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The Politics of Federal Transfers in Putin's Russia: Regional Competition, Lobbying and Federal Priorities

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As the massive federal program for developing Chechnya ended in 2012, Ramzan Kadyrov, the head of the Chechen Republic, faced a challenge of finding new sources of revenue. In his search for new funds, Kadyrov struck upon a new strategy: emulating Tatarstan, a republic widely acknowledged for its success in attracting federal subsidies and federal support for regional projects. In August 2013, the Chechen government established working groups within each ministry to travel to the Republic of Tatarstan to study the republican experience in attracting investments and federal transfers from Moscow.³ This practice has become fairly common as according to Tatarstan's officials, other regional delegations visit Kazan with similar aims almost weekly.⁴ Regions are eager to learn how to best compete for federal funds and, evidently, regional officials believe that there are distinct mechanisms associated with success in this process.

This paper examines the mechanisms available to regions to influence federal policy over transfers. With some exceptions (i.e. Yakovlev et al. 2011, Vartapetov 2011, 2010; Jarocińska 2010; Starodubtsev 2009a), most studies of Russia's fiscal federalism are focused on the 1990s (Treisman 1996, Popov 2004, Zhuravskaya 2000, Martinez-Vazquez 2007, Desai et al. 2005). Several important changes took place during the 2000s in Russia. Most notably, the 2000s were characterized by the period of economic growth and expansion allowing us to assess how the Kremlin has used the new windfalls associated with the rising energy prices, what developmental vision it tried to implement through distributive politics and how the availability of these new funds shaped the strategies and actions of regional governments operating in a more politically and fiscally centralized environment of the 2000s. The few studies that do explore Russia's fiscal policies during the 2000s, focus predominantly on the policies and their outcomes from the perspective of the federal center. For example, Yakovlev et al. (2011) explored the federal center's decision-making logic, arguing that resource allocation trends could reveal the regime's threat perceptions. Vartapetov (2011, 2010) analyzed the federal center's spending in the regions in response to the 2008 financial crisis and the equalization impact of federal transfers. These studies view the federal center as the central decision-maker and the regional governments as the passive 'takers' of federal fiscal decisions. Viewing

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² The author's contribution to the paper was carried out under a research project "Political Competition in Russia: Sub-National Dimension" implemented within the Annual Thematic Plan for Basic and Applied Research in National Research University Higher School of Economics (Moscow, Russia).

³ <http://www.grozny-inform.ru/main.mhtml?Part=8&PubID=44502>

⁴ <http://www.business-gazeta.ru/text/85798/>

intergovernmental flow through the frame of the central government, fits well with the mainstream view about the effects of political, administrative and fiscal centralization undertaken by the federal government in the early 2000s.⁵ We argue, however, that it ignores the importance of regional agency in the process of determining the federal decision-making outcomes in this sphere and needs to be complemented by the exploration of ways regional governments can work to ‘stack the cards’ on their behalf on the issue of federal transfers. With this in mind, below we look at the flows of more politically-sensitive or discretionary funds into the regions, trying to determine the extent of regional agency in this process.

The centrality of the federal center in distributive issues, such as those concerning the intergovernmental financial flows, has been an assumption shared by many studies of fiscal federalism around the world. In a commonly used model of ‘administrative federalism’, regional or local governments are conceived largely as agencies that respond to central directives (Inman 2003). Looking at Putin-era federalism in Russia through a hierarchical, principal-agent model of relationships, indeed appears more relevant than non-hierarchical models that emphasize mutual dependence, partnership or bargaining (Agranoff and McGuire 2001). Yet the hierarchical principle characterizing principal-agent models does sometimes get subverted by the agency exercised by the lower-standing units in the hierarchy (Hedge, Scicchitano and Metz 1990). Stripping the subnational units of any agency appears unwarranted in Russia’s case as well. Regional governors were important political and economic players in the 1990s. They have remained important players in the 2000s, despite federal centralization efforts; but the ways their regional agency is exercised have changed.

The hierarchical model overemphasizes the central actors’ control, while underemphasizing proactive and opportunistic strategies available to subnational actors. This bias is arguably relevant in Russia’s cases where experts noted, if anecdotally, that in the context of growing federal spending programs regional elites, with different degrees of influence on the federal center, found themselves competing over federal funds and transfers (Sharafutdinova 2013, Vartapetov 2010, 475). Such competition played out, for instance, through a contest of numerous regional projects – whether historical, cultural, social or athletic– designed and promoted by regional governments seeking to bring additional federal funds into their regions. In some cases (i.e. in aforementioned Tatarstan), massive financial inflows resulted from mega-projects such as the 2013 Youth Olympics in Kazan. The project was initiated by the regional elites and the federal center co-financed it contributing over \$2 bln dollars for the construction of new roads, athletic centers, courts, pools, and accommodation (Ibid).

To study factors associated with these financial flows, we rely on a combination of statistical analysis based on federal transfers dataset for 2002-2012 and the more anecdotal, case-specific examples to support our interpretations. The key findings from this analysis throw into sharp relief the important role of regional governments in the process of determining the flows of federal transfers. As the amount of federal transfers grew during the 2000s, regional governments developed various lobbying strategies and mechanisms of attracting transfers. Getting direct access to federal officials in charge of ‘doling out’ the funds by organizing their visits to the regions (whether to showcase their in-progress regional projects or share the ideas

⁵ See for example, Sakwa 2008 (pp. 266-283).

about the new ones, while underscoring the need for federal support), developing regional projects as part of broader federal strategic initiatives, organizing anniversaries and celebrations of important historical dates and events – all of these strategies became part of the toolkit used by regional governments to bring federal funds into their regions. The analysis has also revealed that the regional governments with greater administrative capacity tended to win in that competition, reflecting the demanding bureaucratic process underpinning the intergovernmental budgetary flows.

In short, there is more to federal transfers than the center's policies and actions. Regional agency needs to be taken into account when studying the politics of resource distribution in Russia. Exploring the conditions and the expressions of such agency can arguably add further nuance to our understanding of inter-elite relationships in the context of political centralization in the 2000s and reveal the extent to which the decisions in the federal center might be circumscribed by regional elites' political and economic actions.⁶ This study is motivated by the opportunity to advance further our understanding of factors shaping public (and arguably related to that, private) financial flows in Russia of the 2000s and the changing dynamics of center-regional elite interaction in the authoritarian regime constructed by Vladimir Putin. The remaining of the paper is composed of six sections: the first provides a general overview of Russia's inter-budgetary transfers during the 2000s (their composition and dynamics), the second focuses on hypothesis development, the third deals with operationalization, data and methodology issues, and is followed by the presentation of the results of statistical analysis; the penultimate section discusses the results along with additional case-based examples and is followed by the conclusion.

Russia's Inter-Budgetary Transfers in the 2000s

The system of federal transfers in Russia is notoriously tricky, burdensome, partly non-transparent and changing. Even when transfers are calculated 'objectively' based on pre-specified criteria and formulas, as in the case of grants intended to equalize regional budget and maintain certain standards in public goods provision in the regions, experts highlight problems in the manner they are calculated and the incentive structure they create for regional elites (Kuznetsova 2006). The bigger share of federal transfers is calculated more 'subjectively.' They follow federal government priorities and depend, arguably, on regional governments' lobbying and administrative capacities.

The first variety, *equalization grants*, are unconditional transfers designed to reduce the gap in fiscal capacity between regions. Such gaps could run as high as 48 times (in 2009) or more (World Bank 2011). In many regions, equalization grants constitute big portions of their budgets and serve as the key source of ensuring basic social guarantees. These grants are calculated according to fiscal equalization formula that works through assessment of regional expenditure needs on per capita basis. These needs are assessed using objective criteria and statistical data, so the regional governments have practically no means of affecting federal decision-making on these grants. The second variety is conditional transfers that are earmarked for specific projects. They are subdivided into *subventions* that are used to finance the functions

⁶ The recent decision by Putin to transfer federal oil industry assets (Chechenneftekhimprom) to the republican ownership is just one revealing display of this logic (Fuller 2016).

delegated by the federal government to the regions and are co-financed from regional budgets; and *subsidies* used to finance the regional authorities' functions. Finally, there are *fiscal balancing grants* that aim to cover the budget deficits of regional governments. The conditional transfers including the fiscal balancing grants are all subject to regional lobbying.

The structure of inter-budgetary transfers is complicated also by the fact that there are various ministries and special government agencies that manage spending. According to the World Bank report, 22 key units in the government make decisions on 87 subsidies/subventions (2011). Such fragmented structure of transfers makes it more difficult for the federal government to formulate policy priorities and invites competitive bidding on the part of the regional governments. On these decisions, regional competition plays an important role and regional governments can prepare - logistically and bureaucratically - to take advantage of various federal programs or even lobby the central government to introduce specific subsidies and projects.

As the state treasury expanded during the 2000s following rising oil prices, the inter-budgetary system has evolved and the amount of federal transfers has increased significantly (see Graph 1). Therefore, even if tax revenues were reassigned away from the regions in the early 2000s with the share of federal government in the overall tax collection reaching 60% (compared to 42.5 in 1997), the amount of financial flows into the regions has also increased dramatically.⁷

Graph 1: The Amount of Inter-governmental Transfers (mln. rubles, adjusted for inflation).

Much of this new spending was targeted. Over the course of the 2000s, the Russian government had adopted a number of federal target projects (*federal'nye tselevye programmy*), some of

⁷ Martinez-Vazquez, Jorje. "Asymmetric Federalism: Poison or Cure," p. 240.

which were territorial in nature and focused on socio-economic development of specific regions. These programs reflected the government's priorities and understanding of Russia's most problematic and/or geopolitically significant territories. These territories are Kaliningrad, South of Russia including the North Caucasus, and the Far East. Federal attention to all three of these territories was already there in the 1990s though the reasons for such attention were different in each case. Kaliningrad encircled by the EU countries and with no other Russian borders was considered a crucial logistical bridge to European markets. The North Caucasus with Chechnya, Dagestan, Ingushetia, and other republics were kept under close federal attention since the 1990s due to ethnic and religious complexity, socio-economic problems and growing violence and disorder. Russia's Far East, an enormous, sparsely populated territory, remote from Moscow and bordering rapidly growing China, is Russia's another geopolitically weak spot. The Russian government saw the need to guard this region from "excessive expansion by bordering states" as well as border claims from the neighboring countries.⁸

In the south of Russia, there were six programs in national republics and five programs in other regions of the Southern and North Caucasian Federal Districts. Among these, the program on Chechnya, understandably, stands out in terms of its longevity and size.⁹ But the neighboring Ingushetia - the poorest region in Russia – also received its separate program for 2010-2016. These southern regions of Russia benefitted handsomely from the resources invested for the Sochi Olympics, another special 'pet project' of the federal government in the several years prior to 2014. The political significance of this region was additionally reflected in the creation of, in 2014, the Ministry on the North Caucasus. As for Kaliningrad, the region has enjoyed special financing since 1997, with the most recent program prolonged until 2020.

The politics of financing geopolitically problematic and more backward areas through federal target programs is still in place. The federal target program on the development of Crimea and Sevastopol adopted in 2014 is the most recent example of such politics.

Evidently, significant volumes of federal transfers are distributed based on federal priorities as expressed through targeted regional programs. Federal decision-making on some issues and some regions demonstrates surprising continuities highlighting the politically-sensitive nature of many of the federal transfers. Noteworthy in this regard are two earlier, five-year regional programs on the Republics of Tatarstan and Bashkortostan adopted in 2001 and 2002 and aimed at easing the integration of these two republics into the unified budgetary system of Russia and compensating them the loss of their earlier tax privileges. Budgetary centralization and political integration in the early 2000s and the integration of new federal subjects in 2014 have involved significant federal financial commitment reflected in the development of special regional development programs.

⁸ Dmitry Medvedev, August 2012 (<http://www.reuters.com/article/2012/08/09/russia-china-territory-idAFL6E8J98K520120809>). Special financing of the Far East started in 1993 and continued through the 2000s, with a notable spike in 2008-2010, when the share of this program among all other region-centered programs peaked at 80%, due to preparations for the 2012 APEC summit held in Vladivostok.

⁹ In 2001 the federal center started a new program, "The South of Russia," and federal assistance to Chechnya was eventually folded into this larger program.

Nonetheless, there is a large share of federal transfers distributed according to a different logic. The early attempts to rationalize and improve the system of transfers in the early 2000s have apparently given way to a less institutionalized and more idiosyncratic decision-making process characterized by the increasing share of *ad hoc* subsidies in the structure of transfers, and a decreasing share of equalization grants that, over the 2000s, fell from over 40 percent to around a quarter in the composition of federal transfers (see Graph 2). The share of subsidies, on the other hand, has increased dramatically reaching almost 40 percent in 2007 (see graph 3). So did their variety and idiosyncratic nature as region-specific or single purpose-specific subsidies proliferated. Consider a special subsidy for reconstructing a road in Khakassia, or to buy school buses produced in Russia, a special subsidy for teachers and for buying breeding stock, a subsidy to reconstruct historical sites of Sviyazhsk and Bulgar (in Tatarstan) and many others. Furthermore, a subsidy for balancing regional budgets introduced in the mid-2000s has grown particularly fast during the financial crisis and, by 2009, reached about a half of equalization grants. It was maintained at about a third of that amount in subsequent years. So how are these subsidies and transfers determined? Which factors shape regional success in obtaining them?

Graph 2: Equalization Grants as a Share of Total Transfers

Graph 3: Subsidies as a Share of Total Transfers

Who Wins in the Quest for Transfers?

The proliferation of various discretionary subsidies reveals the open space for regional elites to lobby the federal government. The increasing amount of less transparent decisions regarding federal transfers in the 2000s poses a challenge for scholars to explore the decision-making rationale behind changing financial flows in Russia and the reasons for some regions coming ahead of others in the competition over federal resources. This section explores alternative hypotheses tested in this study.

Hypothesis 1: Patronage, Informal Networks and Gubernatorial Lobbying.

Regional governors are shrewd political actors on their own and, rather than viewing them as mere ‘transmission belts’ that channel and implement federal directives in their localities, it seems important to recognize their agency and initiative in navigating and making the best of the opportunities related to the expanding federal pie in the 2000s. Some of them have governed their regions for a long time and have developed networks of support and allies in Moscow; others have come from Moscow’s federal agencies, having already developed such networks in the first place. Those with experience and support networks are, arguably, better positioned to lobby the federal government for a bigger chunk of that pie. Given the increasing amount of discretionary transfers in the 2000s, it seems plausible to suggest that governors with the best lobbying skills (and most extensive informal networks established) will be most successful in bringing the federal money to their regions. Hence, a hypothesis could be posited that *the amount of federal transfers a region gets depends on the lobbying capacity of the regional governor.*

Hypothesis 2: Administrative Capacity.

The conditional federal transfers such as subsidies are usually associated with high bureaucratic costs. The regional authorities need to be able to monitor the ongoing policy developments in Moscow and have the administrative capacity to gather all needed documentation, data, and

other information that might be required for a region to apply for a specific type of a subsidy. As part of the historical legacy, current day Russia has an elaborate bureaucracy and an infamous ‘red tape’ that is applicable to intergovernmental relations as well. At the anecdotal level some regional officials have admitted that such capacity does matter.¹⁰ Experts have also factored in bureaucratic capacity in their analysis of successful lobbyists.¹¹ Therefore, it seems plausible to suggest that regions with greater administrative capacity – with a sufficient number of bureaucrats and collaboration between the regional and local authorities - are more successful in getting the federal money. Hence, our second hypothesis is that *the amount of federal transfers a region gets depends on the degree of administrative capacity of the region.*

Hypothesis 3: ‘Sign-up Bonus’ or Support for the Newly Appointed Governors.

Between 2005 and 2012, the Kremlin essentially appointed regional governors that used to be elected before 2005. When compared to the electoral mechanism of gubernatorial succession, the appointment mechanism arguably places more responsibility on the federal government and, particularly, on the president himself, potentially perceived as being responsible directly for the officials he appoints in the regions. One plausible consequence of this increased burden on the president is that the Kremlin would invest more in supporting the newly appointed governors with additional funds sent to the regions, providing something like a ‘sign-up bonus’. Hence, we formulate a hypothesis that the amount of discretionary federal transfers will increase in those regions that underwent a political transition from one governor to another. This hypothesis should be easily testable by looking at the trends in federal transfers into the region in the few years after a new governor is appointed in the region.

Operationalization, Data and Methodology

Our analysis is based on panel data of Russian regions over the period 2002-2012.¹² The data on federal transfers for 2002-2012 used in this study are from the Ministry of Finance and the Russian Federal Treasury. We created a special measure of ‘politically sensitive’ transfers (PST) – our dependent variable – by calculating the share of transfers that excludes the equalization grants and subventions calculated using relatively objective criteria - as a proportion of the total revenues of the regional budget. This measure allows us to focus on the share of transfers that is not automatic and that potentially depends on regional agency.

Our first *explanatory variable* is concerned with the lobbying capacities of regional governors. Our field interviews with public officials in Tatarstan¹³ – a region that has been extremely successful in getting federal transfers – informed us that hosting federal officials in the region is one of the important techniques used by the republican government. Federal officials are invited to join celebrations, to showcase successful regional projects, to participate in official meetings and other events and holidays. Relationships with federal officials are cultivated systematically over a period of time - in Moscow, in the regions and even during foreign visits,

¹⁰ <http://www.komiinform.ru/news/125559/>

¹¹ <http://ko.ru/articles/25322>

¹² These particular years were selected because of the relative homogeneity and consistency in data presentation. For 2001, for example, the regional budget data we had available was presented very differently and did not allow for our planned calculations.

