

# Russia 2017



**Total: 40.51**

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## Rule of Law

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### **Independence of the Judiciary : 4.09**

Breakaway from international law continued. After the permission by the Constitutional Court of Russia to the government to selectively overrule decisions of the European Court for Human Rights, another blow was, in November 2016, Russia's withdrawal of support to, and de facto ending cooperation with the International Criminal Court. According to the Freedom House, judicial independence in Russia decayed even further in 2016. High profile cases, especially those that affect relations to Ukraine, or deal with political dissent in Russia, are highly politicized - not least final court decisions but the course of the trials are politically controlled. At lower level, courts are increasingly inefficient, whereupon organized crime is rejuvenating and modernizing, e.g. creating nation-wide online criminal networks. Situation is even worse in some autonomous republics of the Russian Federation. In Chechnya it is the worst, with judiciary being directly controlled by the regional president. State ideologues and political and religious leaders of the country continue to explicitly reject the very idea of the rule of law, as "alien" to Russian tradition, national identity and desired way of life.

### **Corruption : 2.9**

Situation has been stagnant for five years now, to it at a very low level. In 2016, Russia was ranked 131 (of 176 countries) by the Transparency International. Bribery rate is 33% - very high, however lower than in Central Asia, Azerbaijan or Ukraine. Corruption has been systemic. As Freedom House noticed, "extraction of administrative rent" is in-built at all levels of politics and administration. State controls 70% of the economy (itself dominated by extraction industries), which would make fruitless any anti-graft struggle even if there was political will for it. And there is not. However, with decreasing income from energy exports, coupled with Western sanctions, the pool for corruption shrank, misuse of office is more visible and people are more eager to point out at high level corruption. Revelations made by international or domestic non-profit organizations mount, including on the suspicious and unexplained wealth of two Deputy PMs, high officials of the Central Bank and numerous mid ranking politicians. Rallies by the political opposition, besides lack of media freedom or other purely political repression as talking points, increasingly focus on corruption. State bodies in charge of anti-graft launch corruption investigations selectively, focusing on disobedient politicians, or serving as agents of one or another competing faction or interest group within the regime.

## Protection of Human Rights : 3.67

Human rights` situation in Russia is worse than in any other European country and it is further deteriorating. Freedoms of expression and association are freshly attacked through the implementation of the “foreign agent law”, i.e. set of laws against any unauthorized trans-border NGO cooperation, whereby organizations were banned or blacklisted, and individual NGO activists and publishers fined, for not complying with an obligation to declare and display that they were “foreign agents”. Regulation on public gatherings is restrictive, permits to dissenting groups are seldom issued and arrests of participants of the non-approved rallies (even the most renowned opposition figures) are common. Non-compliance with the index of books prohibited in public libraries leads to felony charges. Internet is censored, both formally and informally. Protection of ethnic minorities or immigrants against racist violence is shallow. The new regulation against domestic violence, carried in January and signed into law in February 2017, actually decriminalized some of its forms. Estimated 14,000 women die each year in Russia in some sort of family violence. New law might further endanger them, as well as children, and re-traditionalize Russian family. There is no anti-discrimination protection of LGBTs. In some of the autonomous republics, the human rights situation is alarming. Especially in Chechnya, where in summer 2017 a proper concentration camp (the first one of this kind in Europe after WW2) was established, wherein most of the known gay and transgender people (at least 100) were rounded up and tortured to reveal the names of others. Some were killed, others released, while most were registered by authorities. In Russia-occupied and annexed Crimea, discrimination and mistreatment of the members of Tatar minority continues.

## Political Freedom

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### Free and Fair Elections : 1.07

Electoral process in Russia abounds with irregularities and mechanisms that are preventing equal playing field for all political parties and politicians. Therefore, elections are neither free nor fair. After winning a slight majority at previous elections, Government of Russia decided to change legislation with amendments adopted to go in favor of ruling United Russia, led by Vladimir Putin. Mixed electoral system was once again reintroduced, allowing ruling party to capture 343 seats out of 450 in the State Duma – the lower house of the Russia bicameral parliament, at the September 2016 parliamentary elections. According to OSCE ODIHR, the process lacked fundamental freedoms and political rights, with numerous irregularities, from abuse of office in campaigning to tabulation of results. New electoral system had added certain contribution to it, since more autocratic regional leaders didn't restraint themselves in ensuring better results, further violating election freedom and fairness. Prosecution of opposition candidates continued to be a method for preventing them from competing. It remains open whether or not the leading opposition candidate Alexei Navalny will be able to compete on presidential elections in 2018, due to corruption charges brought against him.

### Absence of Unconstitutional Veto Players : 1.67

There are a few potential unconstitutional veto players in Russia, but their influence on decision

making process is under control of the President Putin and his allies. Not only that the latter are in control of oligarchs, criminals or the church, but also of all three branches of power: legislative, executive and judicial. System of checks and balances exists only on the paper, in the situation often described as “state capture”. According to Freedom House, numerous changes of the appointees, prosecutions and arrests may suggest a struggle for political power among the political elite in the country. Corruption by public officials remains pervasive, often ending up in impunity. Arrest and prosecution of the Minister of Economic Development at the end of 2016 rather suggests at the previously mentioned struggle for power than at a political will to have dealt with corruption among high ranking officials.

## **Freedom of Press : 1.7**

Freedom of the media in Russia is largely restricted in practice. Extensive and repressive legislation is often used to censure media reporting, while journalists work in an environment of fear, with their freedom and independence being suppressed. There is a wide variety of traditional and online media outlets, however, Russian media landscape lacks pluralism of opinion, since majority of those outlets are controlled by government or their allies from business sector. State owned outlets show clear bias of ruling politicians and United Russia. Critical reporting on the political elite or on sensitive national identity issues is missing. In a case of RBK media group, which faced strong political pressure due to its reporting on alleged corruption in circles close to president Putin, several journalists and editors resigned. During the period under review, media workers have faced numerous intimidations, violence, prosecutions and pressures to resign, so as to narrow down their critical stance. Government increasingly restricted online freedom, and throughout the year several bloggers have been prosecuted and sentenced for their posts with content which was disallowed by Russian law, mostly referring to the occupation of Crimea.

## **Economic Freedom**

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### **Security of Property Rights : 5.53**

Private property is not well secured in the Russian Federation. