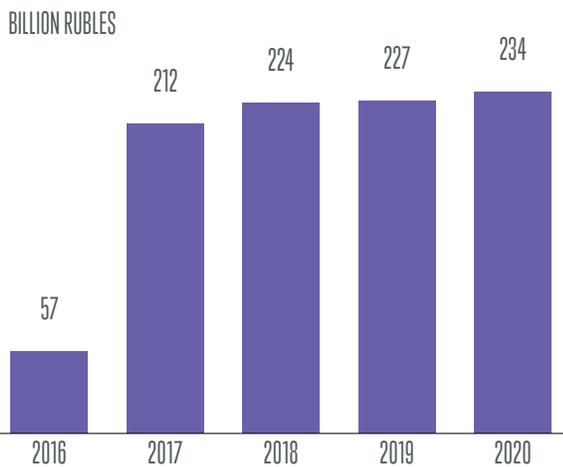
First and foremost, in modern conditions a battle ready capable army is comprised out of professionals, who are handsomely compensated. Modern warfare is nothing like an infantry attack with bayonets at the ready. First of all, it is a competition of high-tech weapons and special forces. This is hard work that commands good compensation. Has Putin built such an army in Russia? Most certainly, he has not. The transition to a professional army was a complete failure. Those who are nominally identified as «contract soldiers»



**In general, the costs for officials and security forces are up to 40% in the structure of the federal budget and more than 20% - in the consolidated budget of the country.**

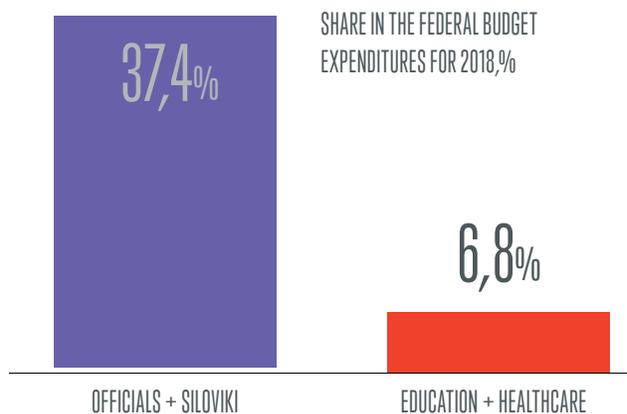
are mostly the yesterday’s draftees, who were forced to sign «contracts,» in order to put in effect the plan to «transfer to the contract army system.» They live in barracks, unable to start a family, and get paid a meager salary of 20-35 K for contract soldiers and junior sergeants. The salary of the military personnel has not been indexed since 2012, and it was catastrophically devalued during the crisis of 2014-2018. It was only in the federal budget for 2018-2020 that the annual indexation of 4% for the period of three years was introduced for the very first time, which clearly does not make up for the loss of purchasing power of servicemen’s salaries in the last years (88). The expenditure cost for the

### Expenses for Russian Guard



Source: laws on the federal budget for the corresponding year

### Siloviki against healthcare in the federal budget



Source: Law on the Federal Budget for 2018



**Russia has to pay a huge price for Putin's military adventures abroad. On top of the direct costs of the military operations abroad, for example, there has been a steep increase in the cost of paying compensations to the family members of the deceased servicemen.**

salaries of servicemen is less than 20% in the structure of Russian military budget.

So, where are all these huge military expenses being spent? They are spent on making the military-industrial complex rich. It is headed by Putin's closest aids, who are in control of the most important cash flows. About two thirds of the military budget is meant for the procurement of weapons and military equipment, the price tags of which have constantly been marked up by the monopolies, that were created by Putin. Putin himself has been constantly complaining on this topic in public:

«IN SOME CATEGORIES THE PRICES GET MARKED UP AND INCREASE BY TWO, THREE, FOUR TIMES, AND THERE ARE EVEN KNOWN INSTANCES WHEN THE PRICE HAS BEEN INCREASED ELEVEN TIMES MORE FROM WHAT IT WAS AT THE TIME OF THE COMMENCEMENT OF WORK. YOU SEE, THAT IS NOT COMPARABLE WITH INFLATION RATE, WITH ANYTHING AT ALL, MEANWHILE ADVANCE PAYMENT IS PRACTICALLY DONE IN ALMOST 100 PERCENT TOTAL.»

(V.V. PUTIN, FROM A MESSAGE TO THE FEDERAL ASSEMBLY IN 2014 (89)).

So, why is the MIC winding up the prices on military defense products with such a wild frenzy? Well, this is all happening because it was Putin himself, who has created mushrooming monopolies in the field and planted his cronies as their leaders. Even Stalin himself was aware of the importance of the competition factor in the field of military defense production. There were several different design bureaus and industries, that were constantly competing with each other each step of the way. In the US, the government strives to reduce the cost and improve

the efficiency of manufactured weapons in the course of competition between the producers, using competition, for instance, between Boeing and Lockheed Martin. Under Putin's reign, however, the military defense industry was sternly centralized within the framework of the industrial verticals, in other words around monopolies that were constantly driving up the prices. The biggest monopoly "Rostech" was headed by Sergei Chemezov, Putin's close associate during his service in the KGB of the USSR, when he was stationed in the GDR in the 1980-s, and who had not worked for a single day in the defense industry up until the 2000s. Right now, the issue of the further monopolization of the military defense industry is under discussion, with the subsequent merging of the "United Aircraft Corporation" and the "United Shipbuilding Corporation" with the "Rostech".

Apparently, any further monopolization in the field will result in funneling even larger defense budgets into the pockets of Putin's in-crowd cronies, instead of an effective re-weaponing of the army. Incidentally so, the vice-president of the "United Aircraft Corporation" happens to be the son of Deputy Prime Minister Rogozin, who is in charge of the defense industry oversight in the Russian government. At present time, the government is discussing the creation of a specialized back up bank for the military-industrial complex, which ought to be headed by Pyotr Fradkov - the son of Mikhail Fradkov, the ex-Prime Minister, and the former Head of the Foreign Intelligence Service. It is not clear why the defense would need a special monopoly type

bank, unless there is someone, who is keen of securing a money «delta» for servicing military defense contracts. And while, the off springs of high-ranked officials of Putin are in charge of huge money inflows of the defense industry, the soldiers and the officers continue to receive beggarly wages. Do not believe Putin’s propagandists telling you that huge military budgets are created for the sake of defending of the country. We suppose that by now, you already have got an idea where it is actually all going.

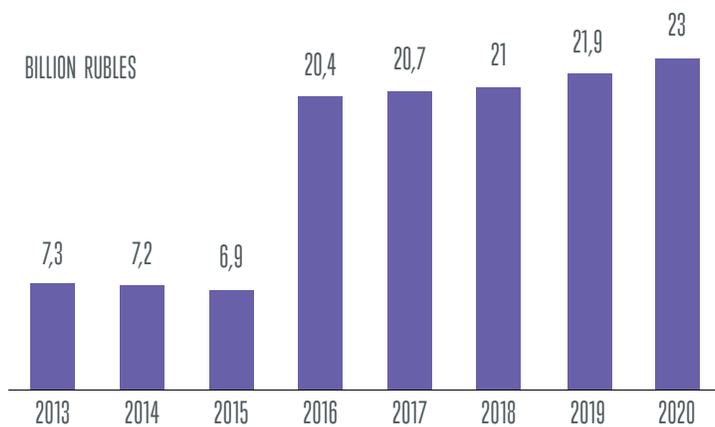
However, Russia has to pay a huge price for Putin’s military adventures abroad. On top of the direct costs of the military operations abroad (and it is hard to provide a true estimate of a real number here due to the sealed nature of the data, but it’s hundreds of billions of rubles), for example, in the last years there has been a steep increase in the cost of paying compensations to the family members of the deceased and disabled servicemen as a result of the military service related trauma. In the federal budget for 2016 about 7 billion rubles a year were allotted for this purposed and in recent years it became 20-21 billion, and in accord with the the approved three-year long budget for 2018-2020, this figure should increase up to 23 billion rubles in 2020 (90).

However, you will not learn anything about all of these losses, because they are carefully concealed by the Putin’s media. As a matter of fact, this is yet another category of governmental officials as there are virtually no independent media sources left in Russia, and the main media outlets are controlled directly, or indirectly by the state. They also receive giant amounts of money from the budget to cover up

Putin’s policy failures, and to conceal the impoverishment of the population with their rambling chit - chatter about «geopolitical grandeur» and some other nonsense of the same kind. Media budget costs reached their record high importance, and not only aren’t they suffering because of the crisis, but they are even growing. In 2017, The consolidated budget spending on the media support in 2017 reached an unprecedented 127 billion rubles. (For example, instead of that, every Russian pensioner could have received 3 thousand rubles in 2017). Out of this amount 70 % was spent on television and radio broadcasting - the queen and king of propaganda. The polished TV broadcasters who are lying to you on every day basis about the «grandeur of the country» while hushing up Russia’s most difficult problems and concealing the fact that the country is pillaged by the Putin’s mafia, those anchors get unbelievable salaries from the state. You can see what it looks like in numbers as it is shown in the chart below. There is no crisis going on at all, as they say (91).