¹³ Kazan, July 2014.

when republican officials join the Russian delegation. Anecdotal evidence obtained from other regions (as discussed later) also supports the idea that federal official visits could be used as one of the proxy measures of gubernatorial lobbying capacity. Specifically, to create our measure we focused on visits that involved the president, prime minister, deputy prime ministers, ministers and their deputies in finance, agriculture, labor, health, education, culture, energy, natural resources, economic development, industry and trade, communication, transport and regional development. These ministries have been involved directly in decisions over subsidies. We did not include visits by the ministers of defense, internal affairs and foreign affairs because these officials are usually not involved in distributing transfers. This database was constructed using the data on regional visits of the president and the prime minister from their official websites; and visits by ministers and their deputies using *news.yandex.ru* searches (this was crosschecked using Universal Russian Newspapers Database). The visits range from 0 to 18 with the mean of 2.13 (see Appendix A1). Additionally, we used the indicator of gubernatorial tenure as another proxy for gubernatorial lobbying capacity. Lobbying is a learnt skill that depends on establishing connections and networks on regional and federal level. The more time a governor spends in power, the more he/she could be expected to learn about the various lobbying mechanisms and acquire necessary connections. In our dataset, gubernatorial tenure ranges from 0 to 235 months (with the mean of 73).

Admittedly, both of these proxies are not optimal measures of gubernatorial lobbyist capacity. The indicator of official visits, in particular, is likely to involve a degree of endogeneity, i.e., federal officials tend to visit those regions where they send money to – to monitor the spending process and inspect the results of that spending. As reported later in this study, we conducted analyses to test the models' sensitivity to endogeneity problem using lag and lead indicators of federal visits. Additionally, we tested the robustness of our models dropping the main federal priority regions (entire Far East and North Caucasus federal okrugs as well as Kaliningrad).

Alternative measures of gubernatorial lobbying capacity could rely on various expert ratings. The endogeneity issues are even more compounded in these ratings because the success in obtaining federal transfers is commonly used as one of measures of lobbyism and cannot be formally disentangled from the rating of lobbying capacity. Counting visits is a much clearer way and, arguably, in the absence of clear federal priorities in the region, the regional authorities do have a lot to do with these visits. Our interviewees highlighted that regional authorities invest much effort in bringing these officials into the regions, cultivating connections in various ways. Regional journalists frequently observe that such visits of federal ministers are followed by financial inflows into the region, confirming this logic. Governors themselves assert that many financing issues for specific projects are being resolved when the federal officials travel to the region.¹⁴ Regional experts also note the importance of 'dragging the officials into the regions' to win in the competition for funds.¹⁵

The second *explanatory variable* in this study is administrative capacity. We operationalized this variable using the vote for United Russia and voter turnout as measures of regional authorities' administrative capacity. Backed by the Kremlin, United Russia has become a

¹⁴ http://www.altaregion22.ru/gov/administration/glava/society_economy/otchet-gubernatora-2012/Otchet-Gubernatora-Altayskogo-kraia-rezultatakh-deiatelnosti-Administratscii-kraia-2012.php

¹⁵ Blashenkova (<http://www.concretica.ru/publications/single/article/6/132/>)

predominant pro-Putin political force in the State Duma throughout the 2000s. Delivery of the vote for United Russia therefore became one of the foremost political tasks outsourced to regional governors by the Kremlin (Reuter 2010, Reuter and Robertson 2012). The governors had to mobilize the administrative resources they had in hand to deliver victory for United Russia. Vote mobilization for United Russia in such circumstances reflected the overall administrative capacity and skills and an integrated effort of the regional political and economic elite, more likely in a centralized than a fragmented political environment. Not surprisingly, the highest regional votes for United Russia have been usually delivered in regions associated with strong regional-level political machines characterized by a high degree of inter-elite coordination and patronage-based exchange.¹⁶ A similar logic applies to voter turnout. Getting a high turnout in Russia is often associated with the administrative pressure and mobilization. Hence, this indicator could be used as a measure of administrative capacity. Both of these measures were constructed using the vote for United Russia in 2003, 2007 and 2011 national-level legislative elections and based on the electoral results reported by Russia's Central Electoral Commission. Additionally, we use two other measures of administrative capacity – size of the regional bureaucracy per capita and the presence of inter-elite conflicts. Arguably, a larger bureaucracy reflects an additional capacity that might be essential when gathering the needed information and documentation for federal transfer applications (particularly when subsidies are concerned). The indicator of regional elite conflicts, once again, speaks to the issue of elite fragmentation and a potential loss of administrative capacity due to infighting among regional elites. Governor-mayor conflicts, for example, have been especially prevalent in many of Russian regions with an arguable debilitating effect on administrative capacity in the regions. Not only do such conflicts distract attention from competing over federal transfers but they also damage coordination between regional and local authorities required for timely and successful participation in numerous federal programs. To account for this factor, we created a dummy variable dividing regions into conflict-prone and free-of-conflict, based on case-by-case empirical investigation and expert analysis.¹⁷

To test the third hypothesis we added new pulse and trend dummies for the year a new governor is appointed in the region. The pulse dummies take the values of 1 at the year a new governor was appointed and 0 otherwise. They test for a temporary effect (i.e., instantaneous effect) of a governor appointment. The trend dummies take the values of 1 all years after a new governor is appointed while in office and 0 otherwise. They test for a permanent effect of a governor appointment. This approach is consistent with the event study methodology.

We used a number of control variables to account for additional factors that might have affected more subjective decisions on federal transfers. To test whether more economically developed and urbanized regions might have been privileged, we included gross regional product (GRP) per capita and urbanization level indicators. Additionally, we included controls for regional economic performance measured by GRP growth. To account for potential rural bias in these transfers, we used a share of agriculture in the regional economic structure. Federal district, region, and time/year dummies were also used to account for potential district and region-based fixed effects (such as, e.g., ethnic republic status) and unobserved differences in transfers across

¹⁶ For example, in Tatarstan, Bashkortostan, Kemerovo, Mordovia, Chechnya.

¹⁷ Descriptive statistics for the main variables are available in the appendix.

specific years. To account for changing patterns in statistical data gathering associated with administrative changes, we also added dummy variables for regions that have merged. Finally, we included two dummy variables for Putin and Medvedev's presidencies, to account for potential differences in policymaking during these two periods.¹⁸

For each estimate, we tested four model specifications. Federal visits and bureaucrats per capita indicators were included in all models. We separated government replacement (pulse and trend) dummies between models 1, 3 and 2, 4; and used vote for United Russia and electoral turnout indicators separately in models 1, 2 and 3, 4 respectively, to avoid multicollinearity issue.

Results

Table 1 reports the results for Hypotheses 1, 2 and 3 with the dependent variable – politically sensitive transfers - measured as a share of these transfers in regional revenues. As expected by hypothesis one, gubernatorial lobbying capacity, as expressed through their ability to bring federal officials into the region, matters and is positively correlated with the amount of politically sensitive transfers flowing into the regions. This result holds in all model specifications. The coefficients indicate that each additional visit of a federal official is associated with .002 increase in the share of politically-sensitive transfers to the region (i.e. every ten visits increase the share of discretionary transfers by 2% or about 7.5 mln. rubles in a median region). The second hypothesis – on administrative capacity – is also supported by the evidence, at least when capacity is measured by voter turnout. Regions where electoral turnout was higher were more successful in securing greater amounts of politically sensitive transfers. Thus, one percent increase in voter turnout corresponds to around 1.1% increase in the share of discretionary transfers to the region (which amounts to about 3.5 mln. rubles in a median region). The indicators of bureaucrats per capita and regional elite conflict - that are arguably also linked to bureaucratic capacity - are not correlated with the share of politically-sensitive transfers in regional revenue.

The third hypothesis – exploring whether new governors get a ‘sign-up bonus’ – reflecting additional support from the Kremlin to newly appointed governors - has not been supported by the evidence along with all the control variables used in our models.

Table 1. Results of the Fixed-Effects Regression Analysis (Dependent Variable: Politically Sensitive Transfers as a Share of Total Revenues)

¹⁸ To test the hypotheses we adopt the following econometric specification:

$$y_{it} = \alpha_i + \sum_i \beta_i x_{it} + \sum_i \gamma_i z_{it} + \delta_t + \varepsilon_{it}, (1)$$

where suffixes i and t denote, correspondingly, regions and years, y_{it} is the dependent variable, x_{it} are the explanatory variables corresponding to hypotheses we are interested in testing, z_{it} are control variables, α_i and δ_t are regional and time fixed effects, and ε_{it} is the error term. This econometric specification is estimated by the fixed-effects regression method for panel data with robust standard errors reported.

	Model 1		Model 2		Model 3		Model 4	
	coef.	s.e.	coef.	s.e.	coef.	s.e.	coef.	s.e.
<i>Gubernatorial Lobbying</i>								
Federal visits	0.002**	0.001	0.002**	0.001	0.002**	0.001	0.002**	0.001
Gubernatorial tenure	0.0002	0.003	0.001	0.003	0.0003	0.003	0.0005	0.003
<i>Administrative Capacity</i>								
Vote for United Russia	0.096	0.067	0.091	0.064				
Voters turnout					0.111*	0.059	0.105*	0.057
Inter-elite conflict	0.003	0.006	0.002	0.006	0.003	0.006	0.002	0.006
Bureaucrats per capita (log)	-0.010	0.090	-0.024	0.090	-0.016	0.089	-0.029	0.089
<i>Political Loyalty</i>								
Governor's appointment (pulse)	0.003	0.005			0.002	0.005		
Governor's appointment I (trend)			-0.0001	0.008			-0.001	0.008
Governor's appointment II (trend)			0.013	0.013			0.011	0.013
Governor's appointment III (trend)			0.045	0.030			0.041	0.030
<i>Control Variables</i>								
GRP per capita (log)	-0.028	0.036	-0.033	0.037	-0.024	0.036	-0.028	0.037
GRP growth	0.043	0.048	0.044	0.048	0.040	0.048	0.041	0.048
Urbanization	-0.227	0.230	-0.221	0.228	-0.158	0.244	-0.156	0.243
Constant	0.561	0.549	0.550	0.559	0.409	0.551	0.410	0.561
Number of observations	880		880		880		880	
Adjusted R ²	0.447		0.449		0.449		0.452	

Notes: (1) coef.: estimated coefficient; s.e.: standard error; *** p<0.01, ** p<0.05, * p<0.1.

(2) To keep the table concise, the estimates of regional and year fixed effects, administrative mergers and the structural shift dummy for Putin/Medvedev era are not reported and are available upon request.

(3) We report robust standard errors that account for cross-sectional heteroskedasticity and within-panel (serial) correlation.

Sensitivity Analysis

To test the models' sensitivity to endogeneity bias, we re-estimated them using instrumental variable approach. Specifically, we used the lagged values of federal official visits as an instrumental variable. To test for exclusion restriction of lagged variables we also estimated the model using lead predictors of federal visits into regions. If federal officials visit the regions to

monitor the spending of federal funds sent earlier, than the lead values of federal visits will be statistically significant in explaining federal transfers. We do not find that evidence. To test for the strength of instrument we regressed federal transfers on the lagged values of federal visits. We find that the lagged indicator of federal visits is statistically significant in explaining politically sensitive transfers, indicating that the instruments meet strength criterion. All in all, the results from the regression analysis using instrumental variable approach were not substantially different from those reported in Table 1 (please refer to Table A2 in the Appendices and Tables A2 and A3 in the online appendices). However, the model does appear to be sensitive to the exclusion of the main federal priority regions of the Far East, North Caucasus, and Kaliningrad (the results are presented in the online appendix, Table A4). While the sign of the coefficients remains the same and their magnitude is little changed, the statistical significance vanishes, which might be due to the reduction in sample size.

Even with these measures, however, the endogeneity problem cannot be ruled out entirely because the lagged values of federal visits can still be directly associated with the funds going to the region. A stronger instrument will be needed to get more unequivocal results.

Discussion

There are several reasonably consistent findings that emerge from the above analysis of factors shaping the flow of politically sensitive transfers in Russia during the period of 2002-2012. First, the amount of such transfers is positively correlated with the number of federal official visits into the regions. This is not a particularly surprising finding given previous studies that noticed similar patterns, even if looking at official visits of the president only.¹⁹ In this study we consider the visits of the larger group of top federal officials involved in decision making over subsidies and grants. Furthermore, we only look at the politically sensitive share of federal transfers that federal officials have enjoyed some degree of discretion on during the prosperous 2000s.