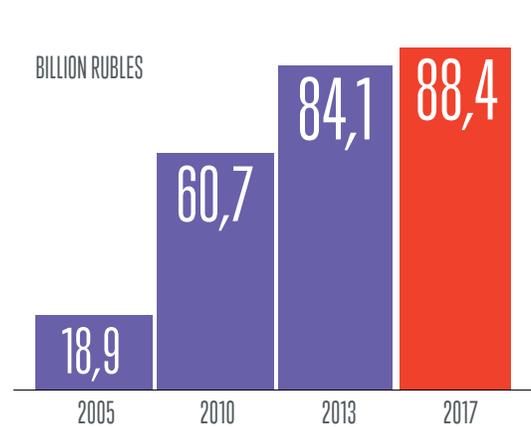
Well-paid red tape of the state propaganda machine is the token of Putin’s tranquil serenity and his ability to continue to pillage the country with impunity. ■

### Expenses for compensation of the deceased



Source: Laws on the federal annual budget

### Budget expenditures on on TV & radio broadcast in RF



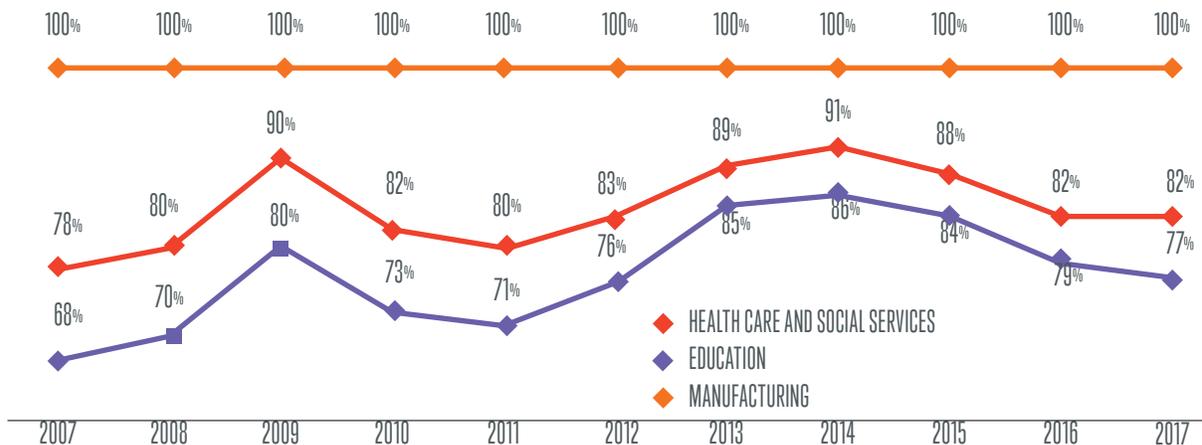
# 6.

## Social Services playing Cinderella's part

How much of Putin's demagoguery about the development of «human capital» have we heard from him during his rule?! There was a great deal of all propaganda “projects” on this topic, that started from the fall of 2005, when Putin announced the “national priority projects” in the State Duma, among which the national projects «Education» and «Health» were of the vital importance. Dmitry Medvedev, the loyal servant of Putin was overseeing these “national priority projects” and he has moved into the Kremlin on this ticket for 4 years, formally acting as the President of the country (however,

we do realize perfectly well that Putin has never let go of his grip on the highest power position). With Putin's return to the Kremlin in 2012 a new series of projects got launched: Putin signed the so-called «May decrees,» in accordance with which starting from the year of 2012, teachers' salaries should have been at the same level with the median wages in the regions and would not have plummeted under that level, and the salary of doctors, university professors and academic researchers from 2018 would have to be two times higher than the average median for the region.

**Salaries in health care and education lagging behind salaries in economic sector**



Source: Russian Statistics Agency: "Social and Economic Situation in Russia / Living Standard of the Population / Monetary income"

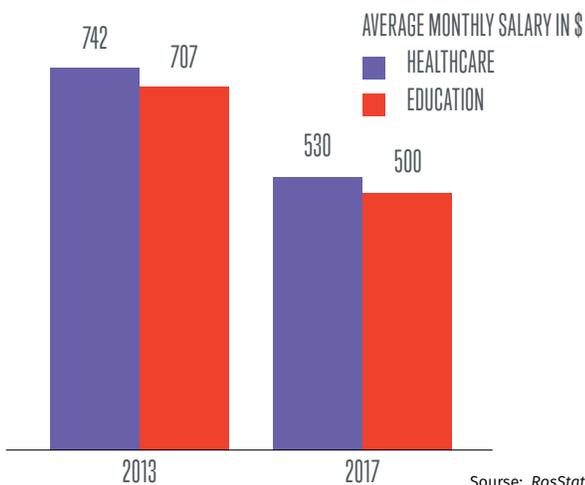


The “May decrees” appeared to be one grand sacrilege: for the sake of getting that average indicator for the hospitals “checked” the authorities and administrations of medical and educational institutions eliminated most of the professional seniority principle and other additions to the salaries, and therefore made their workload unheard off. They would hire doctors and teachers for part time positions (to artificially inflate the amount of compensation paid for the “full time positions”). But even all of these tricks were not helpful: on the chart below, that

was made based on the data of Russian Federal State Statistics Service it is evident that the average salary in health and education sectors has always been lagging behind the median salary in the industrial manufacturing sectors, and from 2014 on that gap has drastically increased (practically, because it was not indexed). According to the results of the year 2017, the salaries in health care were 18% behind the median salary in the industrial manufacturing sector, and salaries in education were lower by 23% (92).

And we are not even going to mention how much the salaries in health care and education have dropped in conjunction with the devaluation of the ruble and a drastic hike in prices in the recent years. (92). And these are just average salaries, that do not include the disproportionately high salaries of administrators as a rule, in hundreds of thousands of rubles a month (mostly for those directors in educational and health care categories). Doctors and teachers categories proper get paid significantly less. As a matter of fact, education and health care sectors are the generator of poverty and impoverishment in Russia. Now the government is preoccupied with a tiny increase of the minimum wage (MW) to bring it up to par with the “poverty line guidelines” of what the authorities perceive it to be like (officially, the poverty level in Russia is considered to be to 11,000 rubles, however,

### Salaries in healthcare & education



it is apparent that this is a meager income, and the real cost of living is much higher). Thus, as it was estimated by the authorities, two-thirds of the additional expenditures that are required to cover the pay increase are listed in public services sector budget already, namely the increase is meant for those very same categories: teachers and doctors. Namely, these are basically doctors and teachers, who are paid salaries that are below the minimum wage level.

The authorities have no plans for any particular indexation of the salaries in education and healthcare sectors in the upcoming years. For example, there is only 4% indexation, that is planned for 2018 (93). This means that the bureaucratic «game of thimbles» will continue, with reductions in premiums, full time positions and compensations cuts, etc., so that they would be able to report on TV about the «successful implementation of the May decrees.»

Needless to say, that with salary level that low both in healthcare and education, there naturally can be no question about their quality. This has been confirmed by the official statistical data. According to the Federal State Statistics Service for the year of 2016, the morbidity rate for the majority classes of diseases was the same, or even higher than it was in 2000, in reality there has been no progress (94).

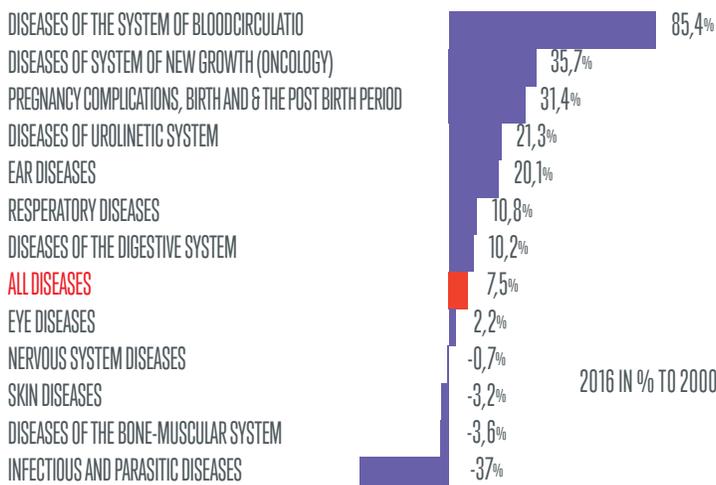
At the same time, in the last years there has been an absolute record set in the entire history of the

country (including even the Soviet times) on mortality cases based on oncology. Mortality rate rose up to 300 K a year (95).

The number of hospitals under Putin has been consistently decreasing: if there were 10,700 of the hospital institutions in Russia in 2000, then as of today there are only 5,400 hospital beds, their numbers reduced more than twice (96). In the recent years, the number of physicians has sharply decreased: from a peak number of 715,000 in 2010 to 681,000 today (97), which factually means rolling back to the index of 2000. The number of doctors of all specialties per 10,000 people is even lower than it was in 2000, in 2016 it was 46.4. versus 46.8 in 2000 (97). The number of feldsher - midwife stations has dropped from 44,600 in 2000 to 34,000 as of today (98). This is a particularly crucial problem for rural areas, where as a result of large-scale «optimization» of health care expenditures, all institutions of obstetrical care have disappeared, and in the result, there were so many deaths of newborns recorded among those, who did not make it from remote places to the maternity ward of a hospital on time.

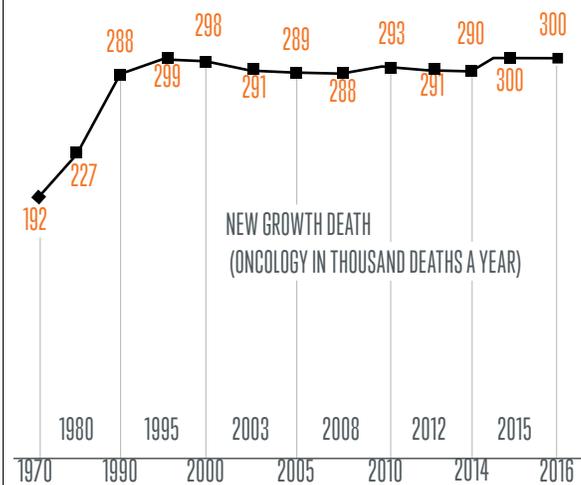
The situation in the education sector is not any better, especially in secondary education. The number of schools and school teachers under Putin in Russia has dropped drastically when compared with the level of 2000 is has declined by about one third. (99).

### Morbidity in Russia (2000-2016)

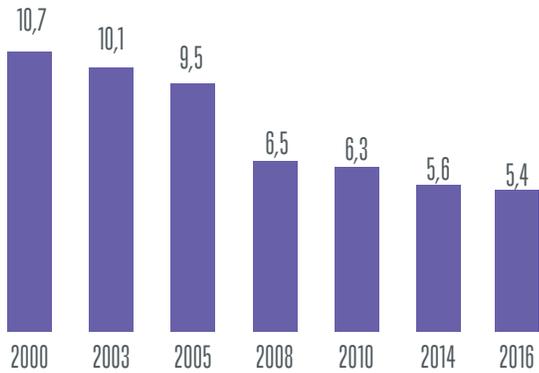


Source: RosStat, «Morbidity of the population based on main diseases classifications in 2000–2016 yy.»