One can confidently presume that federal officials travel to monitor and inspect how the federal money is spent. If all the funding decisions were driven by clearly defined federal priorities in the regions, this indeed should be the case. The reality on the ground appears to be more complex. There were indeed a number of important federal priorities – discussed earlier – during the 2000s that shaped federal decision-making, influencing the flow of funds as well as the travel itineraries of federal officials. The number of federal visits into these regions over the years has exceeded travel to other regions. However, other, ‘non-priority’ regions that are visited more often receive a higher share of politically-sensitive transfers. Based on local interviews with regional officials as well as their public interviews we argue that these results are not spurious and not determined merely by federal priorities. Regional authorities do have a significant role to play in lobbying federal officials for transfers.

As Russia’s economy grew and the budget expanded, the number of decision makers on discretionary inter-budgetary flows has grown as well. Various ministries were involved in creating new subsidies and regions could take a proactive approach not only in applying for

¹⁹ In particular, Jarocinska (2001) and Treisman (1999) found the importance of president’s visits to the regions.

subsidies offered from the center but also advancing their own subsidy ideas and projects. In the words of Rafael Khakimov, a close observer and the former adviser to the Tatarstan's government, the secret of Tatarstan's president Rustem Minnekhanov in securing federal funds is hidden in his 'folder' (*papka*). According to Khakimov, Minnekhanov never goes to any meeting with federal officials without his *papka* that contains a variety of ideas and projects that seek to pre-empt and anticipate what the federal agenda might be.²⁰ Natalya Komarova, the governor of Khanty-Mansi autonomous okrug, confirms this insight suggesting, that in order to win in this competitive contest over federal funds, one needs not simply participate in this process in a timely manner but be ahead of time, joining the competition before it has even started.²¹ But how is this done in practice?

The process of lobbying involves concentrated efforts both in the regions and in Moscow through regional representatives and allies in the government, the State Duma and other governmental institutions.²² In Moscow, regional governments have to mobilize all region-related insiders and those with influence in federal branches of power for the purpose of helping the region. In the region, the regional leaders must gather a strong team of officials capable of generating creative ideas and projects, and delivering tangible results when such projects are implemented. Connections in Moscow help for lobbying and inviting federal officials to showcase regional projects, participate in specific events, and, while doing that, lobby for additional funding in support of these or related events and projects. Therefore, getting federal officials out of Moscow into a specific region is, arguably, part of the lobbying process and an indicator of success. It enables regional governments to get direct access to individual decision-makers on federal transfers and bring to their attention the importance of regional level projects that they want and need funded. Many of these visits are indeed followed up by federal money.

Regional lobbying has been important for determining federal transfers' flows in the 1990s as well. We know from earlier studies that governors played with separatist threat as well as regional social and economic protests to lobby for greater federal funds or retention of taxes collected in the region.²³ The lobbying practices changed dramatically during the 2000s. The new economic environment and new political rules of the game required regional officials to engage in more constructive, project-based thinking to attract more funds from the center. Various types of celebrations and anniversaries starting with Moscow's 850th anniversary in 1997 and Kazan's millennium in 2004 turned into a succession of regional anniversaries of uniting with Russia. During 2005-2008 Republics of Udmurtia, Bashkortostan, Karachaevo-Cherkessia, Kabardino-Balkaria, and Adygeya celebrated their unification with the Russian people.²⁴ In 2010-2012, another series of similar celebrations occurred in Yaroslavl', Karelia and Mordovia. Altai krai developed and promoted its project labeled as '75x75' and aimed at building 75 socially significant projects (hospitals, schools, athletic, cultural centers, etc.) in celebration of its 75th anniversary. More than 10 bln rubles were planned from the 2010 federal

²⁰ One of the author's interview with Khakimov (July 2012, Kazan).

²¹ "Prositeli i smotriashchie" 2013.

²² Starodubtsev 2009b.

²³ Treisman 1999; Robertson 2011.

²⁴ Larina 2010.

budget to be spent on such events and celebrations.²⁵ Organizing other mega-projects such as big international athletic events or international official meetings is another practice associated with accessing federal funds. Sports development in particular received growing attention from regional authorities after the adoption of a massive federal target program that involved 107 bln rubles for promoting physical education and sports during 2006-2015.²⁶ As mentioned earlier, the Republic of Tatarstan was able to bring in many billion rubles from the federal budget to support infrastructural projects associated with 2013 Youth Olympics held in Kazan. The cities selected for holding 2018 FIFA World Cup games in Russia will also benefit from additional federal transfers; the process of determination which cities will have the privilege of hosting the world cup undoubtedly involved much lobbying on the part of regional authorities.

Lobbying and creative ideas by themselves are not enough, however. Our analysis points to the importance of regional administrative capacity on transfers. Specifically, we found positive and statistically significant relationships between politically-sensitive transfers and electoral turnout in the regions. The regional governments that are capable of producing high electoral turnouts are more successful in getting a larger share of discretionary transfers (Table 1). [The vote for the party of power and electoral turnout](#) have been commonly interpreted as proxies for regional political loyalty and support for the Kremlin (i.e., most recently in Yakovlev et al. 2011). We argue that there is a need to reconsider such interpretations. The ability to mobilize turnout and deliver expected vote figures were seen as a matter of administrative capacity in some regions already in the 1990s.²⁷ The deterioration of the democratic character of elections on both national and regional levels in the 2000s has been accompanied by the spread of electoral ‘management’ practices based on the mobilization of employees of state enterprises, public schools and universities, hospitals and other public institutions.²⁸ Needless to say that such mobilization requires a concerted effort by the regional administrative team – the same team that is likely responsible for preparing all the ground and paperwork required in the process of competing over federal grants and subsidies.

Additionally, the gubernatorial appointment system operating during 2005-2012 made it imperative that all regional governments are politically loyal to the Kremlin. Indeed, a whole series of federal reforms was aimed primarily at bringing the regional administrations closer under the Kremlin’s control.²⁹ In the conditions of the new vertical of power, therefore, it is hard to find significant variations in political loyalty and it is more plausible to view the region-wide political indicators [such as electoral turnout](#) as a measure of administrative capacity. It is the degree of administrative capacity and levels of elite cooperation and coordination that the regions do still vary significantly on.