### Oncology related mortality

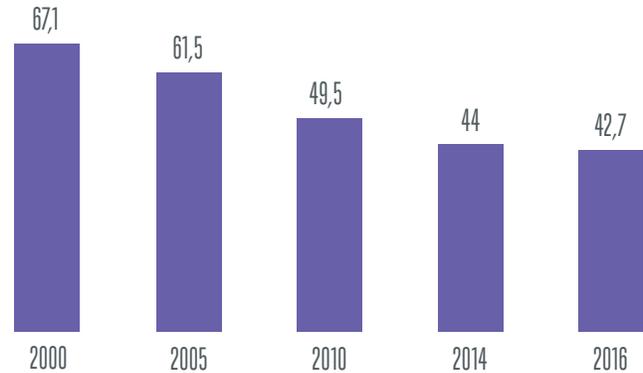


### Number of hospitals RF, 2000-2016



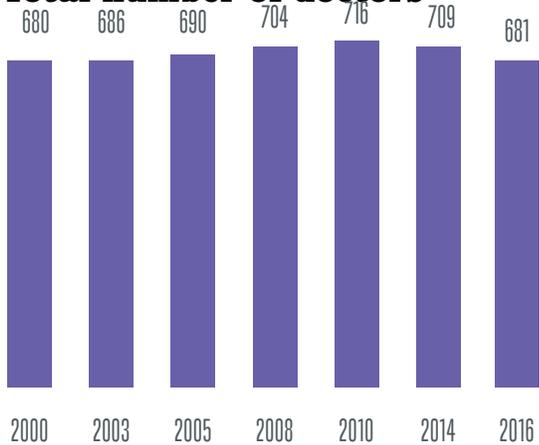
Source: RosStat

### Number of schools RF, 2000-2016



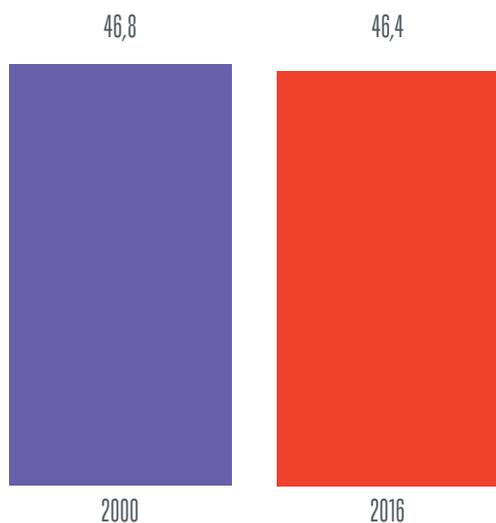
Source: RosStat

### Total number of doctors



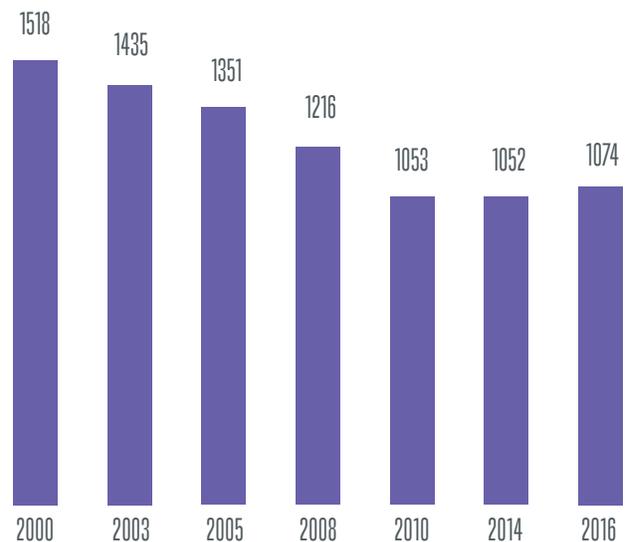
**The authorities have no plans for any indexation of salaries in education and healthcare sectors in the upcoming years. For example, there is only 4% indexation, that is planned for 2018 (93). This means that the bureaucratic «game of thimbles» will continue, with reductions in premiums, full time positions & compensations, etc.**

### Number of doctors per 10,000



Source: RosStat

### Number of teachers



Source: RosStat



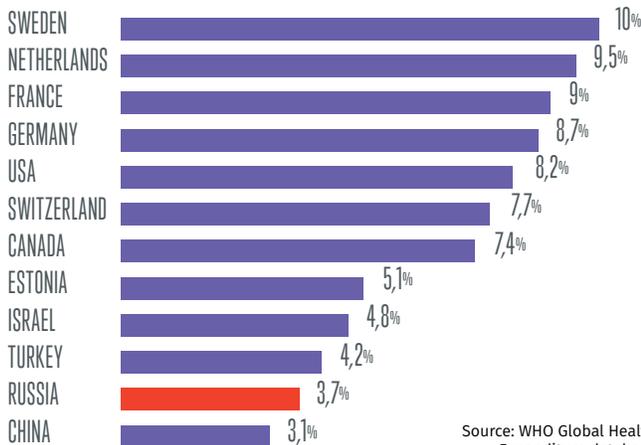
Taking into account the dramatic decline in the number of schools and school teachers, as well as meager wages in this sector, we are observing a factual collapse of the primary and secondary education systems in the country. Higher education institutions are complaining about low quality of the prospective students, almost all sociological surveys demonstrate a dramatic rise in the level of discontent with the quality of the school education in the country. In the Global Competitiveness Index of the World Economic Forum, Russia ranks only

50 based on the quality of its secondary education, lagging behind such countries as India, Indonesia and Sri Lanka (77). The collapse of the educational system threatens the country with a catastrophic increase in the lagging behind global development gap in the future, and its further slipping into the periphery of the world.

So why are the health care and education sectors in such a gruesome state of affairs? After all, a real rainfall of oil and gas income was pouring in the country under Putin. In developed countries, the

### Spending on health care

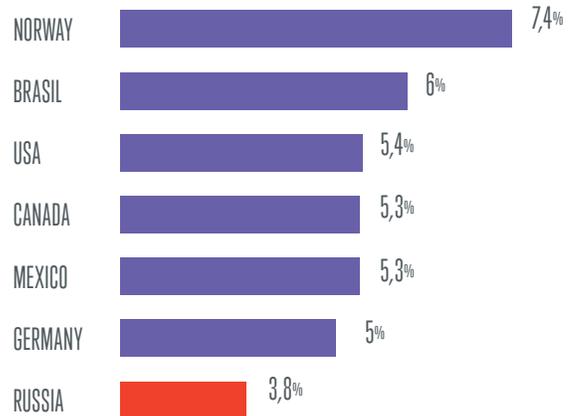
(in% of GDP in Russia and developed countries)



Source: WHO Global Health Expenditure database

### Spending on education

(in% of GDP in Russia and developed countries)



Source: UNESCO Institute for Statistics

state is spending much more on health and education. Russia is lagging almost by two-fold behind the majority of the developed countries when it comes to public spending of its GDP in % (100) (101).

According to the World Health Organization, Russians are covering approximately half of the cost of health care from their own pockets. Although, the idea of the market economy in general was based on the concept that economic projects should be financed by investors and the funds are to be harvested at the capital markets and not in the pockets of the taxpayers. In other words, the myth about «free health care» is nothing more but a myth. At the same time, in Western Europe, Canada, Japan, the state funds 75-90% of all medical expenses. The average cost of health care per capita in Russia is about \$700 a year, while in Western Europe it is \$ 5-7K, and in Norway or Switzerland it is almost \$ 10K. It is not surprising that we are lagging behind these countries drastically when it comes to life span expectancy and labor productivity. «Free school education» is also a myth. There is a problem of constant extortion of parents in schools, that continues to shake people up all over the country.

How can it possibly be that there is not enough money for education and healthcare sectors in Russia, which is rich in hydrocarbons? Well, that is simply because Putin has other priorities. Budget expenditures on health sector and education make less than 7% of the total federal budget expenses for 2018, and in the consolidated budget for the year of 2017 they were 19% (73). The lion's share of the money is spent on quite different goals: more than 50% of the federal budget spending and about one third of the consolidated federal budget goes towards the upkeep of the red tape (the article on «General National issues»), the siloviki («National Security and Law Enforcement,» and «National defense») and funding of different economic projects («National Economy»), where, as a rule, a huge deal of money is siphoned off.

However, as we have already stated, Putin and his cronies are milking such huge profits in the state procurement, that nobody gives a flying fig about healthcare and education, one can truly save some money on these two. More details on the embezzlement of the federal funds and on how it is

happening will be provided in the next chapter. As it turns out the milking of the state funds is directly related to the education and healthcare sectors, and in both cases the scale of the public funds theft that has been going on under Putin is mind blowing. At the same time, nobody gets a proper punishment in real life. There was a huge scandal covered in the media with the delivery of tomographic equipment into some medical facilities (when there were at least 170 homographs purchased for the total sum of 7.5 billion rubles, while in some cases the prices for homographs was marked up more than three times higher than the original price, and the middleman's profit reached the mark of 55 million rubles per single device), which ended up in nothing more than suspended sentences for the deputy head of the Main Medical Department

**According to the World Health Organization, Russians are covering approximately half of their health care costs from their own pockets. In other words, the myth about «free health care system» is nothing more than a myth.**

of the Presidential Administration - Arutiunov, and for the head of the pharmaceutical department of the institution – Oskolkov. So, the dog does not eat (102).

By the way, our old acquaintance, the former sparring partner of Putin in judo Arkady Rotenberg also got himself caught in the spotlights by using the budget funds allocated for the social services sector. For instance, the largest publishing house «Enlightenment,» which is the publisher of educational and methodical literature, was under his control and was receiving thousands of contracts from the state and municipal institutions that were worth over 5 billion rubles a year (103). ■

# 7.

## The mafia state

It is hardly even possible to choose a different title for the chapter on Putin's corruption, which would have more precisely reflected the essence of the phenomenon. Corruption has existed in Russia before Putin as well: red tape took bribes, the oligarchs promoted their minions to statewide positions in the government in order to lobby their interests through them, and so on and so forth. But Putin has built a completely unique political and economic system - in which the entire aggregate of the state institutions as well as the policies which they conduct were all first and foremost obeying just one goal: to make the narrow in-crowd power circle and its clique rich.

Let us attempt to do a quick assessment of the scale of theft and identify that very in-crowd "family circle." In the report from 2008, named "Putin and Gazprom" (104), Boris Nemtsov and Vladimir Milov were writing in detail about how the withdrawal of financial assets from "Gazprom" in favor of Putin's clique at dumping prices took place. The assets that were extracted in such a fashion have made the ruling elite seriously rich. For example, "Gazprom's" former subsidiary company "Sogaz" as of today is the biggest Russian insurance company, which first of all has accumulated its wealth through corporate insurance contracts with "Gazprom" and other governmental institutions and is "feeding" very nicely on their cash flows. Major equity stakes in "Sogaz"

belong to the old friend of Putin from St. Petersburg - Yuri Kovalchuk, 12.5% to Ksenia Frank, the daughter of yet another old Putin's acquaintance - Gennady Timchenko (he has personally transferred his rights to that package to his daughter in 2014 after he had US sanctions imposed upon him) (105)). Ksenia Frank (known as Timchenko in her maiden years) is married to Gleb Frank - the son of Sergey Frank, who is the former Minister of Transportation and nowadays is the head of "Sovkomflot." Incidentally so, Gleb Frank together with Maxim Vorobyov, who is the brother of Andrey Vorobyov - the governor of the Moscow Region, in 2017 had a quota to fish harvest 15% of pollock and 10% of Pacific herring in the Far East basin (106), own the Russian harvest catching company (RRPK). As for "Sogaz" company from March 2016 it was headed by the Anton Ustinov, who is a long-term assistant to the head of "Rosneft" - Igor Sechin. And before him the insurance company was presided over by the son of former Chief of the Presidential Administration - Sergei Ivanov (he is the head of the diamond mining monopoly "Alrosu" now, and up until 2011 was an employee of "Gazprombank," rising to the position of its Vice-President at the age of 25 in 2005).

And there you have it - such a cozy family hobnob. Oh yes, but that is not all! Mikhail Putin, who is the first cousin once removed (107) of Vladimir Putin, the President of Russia, and is working as Deputy Chairman of the "Sogaz" Board.



ALINA  
KABAEVA

Another siphoned off asset is the largest non-governmental pension fund “Gazfond” with a total amount of 420 billion rubles in pension savings that are being managed there. The president of the fund, who oversees these ginormous funds is Yuri Shamalov, the son of Nikolai Shamalov, who also is an old pal of Putin from St. Petersburg as well as his partner in the summer residences (dacha) cooperative “Ozero. [Lake]”. Shamalov Sr., is a co-owner of the St. Petersburg’s «Rossiya Bank,» the main shareholder of which is the already mentioned Yuri Kovalchuk, yet another partner of Putin at the “Ozero” cooperative. Also, Kovalchuk is the owner of the National Media Group, that owns the “Channel One,” the “Fifth Channel,” “REN-TV,” and the “Izvestia” newspaper. Kovalchuk’s media structures are the recipients of billions in subsidies from the state budget. And the Board of Directors of the National Media Group is headed by the infamous Alina Kabaeva.

The summer house cooperative “Ozero” is located on the prestigious Karelian isthmus near St. Petersburg. It was established by Vladimir Putin and its seven other shareholders in 1996. Most of them started controlling the country’s most important cash flows during Putin’s Presidency. Vladimir Yakunin oversaw the Russian Railways Network in 2005-2015. Yuri Kovalchuk is the biggest shareholder of “Rossiya Bank,” the owner of “Sogaz” and the “National Media Group.” Nikolai Shamalov is a co-owner of “Rossiya Bank” and the father of Yuri and Kirill Shamalovs who have dipped their grabbing tentacles right into “Gazfond” and “Sibur.” Vladimir Smirnov, who in 2002-2007 used to be the Director of “Techsnabexport” (a monopoly

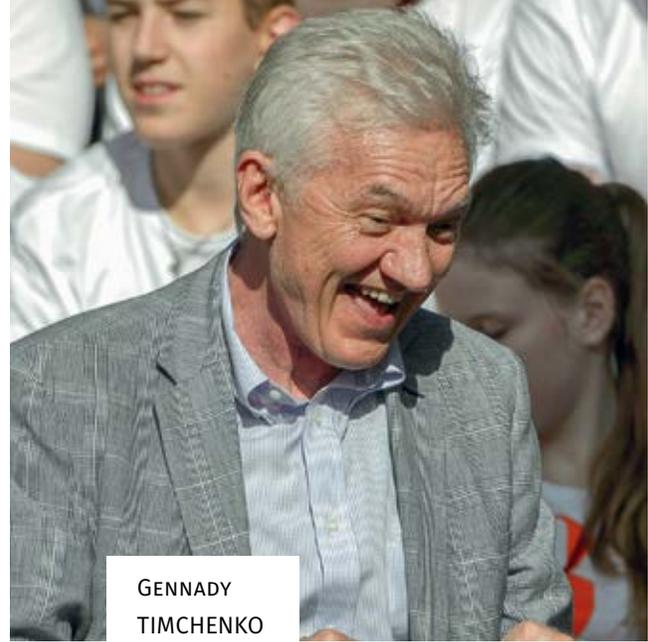
supplier of enriched uranium to Russian and overseas nuclear power plants), and in 1997-1998 he was also the CEO of the St. Petersburg’s Fuel Company, where the notorious criminal kingpin - Barsukov -Kumarin was the Vice-President in the late 1990s. Appropriately so, Andrei and Sergey Fursenko - the former Minister of Education of the Russian Federation, and the President of the football club “Zenit” (who in the past also used to be the President of the Yu. Kovalchuk’s National Media Group) (108).

According to the statements of businessman Sergey Kolesnikov, who was working directly with the Putin’s inner group and later emigrated from Russia- Nikolai Shamalov allegedly in the 2000s was involved in attracting hundreds of millions of dollars from businessmen Roman Abramovich and Alexei Mordashov in order to as if to fund the procurement of medical equipment for charitable purposes. However, later on, these funds were used to buy up assets in favor of and to satisfy the interests of the shareholders of the St. Petersburg’s “Rossiya Bank,” including the assets of the infamous “Sogaz,” as well as for the other assets of “Gazprom” (109).

However, the most interesting subject in the case of the Shamalovs family is the younger son Kirill, who after marrying Putin’s daughter - Katerina Tikhonova became related to President Putin. The Foundation of Katerina Tikhonova “Innopraktika” occupies some impressive territories on the Moscow State University campus and receives multimillion-dollar funding from the biggest state-owned companies (110). For instance, in the years



KIRILL  
SHAMALOV



GENNADY  
TIMCHENKO

of 2015-2017 “Innopraktika” has signed contracts with “Rosneft” for 600 million rubles (111).

However, all that activity of “Innopraktika” is kids’ play stuff by the scaling standards of the Putin’s family. Putin’s son-in-law, Kirill Shamalov, recently pulled a much grandeur deal: in 2014 he bought a block of stocks from Gennady Timchenko (that very same guy) in “Sibur” - the largest oil and gas chemical company in the country, using as they say that very loan (the terms of that loan from “Gazprombank” remain the strictest secret, but they were most likely, extremely-favorable.) In 2016, for the very first time upon becoming the owner of that block of shares Shamalov Jr. made it on the list of Forbes billionaires with his capital estimated at \$ 1.3 billion. And then in 2017 Kirill Shamalov sold the lion’s share of his stake in “Sibur.” According to the expert evaluations he has received more than \$2 billion in cash for it (112).

Recently there were media reports claiming that at the end of 2017 Kirill Shamalov has allegedly divorced Putin’s daughter. Nonetheless, it is like paraphrasing the old joke: I may or may not have gotten a divorce, but regardless of the outcome, I have got my two billion dollars. And Putin’s deeply rooted partnership with the Shamalovs family remained alive and continues to live on.

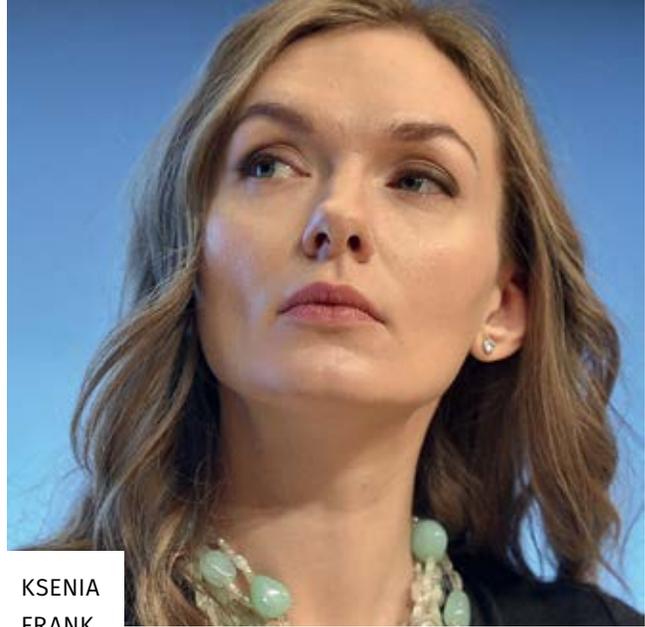
The rest of the cooperative «Ozero» members have been doing quite well for themselves as well. As we have already mentioned, Yuri Kovalchuk is the owner of the largest insurance company – “Sogaz” and the “Rossiya Bank,” which at the time of Putin’s coming to power was a barely noticeable tiny St. Petersburg’s bank, and now

it is listed as 13th in the list of ratings of all of the biggest Russian banks as far as their assets are concerned. His son - Boris Kovalchuk is the CEO of the largest energy company “Inter RAO,” which was built on the foundation of a number of cumulative assets of the former “RAO UES” combined together (more than 10% of the installed generating capacity, foreign assets, the monopoly on the electricity export and import). By the way, the Chairman of the Board of Directors of “Inter RAO” who is also the head of “Rosneft” is Igor Sechin, and the company that he is in control of is “Rosneftegaz,” also he factually same the largest shareholder of “Inter RAO” (owns a block of 27.6% of shares).