Conclusion

²⁵ Ibid.

²⁶ Pokrovskaja 2006.

²⁷ Matsuzato 2001.

²⁸ Frye, Reuter, Szakonyi 2014; Forrat 2015.

²⁹ For a comprehensive review of federal reforms, see Reddaway 2005.

The years of economic growth and power vertical building in Russia have transformed patterns of inter-elite interaction and the strategies used by regional elites to access federal funds. In the 1990s regional elites frequently promoted conflict with the center to secure greater political and financial autonomy. The 2000s were characterized by the growing coordination and cooperation with the federal center as regional governments had to work within the developmental priorities set out by the federal center. Despite the centralization patterns characterizing Putin's Russia, however, the regions did have the agency to influence center's decisions on financial flows. The changing composition of federal transfers in the 2000s reveals that the amount of discretionary transfers has gradually increased, while the more 'objectively' calculated share of transfers dwindled. In this study we show that regions strived to shape the direction of discretionary transfers and developed new lobbying strategies to bring more federal funds into their regions.

To account for factors determining intergovernmental financial flows in Russia, we tested three hypotheses that might explain funding decisions. The analysis has highlighted the relevance of two factors – federal visits into the regions that were conceptualized as a proxy for gubernatorial lobbying capacity and voter turnout, one of our proxies for regional administrative capacity. Using additional anecdotal data we interpreted these findings as supporting the idea that regions in Russia have indeed competed over federal transfers, lobbying to raise the significance of specific regional projects onto the federal level and struggling to receive greater federal attention and support.

The continuing relevance of these findings will have to be reappraised in the new economic environment Russia found itself in during the last three years. Starting in 2013 the country faced an increasingly constrained financial situation associated with the economic slowdown and, more recently, with the economic fallout from Putin's foreign policy actions. The era of growing transfers and expensive celebrations as well as regional innovation and modernization-oriented projects has come to an end and even federal priority programs are in the process of being curtailed. An interesting subject for future research is how regions (as well as the federal ministries responsible for developing and distributing subsidies) have been adjusting to these new circumstances and the degree to which the agency they have been able to exercise in the first decade of the 2000s had diminished or changed in the ways it gets expressed.

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APPENDICES

Table A1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Federal visits	943	2.13	2.55	0	18
Gubernatorial tenure	913	73	54	0	235
Vote for United Russia	942	0.50	0.17	0.26	0.99
Voters turnout	942	0.61	0.11	0.44	0.99
Inter-elite conflict	913	0.42	0.49	0	1
Bureaucrats per capita	880	0.01	0.006	0.005	0.06
Governor's appointment (pulse)	943	0.11	0.31	0	1

Governor's appointment I (trend)	943	0.32	0.47	0	1
Governor's appointment II (trend)	943	0.10	0.30	0	1
Governor's appointment III (trend)	943	0.01	0.10	0	1
GRP per capita	913	0.69	0.13	0.26	1
GRP growth	900	0.19	0.11	-0.28	0.86
Urbanization	883	172692	260868	7752	3913589
Politically-sensitive transfers (PST)	943	0.13	0.10	-0.32	0.72

Table A2. Results of the Fixed-Effects Regression Analysis Using Lagged Federal Visits as an Instrumental Variable (Dependent Variable: Politically Sensitive Transfers as a Share of Total Revenues)

	Model 1		Model 2		Model 3		Model 4	
	coef.	s.e.	coef.	s.e.	coef.	s.e.	coef.	s.e.
<i>Gubernatorial Lobbying</i>								
Federal visits	0.002***	0.001	0.002***	0.001	0.002***	0.001	0.002***	0.001
Gubernatorial tenure	0.0002	0.002	0.001	0.002	0.0003	0.002	0.0004	0.002
<i>Administrative Capacity</i>								
Vote for United Russia	0.096***	0.036	0.091**	0.036				
Voters turnout					0.111***	0.034	0.105***	0.034
Interelite conflict	0.003	0.007	0.002	0.007	0.002	0.007	0.003	0.007
Bureaucrats per capita	-0.010	0.037	-0.024	0.037	-0.016	0.037	-0.029	0.037
<i>Political Loyalty</i>								

Governor's appointment (pulse)	0.003	0.005			0.002	0.005		
Governor's appointment I (trend)			-0.0001	0.006			0.001	0.006
Governor's appointment II (trend)			0.013	0.010			0.011	0.010
Governor's appointment III (trend)			0.045*	0.024			0.041*	0.024
<i>Control Variables</i>								
GRP per capita	-0.028	0.018	-0.033	0.018	-0.024	0.018	-0.028	0.018
Urbanization	-0.227	0.178	-0.221	0.178	-0.158	0.180	-0.156	0.180
GRP growth	0.043**	0.020	0.044**	0.020	0.040**	0.020	0.041**	0.020
Constant	0.561*	0.320	0.550*	0.322	0.409	0.322	0.410	0.323
Number of observations	880		880		880		880	

Notes: coef.: estimated coefficient; s.e.: standard error; *** p<0.01, ** p<0.05, * p<0.1.

Online Appendix

Table A1. Descriptive Statistics (Okrug-based averages)

Federal okrug	Federal visits	Governor tenure	UR Vote	Voter turnout	Inter-elite conflict	Bureaucrats per capita	Urbanization	GRP pc	PST
Central	1.54	73	0.44	0.58	0.49	0.01	0.73	141914	0.10
Far East	2.14	63	0.48	0.59	0.37	0.02	0.75	274287	0.14
North Caucasus	1.51	48	0.71	0.76	0.52	0.01	0.49	62729	0.25
North West	2.32	58	0.44	0.55	0.69	0.01	0.76	251561	0.09
Siberian	1.92	83	0.48	0.58	0.49	0.01	0.65	134468	0.13
Southern	2.70	89	0.52	0.59	0.32	0.01	0.60	100252	0.16

Ural	2.26	80	0.52	0.62	0.25	0.01	0.79	365571	0.07
Volga	2.97	89	0.53	0.65	0.16	0.01	0.69	129246	0.12