Gennady Timchenko is yet another co-founder of the cooperative partnership “Ozero.” The author of this report, Vladimir Milov, had to defend himself against Timchenko’s lawsuit over the first report “Putin. Results,” which was released in 2008 with Boris Nemtsov: Timchenko filed a lawsuit against Nemtsov and Milov, demanding from them to refute his ties to Putin. Although, the decision of the court was made in favor of Timchenko (and later on the bailiffs at Timchenko’s request even blocked any travels outside Russia for Nemtsov and Milov, demanding of them to print the official rebuttal correction statement regarding his involvement in corruption), despite all of that the Russian court ruled on an unprecedented reduction of the amount of the claims Timchenko made, which were granted, and decided to refute only a couple of phrases in the report (113). In those phrases it was mentioned that before Putin came to power, Timchenko was merely a humble businessman with



ARKADY  
ROTENBERG



KSENIA  
FRANK

an income of several hundred thousand euros a year. Boris Nemtsov managed to obtain his income tax declarations, that had been filed in Finland (Timchenko is a citizen of that country). However, all of a sudden, as if by the wave of a magic wand, after Putin's coming to power, Timchenko has catapulted to success. His trade company "Gunvor" became the biggest exporter of the oil produced by the Russian state-owned companies (114). Timchenko is also one of the shareholders of the "Rossiya Bank," that belongs to Yuri Kovalchuk. A while ago, he started acquiring assets in Russia, becoming one of the largest shareholders of "Novatech," which is a number two natural gas producer (after "Gazprom," which in all truth has lost its place to "Rosneft" gas production in the recent months, therefore shifting from the first place to the second) one of the largest contractors of "Gazprom" – "Stroytransgaz," the largest oil and gas chemical holding "Sibur," and the largest insurer "Sogaz" (later on he sold his package of shares in "Sogaz" to his daughter -Ksenia Frank), one of the largest producers of fish "Russian Sea" products (now it is called «Russian aquaculture,» this package Timchenko later sold to his son-in-law Gleb Frank, the co-owner of the company is Maxim, who is the brother of the governor of the Moscow region Andrey Vorobyov).

Timchenko has also been associated with one of the largest oil companies in Russia: "Surgutneftegaz" (for a long time, it ranked as company number three in the oil production field, following "Rosneft" and "Lukoil," however it lost that position to "Gazprom Neft" in 2017). There is a huge mystery: who is the owner of



YURI  
KOVALCHUK

"Surgutneftegaz" as the company's shares are distributed between a constantly changing set of enterprises with ultimately unknown beneficiaries. Nonetheless, even in 2002-2003, when "Surgutneftegaz" has abruptly curtailed its listing plans on the New York Stock Exchange and stopped issuing its financial statements according to international standards in the oil and gas industry, the most popular explanation to that fact was that the company was «bought by some of the Putin's pals.» Timchenko's candidacy fits the profile of such a potential buyer best since his business of selling petroleum products from the "Kirishi" plant, which located near St. Petersburg was directly connected with "Surgutneftegaz" (the "Kirishi" merged with "Surgutneftegaz" when corporatization and privatization began). Timchenko himself has admitted



DMITRY  
MEDVEDEV



VLADIMIR  
YAKUNIN

more than once that he had close historical ties to the leaders of “Surgutneftegaz.” «Do you know who spent his nights and days in Surgut, who has ruined his liver there? It was - I! I was constantly flying there from Finland» – this is a quote from the Timchenko’s interview with Forbes (115). Up until 2003, business press has been constantly writing about the attempts of the competitors to absorb “Surgutneftegaz,” the corporate governance in the company was lame, nonetheless, there had been billions of dollars in cash accumulated on its accounts, it was a profitable takeover prospect (that accrued cash could have been used immediately to pay off the creditors for the purchase of the company). However, after 2003 those attempts stopped since in the industry «everyone understood everything.» In 2004 “Surgutneftegaz” has received Yakutsk’s assets of the former “Yukos” company, and is acting rather assertively, despite all the bacchanalia of acquisitions of some other private enterprises, which has been in full swing in the country. With a great deal of certainty, one could assure that the control over the company was transferred to Putin’s in-crowd clique.

Most probably, the most recent scandalous and quite unacceptable story of a kickbacks provided for the Prime Minister Dmitry Medvedev for the purchase of some expensive real estate through some charitable foundations channels is linked to Timchenko’s main asset - the “Novatech” company. It has been reported by Alexey Navalny and the Anti-Corruption Foundation in format of a film-investigation titled: «He is not your average, Dimon,» which became quite a sensation all over the country (116).

Among all of the people who sent big contributions to the charitable funds for Medvedev’s real estate purchase, the name of Leonid Mikhelson, the co-owner of “Novatech” has also been mentioned. At the same time, “Novatech” has received unprecedented benefits from the state in the recent years for the construction of a “Yamal-LNG” natural gas liquefying plant on the Yamal Peninsula. The company has received the right to export liquefied gas to the profitable world markets, and at the same time was exempted from the tax on natural resources exploitation and export duties. It also got 150 billion rubles in cheap loans from the National Welfare Fund (which was created as mine and yours «Future Generations’ Fund!» Incidentally, “Sibur,” which is owned by Timchenko and Shamalov has also received \$1.75 billion in a similar concessional loan). The state has built “Sabetta” port for 97 billion rubles for the project. In exchange it gets zero taxes for the duration lasting more than ten years. If it is not corruption, then what is that?

One more member of the “Ozero” cooperative and the former head of the Russian Railways Vladimir Yakunin, is doing great as well despite having lost his position of the railway monopoly leader. Aleksei Navalny has depicted in detail his luxury real estate with a dedicated “fur coat cold storage» (117), and his children (who as it appears are both British citizens) are also quite well off. The oldest son - Andrey heads a developer business, which has been actively using the lands of the Russian Railroads along with the funding coming from the pension fund of RR «Blagosostoyanie» (117) (118). The youngest son - Victor

heads the Russian representative office of the same oil trading “Gunvor” company.

There are those in the Putin’s close circle, who weren’t the members of the “Ozero” cooperative, but they are prospering regardless. The head of “Rosneft” - Igor Sechin, who was Putin’s personal assistant in St. Petersburg City Hall once upon a time, is not just famous for buying luxury yachts for his young wife (119), but also for being a head of the interim company “Rosneftegaz,” which is controlled de jure by the state and is not engaged in any business economic activities in real life, but is still accumulating ginormous (around one trillion rubles) in dividends on its state-owned block of shares in the biggest companies: “Rosneft,” “Gazprom,” and “Inter RAO,” and he does not give them back into the budget (120). Or the judo sparring partner of Putin - Rotenberg, who has become one of the «kings of the state procurement» (we’ve written about him earlier). Or the former Putin’s co-worker in the GDR - Sergei Chemezov, who is heading the state corporation “Rostech” from 2007, which has monopolized control of all the branches of the machinery-producing industry and the military defense complex.

Frankly speaking, it was incredibly disgusting digging for dirt in this family hobnob. We are not bound to make the list of all episodes of Putin’s corruption – that would call for writing many volumes circa complete edition of Lenin’s works. Read on the investigations by Alexey Navalny and the Anti-Corruption Foundation, they been for many years unveiling all of these disgusting criminal inward details of grand theft committed by the Putin’s «vertical of power.» These people have seized political power with the objective to make themselves rich by using the state procurement system and the money flows from the state -owned monopolies, utilizing the administrative resources in order to force the oligarchs to pass the hat to buy the luxury estate, and to buy up assets. With the help of the siloviki and the fully controlled bias court system, entrepreneurs are being terrorized and are being “squeezed out” of their independent business ventures. We’ve written about all of it earlier. Also, they upkeep TV and other powerful media outlets with the help of subsidies from the taxpayer funds, which we - the taxpayers are paying for. These media outlets are brainwashing the citizens of the country all day and all night long by talking about the «American threat,» and diverting attention from the way Putin and his clique are pillaging the country. And throughout all of this time,

there are enormous cash flows, which are not being spent on funding education, healthcare, salaries of the ordinary policeman and the military personnel, but they are used for feeding that very same family hobnob of Putin that we have described earlier.

One can often hear from some simple Russian folk: «Officials in Russia have always been stealing.» Not at that rate though, actually never before has Russia received trillions of dollars in export revenues, and there has never been such a long period of relatively high oil prices (even \$ 40-50 per barrel are incredibly high prices historically). Even the government itself recognizes the scale of the problem: the deputy head of the Federal Antimonopoly Service, Tsarikovsky admitted in 2017 that at least 10%

**Most likely the most recent sensationally obscene story about a bribe for the Prime Minister - Dmitry Medvedev to buy expensive real estate through charitable foundations is linked to the key asset of Timchenko - the “Novatech” company.**

of government procurements in Russia (in fact it is much more than that) for a total of 1 trillion rubles are taken by the cartel agreements. The procurement price with cartels’ participation is usually higher by 20-30%, which translates into the losses of 200-300 billion rubles for the state sales, not to mention the state-owned buying companies (121). In 2010 Dmitry Medvedev, acting then as the President has admitted in his address to the Federal Assembly, that the number of bribes, kickbacks and frivolous spending in the state procurement sector «according to the most conservative estimates» was at least one trillion rubles (122). In reality, of course, the volume of theft was much higher. Medvedev’s quote on the amount of kickbacks spread like a wildfire so now the authorities opt not to share the information so openly anymore. Nevertheless, it is possible to grapple the scale of the problem by following regular investigations by the Anti-Corruption Foundation of Aleksei Navalny, who did a great job revealing cartel collusion agreements in the public procurement sector, and exposed other forms of the public funds embezzlement.

Corruption is the key factor undermining the country's competitive edge in the international arena. As it has been pointed out in the numerous opinion polls conducted among entrepreneurs, and it is particularly affecting Russia's ranking in the global competition rating by the World Economic Forum (77).

Russia's ranking place in the above-mentioned rating of global competitiveness in a few areas, which are reflecting the horrid plight of corruption in the country speaks volumes. The favoritism of the state officials in their decision making (favoring affiliated structures) puts us on the 66th place in the world, bribes put us on the 76th, on misuse of budgetary funds on the 82nd, the independence of the judiciary system on the 90th (77th). Many countries in Asia and Africa have left us far behind in that rating.

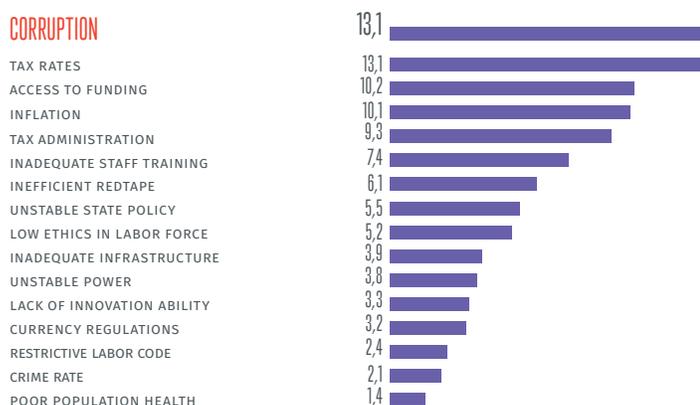
Putin's supporters like to boast about Russia's overall high place in that ranking of competitiveness in (we are number 38th in the world). However, that ranking was possible due to a very narrow set of indicators of the fields where we do really take a lead: low level of state debt, vast domestic market, high mobile phone connectivity (which as you understand, is one of the few sectors that was doing well sans the aid of the state until recently). And we also, for instance, got the first place in the world in successful fight against malaria (Russia was lucky not to not be located in the tropics). At the same time, as the saying goes: «everything we make with our own hands» comes out to be much worse ...

These sad, tragic numbers attest to the fact that Russia will never be able to switch to developing ways and increase its global competitiveness, unless it destroys the mafia state system, created during Putin's rule.

Does Putin personally own any assets? One day we shall know that for sure, but the matter of fact is that in Putin's Russia, there is a widely accepted pattern in which a certain big businessman is nominally acting as a «façade» of some big business venture, and somewhere far away in a top-secret safe, or in an oral agreement form exists a «conceptual» agreement with the real beneficiary - owner of the business assets and he is a high-ranking authority figure. For instance, this pattern was discovered during court hearings of businessman Shalva Chigirinsky and the family of former Mayor of Moscow Luzhkov. Chigirinsky was believed to be the owner the Moscow oil refinery plant and other assets, but the documents submitted to the High Court of the United Kingdom later on indicated that the true beneficiary of one half of all assets was the Luzhkov's family. (123).

The authors of this report spent many years investigating the corruption of Putin's clique. They were publishing reports on this subject and even got sued by the billionaires from Putin's inner circle. As the result of it all we have arrived at the utmost certain conviction that Putin is the true owner, who is standing behind most of the assets, which are believed to be in the ownership of his buddies. There is great deal of indirect signs pointing in favor of this version. It was way too easy for these people to get awarded big contracts, for the sake of making them rich at the highest state level. Full-fledged projects, that are redundant for anyone's use are being concocted for the sake of their enrichment at the highest state level. Their capitals appear out of nowhere, however in most cases it emerges due their close connections with the red tape institutions and are thriving on the cash flows coming from the state and state-owned companies. For many years on end state agencies obediently award these «businessmen» with generous contracts, benefits and privileges, state preferences (check out the same story with «Yamal-LNG»). Obviously, that would not be possible without direct coordination coming from the very top. And, on the other hand, these «businessmen» circa Putin's St. Petersburg draftees do not act the way the traditional representatives of private businesses do, they have miniscule connection with international capital markets, they do not attempt to take part in the global expansion, they just

## Corruption as the main factor of Russia's lack of competitiveness



Source: World Economic Forum, Global Rating of Competitiveness 2017-2018

keep on accumulating wealth, which is generated by their close proximity to state cash inflows. “Surgutneftegaz,” which we wrote about before is the most exotic example from this series. For many years it has been accumulating ginormous amounts of cash on its accounts (it is \$ 34 billion now) which is not being invested anywhere. It is like a private stabilization fund «for a rainy day» of sorts. Such behavior is unusual for the real business owners, although is rather typical of the «monitoring observers» who manage the assets on behalf of a certain big wig.

We gather that you can make a guess about who that «big boss» is. Also, one can see with a naked eye that Putin lives way beyond his means: the creator of the Anti-Corruption Foundation – Aleksei Navalny has recently published some information about the price tag of the wrist watches that Putin wore as of late (he was photographed with numerous brands of super-expensive watches on his hands). The price of the watches worn by Putin, which got captured in photos alone totals 36 million rubles. That is almost the same amount that Putin has declared as his income of a «presidential candidate» (38 million).

Although, in the recent years reporters did succeed in catching Putin personally participating in business through some trusted “titular front-chairmen» nominal owners of some business structures, who obviously are Putin’s personally authorized agents. They receive generous gifts from state agencies, frequently not having a single clue in the nuts and bolts of such transactions. The reporters from The reports from the Organized Crime and Corruption Reporting Project (OCCRP) were particularly successful in dragging Putin’s personal corruption financial schemes out in the open. They published the so-called «Panama documents» in 2016, which are the archives of Mossack Fonseca’s law firm in Panama, that serviced offshore politicians and businessmen around the world. Based on the archives it was evident that a number of offshore companies was owned by a cellist - Sergei Roldugin, who is the Godfather of Maria - Putin’s eldest daughter. For a number of years, approximately \$2 billion coming from big state-owned and some oligarchic structures went through his off-shore accounts. Also, those transactions made no economic sense at all as the money in fact, was simply given as a «gift» (124). The cellist Roldugin himself is a type of man, who clearly is far and away from the business grasp and understanding of the basics of financial and economic activities, and he has admitted that many times during this interview, just listening to his speech

would suffice. Well, at least he is not shy about telling about his historically close relationship with Putin: «He is like a brother to me» (125). Apparently, he was a nominal figure in these off-shores, and the money was intended for the same «big boss.»

There’s a similar story with the childhood friend of Putin - Peter Kolbin (their fathers were friends), who is a former co-owner of the oil trading company “Gunvor” with the estimated fortune of half a billion dollars (126). In the recent OCCRP investigation a separate role was given to yet another person acting in the same capacity - Mikhail Shelomov, the son of Putin’s cousin Lyubov Shelomova (127). According to the OCCRP general assessment the cumulative amount of capital owned by the people from so-called «personal circle» of the Russian President Vladimir Putin amasses \$24 billion.

Russia, for how much longer will you tolerate this shameless pillage? ■

# 8.

## Isolation



According to the poll of “Levada Center” 54% of the Russian people even way back in 2015 felt that Russia was in the state of international isolation. Since then on, the situation has gotten worse. The active combat operations wagged by the Kremlin in the various countries have resulted in Russia being perceived as an unreliable and aggressive partner by the world. That led to the seized cooperation on a number of vital economic projects, political tension, and subsequent sanctions against Russian companies and state officials. It is now has reached the point of direct armed clashes with the USA: in February 2018, for example, American Air Forces bombed a column of President Assad’s supporters in Syria, as result dozens of Russian militants have died.

The studies of the public opinion polls demonstrate that the majority of the citizens of our country are worried about the confrontation with Western countries and would like would to go back to the peaceful relations with them (128). So, why is Russia with Putin at the head of the state is sinking deeper and deeper in the geopolitical conflicts?

### **PUTIN’S AMBITIONS**

The Kremlin’s propaganda is consistently creating the image of Putin as that one of the most powerful world leader. “He is the most influential person in the world, and we are lucky. Putin is our military glory, Putin is the

flight of our youth, he is fighting and winning while he is singing, our folk is following Putin's steps," – said the anchorman of the federal television channel "Russia-1" - Dmitry Kiselev (129).

Evidently, this is the exact type of leader that Putin perceives himself to be. And one of the major tasks of the Kremlin's policy at the international arena is to get the world leaders to admit to the greatness of the Russian President.

It is quite difficult to garnish that kind of recognition based on Putin's rather modest economic success in the background. We have already determined earlier on, how dismally low is the share of Russia in the world economy. And, here is how our "economic might" looks like against the backdrop of the other world centers of power (54): Russia's share in world GDP plummeted to less than 2% compared to the 26% of the USA, to the 23% of the European Union, and to the 16% of China, etc.

After not having attained success in the economic development of the country and having not advanced the position of Russia to the frontiers of the world markets, the leader of the Russian state has placed his stakes on the military force and an aggressive external policy. According to the view point of the former Polish Foreign Minister Radek Sikorski, Putin is certain that "he is dealing with degenerate whimps in the West, and that he can gain his desired concessions by applying force." Sikorski characterized Putin as a politician with a "downplayed sense of danger" (130).

## GEOPOLITICAL ADVENTURES

Way back in 2007 at an international conference in Munich Putin made a speech that has factually launched a systemic confrontation with the West. In his speech he was telling about the unipolarity of world politics, the NATO attack and the changing role of Russia in the world. It was exactly after that address that analysts started talking about the commencement of a new cold war. American Senator Lindsey Graham noted at that point that: "With just that one speech which he has delivered, he has done more for the unification of the USA and Europe than we could have ever done in a decade" (131).

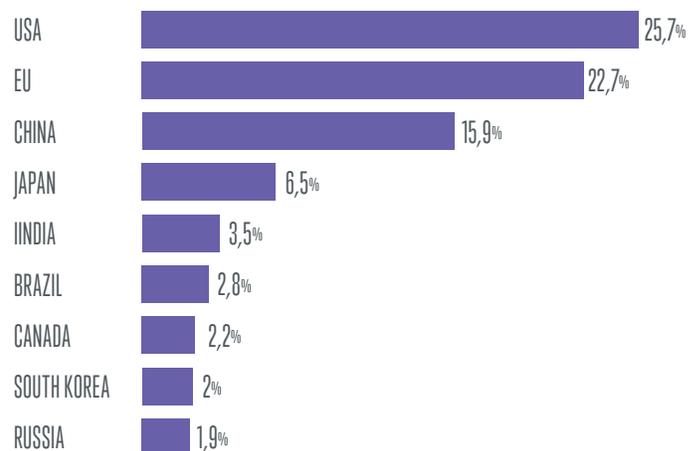
Starting from the year of 2008 the leadership of Russia has dragged our country into a whole number of armed conflicts.

In January 2008 at a referendum in Georgia 77% of the citizens of that country expressed their chose in favor of joining the NATO bloc. That led to an exacerbation of bilateral relations between the leaders of Georgia and the Kremlin, which ended in a military invasion of the Russian army. That confrontation resulted in the final divestiture of the two territories: Abkhazia and South Ossetia from Georgia, which later were officially recognized by Russia as independent states. Practically both republics are still in existence only due to the Russian state subsidies: for example, 89.7% of the budget of South Ossetia in 2017 was comprised out of the Russian transfers (132). (Russia spends more than 13 billion rubles a year in total for direct financing of Abkhazia and South Ossetia (87)). According to official data in the course of the military engagement in 2008 Russia bore the following losses: 74 people died, 19 went missing, and 171 were wounded (133).