Table A2. Results of the Fixed-Effects Regression Analysis Using Lagged Federal Visits as an Explanatory Variable (Dependent Variable: Politically Sensitive Transfers as a Share of Total Revenues)

	Model 1		Model 2		Model 3		Model 4	
	coef.	s.e.	coef.	s.e.	coef.	s.e.	coef.	s.e.
<i>Gubernatorial Lobbying</i>								
Federal visits (lag)	0.003**	0.001	0.003**	0.001	0.003**	0.001	0.003**	0.001
Gubernatorial tenure	0.001	0.003	0.002	0.003	0.001	0.003	0.001	0.003
<i>Administrative Capacity</i>								
Vote for United Russia	0.098	0.068	0.093	0.064				
Voters turnout					0.115**	0.059	0.110*	0.057
Interelite conflict	0.004	0.006	-0.011	0.015	-0.006	0.015	-0.009	0.015
Bureaucrats per capita	-0.011	0.090	-0.025	0.090	-0.018	0.089	-0.030	0.089
<i>Political Loyalty</i>								
Governor's appointment (pulse)	0.005	0.004			0.004	0.005		
Governor's appointment I (trend)			0.002	0.007			0.002	0.007
Governor's appointment II (trend)			0.015	0.013			0.013	0.013
Governor's appointment III (trend)			0.047	0.031			0.043	0.031
<i>Control Variables</i>								
GRP per capita (log)	-0.028	0.036	-0.032	0.037	-0.024	0.036	-0.028	0.037
Urbanization	-0.233	0.231	-0.225	0.229	-0.160	0.245	-0.156	0.244
GRP growth	0.040	0.047	0.041	0.48	0.037	0.047	0.038	0.047
Constant	0.556	0.546	0.534	0.556	0.402	0.547	0.389	0.558
Number of observations	880		880		880		880	
Adjusted R2	0.448		0.449		0.451		0.452	

Notes: (1) coef.: estimated coefficient; s.e.: standard error; *** p<0.01, ** p<0.05, * p<0.1.

(2) We report robust standard errors that account for cross-sectional heteroskedasticity and within-panel (serial) correlation.

Table A3. Results of the Fixed-Effects Regression Analysis Using Leading Indicator of Federal Visits as an Explanatory Variable (Dependent Variable: Politically Sensitive Transfers as a Share of Total Revenues)

	Model 1		Model 2		Model 3		Model 4	
	coef.	s.e.	coef.	s.e.	coef.	s.e.	coef.	s.e.
Gubernatorial Lobbying								
Federal visits (lead)	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
Gubernatorial tenure	0.0005	0.003	0.001	0.003	0.001	0.003	0.001	0.003
Administrative Capacity								
Vote for United Russia	0.100	0.067	0.095	0.064				
Voters turnout					0.114**	0.058	0.108*	0.057
Interelite conflict	0.003	0.006	0.002	0.006	0.003	0.007	0.002	0.007
Bureaucrats per capita	-0.016	0.090	-0.030	0.090	-0.023	0.089	-0.036	0.089
Political Loyalty								
Governor's appointment (pulse)	0.004	0.005			0.003	0.005		
Governor's appointment I (trend)			0.002	0.007			0.001	0.007
Governor's appointment II (trend)			0.015	0.013			0.013	0.013
Governor's appointment III (trend)			0.048	0.029			0.044	0.030
Control Variables								
GRP per capita	-0.027	0.036	-0.032	0.037	-0.023	0.036	-0.027	0.037
GRP growth	0.043	0.048	0.044	0.048	0.040	0.048	0.041	0.048
Urbanization	-0.231	0.233	-0.223	0.230	-0.161	0.247	-0.158	0.246
Constant	0.527	0.542	0.510	0.552	0.369	0.544	0.363	0.554
Number of observations	880		880		880		880	
chi2								
Adjusted R2	0.443		0.445		0.445		0.447	

Notes: (1) coef.: estimated coefficient; s.e.: standard error; *** p<0.01, ** p<0.05, * p<0.1.

(2) We report robust standard errors that account for cross-sectional heteroskedasticity and within-panel (serial) correlation.

Table A4. Results of the Fixed-Effects Regression Analysis With Federal Priority Regions Omitted (Dependent Variable: Politically Sensitive Transfers as a Share of Total Revenues)

	Model 1		Model 2		Model 3		Model 4	
	coef.	s.e.	coef.	s.e.	coef.	s.e.	coef.	s.e.
Gubernatorial Lobbying								
Federal visits (lead)	0.001	0.001	0.002	0.001	0.001	0.001	0.001	0.001
Gubernatorial tenure	0.0003	0.002	-0.001	0.003	0.0004	0.002	-0.001	0.003
Administrative Capacity								
Vote for United Russia	0.055	0.068	0.052	0.068				
Voter turnout					0.105	0.066	0.104	0.066
Interelite conflict	0.001	0.006	0.001	0.006	0.002	0.006	0.002	0.006
Bureaucrats per capita	0.050	0.054	0.050	0.055	0.046	0.055	0.045	0.056
Political Loyalty								
Governor's appointment (pulse)	-0.003	0.005			-0.003	0.004		
Governor's appointment I (trend)			-0.010	0.008			-0.010	0.008
Governor's appointment II (trend)			-0.009	0.014			-0.009	0.014
Governor's appointment III (trend)			-0.015	0.035			-0.013	0.034
Control Variables								
GRP per capita	-0.070**	0.034	-0.076**	0.033	-0.073**	0.033	-0.079**	0.033
GRP growth	0.032	0.029	0.036	0.029	0.033	0.030	0.037	0.030
Urbanization	0.091	0.235	0.091	0.236	0.144	0.255	0.144	0.255
Constant	1.134**	0.551	1.221**	0.529	1.079**	0.548	1.163**	0.531
Number of observations	699		699		699		699	
chi2								
Adjusted R2	0.498		0.498		0.501		0.502	

Notes: (1) coef.: estimated coefficient; s.e.: standard error; *** p<0.01, ** p<0.05, * p<0.1.

(2) We report robust standard errors that account for cross-sectional heteroskedasticity and within-panel (serial) correlation.