In 2014 as a result of the civil stand off the Ukrainian President Viktor Yanukovich, who was in close contact with the Kremlin's administration has resigned. He fled the country and was granted an asylum in the Russian land. Political forces that were aiming at the European integration came to power in Kiev. That became the reason for the Russian aggression against Ukraine, which was paired with the annexation of the territory of that state, and a direct military invasion. The outcome of that confrontation was the annexation of Crimea by Russia, which was done with a flagrant violation of the international law and the previous obligations

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### Russia's share in the world GDP



that Moscow had agreed upon earlier, along with the creation of the marionette «republics» on the territory of the Ukrainian Donbass, which receive their fiscal and army support from Russia and are engaged in an active military combat opposition against the Ukrainian army.

Since the summer of 2015, Russia has been actively participating in the civil war in Syria on the side of its governmental forces. Both the army units and the Russian mercenaries, that were hired by private military companies are involved in the military clashes, which constitutes a violation of the Russian legislation. The Russian authorities do not just keep silent about those mercenaries, who died in Syria, but they also are downplaying the number of losses among the regular servicemen. These are buried in secret, while their relatives are forbidden to tell the reporters about the dead. That is the same way that the Soviet authorities acted in during the invasion in Afghanistan (134).

In November of 2015, Russia found itself on the brink of an armed conflict with Turkey. During that fall, the Russian Air Force planes violated Turkey's airspace several times in conjunction with their military combat operations in Syria. NATO made statements that the Russian Air Force had been deliberately and systematically violating the airspace of the member countries of the bloc alliance (135). On November 19, Russian bombers delivered a blow at the settlement of Turkoman Turks in Syria, who are being supported by the Turkish government. Just a few days after that a Russian Air Force bomber aircraft was shot down by a Turkish fighter while invading Turkish airspace. Military conflict escalation development was avoided, however, the conflict resulted in mutual sanctions being imposed, which resulted in a steep decline of the trade turnover between Russia and Turkey for several years (136).

Aside from the armed conflicts, the Kremlin was actively striving to influence the domestic policies of various countries through the use of the diplomatic methods. As a general rule though, those attempts did not yield any satisfactory results. For instance, in 2015, Putin conducted a meeting with the Greek Prime Minister - Tsipras, who was in a state of a bitter quarrel with the leaders of the European Union and announced about his readiness to provide the Athens with a substantial loan that could have solved the fiscal problems of Greece. Nonetheless, despite of all the passes made by

the Kremlin, the Greek Prime Minister voted in favor of keeping the sanctions against the Kremlin alongside with all the other leaders of the EU. «We will not disrupt European unity over this issue,»- Tsipras said. Russia gambled a lot by betting on the ultra-right and anti-European forces in France coming to power. The leader of the «National Front» - Marin Le Pen was welcome by Putin in the Kremlin and has received a substantial political and organizational support from the Russian institutions. Nevertheless, the Kremlin's activity in the European elections resulted in the unification of the French establishment around the pro-European candidate Macron, who has eventually delivered an overwhelmingly defeating blow to Le Pen in both the Presidential and the Parliamentary elections.

## **THE RESULT**

It is evident that by actively getting involved in armed conflicts in various hot spots around the globe, as well as by trying to influence the outcome of elections in the European countries, the Kremlin has aspired to force the West to conduct a favorable dialogue with it and re-establishing a new system of international relations, in which Putin would have played an equal role with that one of the US President. In the Kremlin they do not hide the fact that the main target of the international activities of Russia is the creation of a new world order, and the placing of accords with the United States circa "Yalta accords" of 1945 between Roosevelt and Stalin.

Nevertheless, the global results of the Kremlin's foreign policy were in obvious contradiction to Putin's expectations and have caused an enormous damage to the national interests of our country. Listed below are the main geopolitical outcomes of Putin's rule.

## **1 POLITICAL ISOLATION OF RUSSIA.**

In 2014 after the accession of the Crimea into Russia our country was factually excluded from the G8 - the club of leaders of the most powerful countries in the world (137). (One of the authors of the current report was present at the G-8 summit in Canada in 2002 as a member of the Russian delegation and was astounded to observe how very happy the representatives of the Western states were to see Russia in the club of the most influential countries of the world, and how they were anticipating our active participation in finding solutions for the global problems. Alas, Putin took our country

on a different route). In 2014, the NATO bloc suspended conducting military and civil meetings with Russia, and it also turned down any plans for joint military missions.

The Russian delegation was stripped of its right to vote and the right to hold leading positions in the Parliamentary Association of the Council of Europe, and, as a matter of fact it has seized its participation in the work of the organization. At the very same time the cooperation within the framework of the Russia-EU Committee of the European Parliament was terminated as well.

Western countries have initiated a policy of imposing sanctions upon Russia. Sanctions of such magnitude have not been imposed even on the Soviet Union; as of today Russia is among one of those countries against which the most serious international sanctions have been imposed: the DPRK, Sudan, Iran, Syria (well, it goes without saying that Putin has found some swell company for Russia to replace the G-8, that is for sure). Up to date, dozens of Russian officials, officers, business representatives, media reps, as well as companies are under the sanctions.

The list of countries that can probably be considered Russia's allies today hardly exceeds the framework of those 25 states that in December 2017 voted against the UN General Assembly resolution on the Russian-Ukrainian conflict. Not including Russia, itself, these are the following countries: Armenia, Belarus, Bolivia, Burundi, Cambodia, China, Cuba, North Korea, Eritrea, India, Iran, Kazakhstan, Kyrgyzstan, Myanmar, Nicaragua, Philippines, Serbia, South Africa, Sudan, Syria, Uganda, Uzbekistan, Venezuela and Zimbabwe (138).

## **2. THE ECONOMIC DECLINE.**

The sanctions, which Russia has found itself under as a result of Putin's foreign policy have placed the economy of Russia in perils. They caused a sudden drop in the investment flow into our country and, as an outcome a sharp increase in the tax burden imposed on the Russian citizens and the local business. The tight squeeze on the external credit portfolio of the Russian corporations and banks since July 2014 has amounted to about \$200 billion (139). Our companies and banks were forced to repay their external debts, while having lost the opportunity to borrow new funds on the external

markets. The sanctions have accelerated the inflation rate and have also caused a sharp devaluation of the ruble. In 2014, the ruble was the most rapidly devalued currency out of 170 of the world currencies (140). Even the anti-Western adviser to the Russian president, Sergei Glazyev, has estimated that only in the first two years the loss for our country from the sanctions imposed as \$250 billion (141).

## **3 THE DECLINE IN THE QUALITY OF LIFE OF RUSSIAN PEOPLE.**

The decline of the economic growth caused as a result of Russia's isolation, forced the government to limit the funding of such expenditure items in the budget as social services while increasing funding to support the companies, which were affected by the sanctions at the same time. The National Welfare Fund and pension savings of the citizens became the sources of funding for the affected companies. According to the "Levada Center" polls, more than 80% of Russians felt the decline in their living standards as a result of our country's opposition to the West and the sanctions policies that have been imposed (142). The real income of the population has been declining for the fourth consecutive year in a row (143). The significant deterioration in the country's economic situation resumed the demographic crisis: the birth rate in 2017 declined by more than 11.5% (144). ■

# 9.

## Degradation

One of the major, and perhaps the most dramatic outcomes of Vladimir Putin's rule is the moral degradation of the elite along with some parts of the Russian society. Hypocrisy, cynicism and double thinking have become a social behavioral norm, the example of which is being demonstrated at the highest state level.

The President proclaims spiritual bonding staples, family values and traditionalism as the most important elements of the Russian statesmanship. At the very same time the high-ranking state officials themselves are not acting as ideal «guardians of family values,” to put it mildly. Vladimir Putin, presidential spokesman Dmitry Peskov, Moscow Mayor Sergey Sobyenin they all have demonstratively divorced their wives. Sometimes the state officials stage a fake divorce in order not to declare their true wealth, which is officially registered in their wives' names as it has been, for example, in the case of Minister Mikhail Abyzov (145). Vice Prime Minister Sergei Prikhodko, who has been married for many years was discovered in the company of prostitutes on a personal yacht of billionaire Deripaska (146).

“Today, in many countries, they conduct the re-evaluation of the norms of morality and virtue, and they place a demand on society to recognize the equivalence of good and evil, which are completely opposite concepts in their connotation. Nevertheless, we are aware that there are more and more people in the world, who

are supporting our point of view on the protection of traditional values, which have been for thousands of years the spiritual and moral foundation of the civilization for every people: the values of a traditional family - the true form human life,” - as Vladimir Putin was stating at the very same time (147). It is not quite clear what does he mean by the “traditional values” and “the value of the true form of human life,” given that the official power and state propaganda in its background are all doing their very best to invoke the worst traits in people, starting with the mass public justification of Stalinist repressions and singing praises to Stalin, before wrapping it all up with the adoption of the law on exemption from criminal liability for domestic violence being approved by the State Duma and signed it into effect by the President (148).

The representatives of the Russian authorities are impressing upon the general public the necessity to live in Russia, to go on vacation in Russia, to seek domestic medical treatment, and to buy local products exclusively. The sanctions imposed on the food imports from the developed countries, which were introduced by the Russian government in 2014, resulted in a sharp hike in food prices and contributed into the impoverishment of the Russian people. As we have already mentioned above, the sanctions have only made a small handful of large agro-holdings, the ones that have close ties to the



government and their offshore owners rich (42) (43). “It was the biggest blow for the Russians, that was inflicted exactly by the anti - sanctions that our government is factually imposing against its own people,» - said Vasyli Solodkov, Director of the Banking Institute of the Higher School of Economics (149).

While restricting access of the Russian people to the products of the western consumption, the leaders of the country opt for overseas as a choice for their own relatives. As for example, the former Minister of Agriculture in Putin’s government Yelena Skrynnik did (who was accused of corruption and embezzlement of the state funds in large amounts, but whose criminal case has later somehow “dissolved”), who has been living on her estate in France for several years, and that is exactly where she preferred to give birth as well (150). As it happens, Skrynnik is constantly making statements in the Russian press with appeals to eat only domestic food and to close all the borders for all imported food items (151). One would be curious to learn whether she gets Russian food products delivered to her in France. Vladimir Putin’s daughter Maria lives in Holland (152), daughter of the Russian Foreign Minister Sergei Lavrov – Ekaterina resides in the United States. The daughters of the Vice-Speaker of the State Duma - Sergei Zheleznyak, who has for many years been advocating the “ultra-patriotic” rhetoric and legislative initiatives,

which are restricting the rights of the Russian people under the pretext of “fighting for patriotic values” live in Switzerland and England (153).

Another Putin’s partner in the “Ozero” Cooperative, whom we have already mentioned before, and who is the former head of the Russian Railways - Vladimir Yakunin, is actively portraying himself as a “kvass patriot,” and he is also publishing a ton of monographs and books on the need to “escape from the inhuman Western model” – has shipped out all of his children and grandchildren to Western Europe, and even made sure they get the citizenship there (154). Well, the state officials themselves as well are organizing themselves “emergency landings” options in the countries of the West: the wife of the Presidential Spokesman Dmitry Peskov has officially arranged the documents in her name for an apartment ownership in the USA (his daughter lives in France permanently), First Deputy Prime Minister Igor Shuvalov has a house in Austria and apartments in the UK, Deputy Prime Minister Olga Golodets owns a country house in Switzerland and an apartment in Italy, Deputy Prime Minister Alexander Khloponin has a land parcel and a home in Italy, Mikhail Abyzov, whom we have mentioned already along with his family have real estate in Italy and in the UK, Lev Kuznetsov - the Minister for North Caucasus Affairs owns several real estate sites in France. (155).

The service staff of the Russian government compiled of propagandists and political activists is used to living in the conditions of double think. The ex-editor in chief of one of the most odious propagandist mass media “LifeNews” - Ashot Gabrelyanov, for example, has been publicly proclaiming an aggressive anti-Americanism, while positioning himself as a Russian patriot. He has been publicly calling the President of the US Barack Obama an «American psycho.» «How could one sell out his Russian past for an American future? I cannot wrap my mind around that.» – wrote Gabrelyanov in social media. However, he succeeded: it was for several years by now since this ex-Kremlin propagandist has been living in the US, where he has been developing

**Relatives keeping silence about the deaths of their sons during armed conflicts on the territory of other countries in exchange for some monetary support from the Russian state has become a norm.**

his business, and writing in the social media outlets solemnly in English (156). Maria Drokova who is one of the most enthusiastic activists of the youth movement, which is supporting Putin has travelled a similar path. There was a time when she was rallying for the erection of a monument dedicated to the Russian President, but she has received a permanent residence permit in the USA in 2017 and publicly proclaimed this country to be her new home (157).

The adoption of the so-called “Dima Yakovlev’s Law,” which was dubbed by Putin’s opponents as «the law of scoundrels” has become the apotheosis of the cynicism of the Russian elite in power, those ones whose own children as a general rule are residing and getting educated abroad. That document has banned the US citizens from adopting Russian children. President Putin signed it into law and said that he “did not see any reason” to reject it. According to the official data of the Russian Federation government alone 200 Russian children were supposed to find their new families in the US in the year of 2013, however, because of that adopted law they were left in the orphanages, boarding

schools and orphanages for infants (158). Putin’s official representative made a statement after the law was passed declaring that all children whose adoption was disrupted “will get their families.” Nonetheless, some of them remained in orphanages (159). Destinies of many children were ruined for the sake of geopolitical games played by the hypocritical pseudo-patriots, who have a personal «spare landing pad» in the West. Is that what Putin and his mafia understand by the “traditional values?”

The moral degradation of governmental officials has a decaying influence over the Russian society. Relatives keeping silence about the deaths of their sons during armed conflicts on the territory of other countries in exchange for some monetary support from the Russian state has become a norm. This is what has been happening with some relatives of Pskov servicemen from the city of Pskov, who perished on the territory of Ukraine, for example (160). It was exactly the silence of the relatives that enabled the Ministry of Defense to conceal the real information about the losses of the Russian army in combat during armed confrontation in the Donbass.

Siloviki have succeeded in paying for the silence in peaceful civil life as well. For example, in 2017, a car with government numbers license plate that belonged to the Federal Security Service of the Russian Federation ran over and killed a traffic police officer - Sergei Grachev in Moscow. The deceased inspector left a wife and two young children behind. The siloviki paid for the funeral, and they paid the spouse some monetary compensation and provided ownership for a three-room apartment. The relatives in their turn refused to make any legal claims and the criminal case was closed. “We were left satisfied,” said the mother of the deceased employee (161).

This phrase, alas, might be the most tragic epitaph for that state of moral and psychological health of the Russian society that Vladimir Putin has driven it to... ■

# CONCLUSION

The beginning of the 21st century has presented Russia with a unique opportunity to create a modern economy which would be capable of competition and to mold a political system that would satisfy the interests of the citizens.

Due to the successful external economic market conditions during the years of Putin's rule, our country has received \$3.5 trillion from the raw materials sales. Such an influx of money into the economy, paired with a loyal attitude on behalf of the population and the stable economic situation, provided the Russian leadership with the opportunity to carry out practically any types of reforms.

Putin has promised many times over to get Russia off the «oil needle.» He had all the opportunities at his disposal to cardinaly change the foundation of the Russian economy. The country had everything required in order to create an up to date modern industry, invest in high technologies, and develop innovation. Nonetheless, the true outcome of Putin's policy is the exact opposite: the dependence of the economy on oil has only got stronger.

Excessive oil super profits have not improved the country for the better, they have just made the Russian «oligarchs» and siloviki, and those close friends of Putin, who are the real backbone of his political regime richer. They were the ones ripping all the benefits and spoils from the prolongation of the Putin's rule.

And, it was the country that became a loser. Small businesses were suffocated by the taxes, the anti-sanctions, and by the administrative pressure. The level of the pension compensation in Russia does not even come close to the one in the poorest European countries. Long-haul truckers are robbed and extorted. Teachers and doctors are being fired all over the country as there is not enough money to pay them their salaries.

Well, at least the army of red tape is steadily increasing. There are more bureaucrats in Russia today then there have ever been in the entire USSR combined. Since 2000 the number of red tape paper pushers per capita has increased more than twice. And they are the ones who are much better off and more satiated than the rest.

Putin assures the general public that he has brought the super power back to life. In reality, he has created a mafia state that nurtures the criminal elite, while humiliating the majority of the population, without providing them with even as much as a mere glimpse of hope for the normal future to the Russian people. ■

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**VLADIMIR MILOV, ILYA YASHIN**

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## **VLADIMIR MILOV**

HE WAS BORN ON JUNE 18, 1972 IN THE CITY OF KEMEROVO. IN 1994 HE GRADUATED FROM MOSCOW STATE MINING UNIVERSITY WITH A PROFESSIONAL DEGREE OF A MINING ENGINEER. IN THE YEARS OF 1997-2002 HE WAS WORKING IN THE STATE AGENCIES, DEALING WITH THE ISSUES OF REGULATING AND DEREGULATING OF MONOPOLIES IN THE ENERGY SECTOR. IN THE YEARS OF 1997-2001 HE WORKED AT THE FEDERAL ENERGY COMMISSION OF THE RUSSIAN FEDERATION. IN 2001 HE WAS THE HEAD OF THE EXPERT GROUP AT THE CENTER FOR STRATEGIC RESEARCH. IN THE YEARS OF 2001-2002 HE SERVED AS AN ADVISER TO THE MINISTER OF ENERGY OF RUSSIA. IN MAY - OCTOBER OF 2002 HE WAS ACTING AS THE DEPUTY MINISTER OF ENERGY. HE OVERSAW THE ISSUES OF ENERGY SECTOR STRATEGY, REFORMS, AND DEREGULATION. HE IS THE SPONSOR OF THE CONCEPT FOR THE REFORM OF "GAZPROM" AND THE CREATION OF A COMPETITIVE GAS MARKET IN RUSSIA, THE IMPLEMENTATION OF WHICH INTO LIFE WAS BLOCKED BY PRESIDENT PUTIN. AFTER LEAVING THE GOVERNMENT, HE CREATED AN INDEPENDENT ANALYTICAL EXPERT CENTER NAMED THE ENERGY POLICY INSTITUTE. HE IS THE AUTHOR OF NUMEROUS ANALYTICAL MATERIALS, CONCEPTUAL REPORTS AND PUBLICATIONS ON THE ISSUES OF ENERGY AND ECONOMIC POLICY, A PRINCIPLED SUPPORTER OF THE FIGHT AGAINST MONOPOLISM IN POLITICAL AND ECONOMIC SECTORS. CO-AUTHORED THE SERIES OF REPORTS: «PUTIN. RESULTS» AND «PUTIN.CORRUPTION» TOGETHER WITH BORIS NEMTSOV. HE IS A SUPPORTER OF THE INDEPENDENT PRESIDENTIAL CANDIDATE ALEXEI NAVALNY, THE HOST OF THE WEEKLY PROGRAM ON THE ECONOMICS ON THE YOUTUBE CHANNEL: «NAVALNY-LIVE/ НАВАЛЬНЫЙ-LIVE.»



## **ILYA YASHIN**

IS A RUSSIAN POLITICIAN. HE IS THE LEADER OF THE SOCIAL AND POLITICAL MOVEMENT «SOLIDARITY.» HE IS A DEPUTY AND THE ELECTED HEAD OF THE KRASNOSELSKY MUNICIPAL DISTRICT OF MOSCOW. HE IS A CONSISTENT CRITIC OF PRESIDENT VLADIMIR PUTIN. HE IS ONE OF THE ORGANIZERS OF MULTI - THOUSAND RALLIES IN THE CITY OF MOSCOW IN SUPPORT OF FAIR ELECTIONS AND DEMOCRATIC REFORMS. HE IS THE AUTHOR OF A NUMBER OF INDEPENDENT EXPERT REPORTS, WHICH WERE DEDICATED IN SPECIFICALLY TO THE REGIME OF RAMZAN KADYROV IN CHECHNYA, AND THE CRIME ACTIVITIES IN THE «UNITED RUSSIA» PARTY. AFTER THE MURDER OF BORIS NEMTSOV, HE INITIATED WORK PROCESS TO COMPLETE HIS REPORT: «PUTIN. WAR.» ON THE TOPIC OF THE ARMED CONFLICT IN THE EASTERN UKRAINE. HE WAS RECOGNIZED AS A PRISONER OF CONSCIENCE AFTER HAVING BEEN ARRESTED AT AN OPPOSITION RALLY IN THE YEAR OF 2011. HE WON THE COURT CASE AGAINST THE RUSSIAN GOVERNMENT AT THE EUROPEAN COURT OF HUMAN RIGHTS IN CONJUNCTION WITH HIS UNLAWFUL PROSECUTION.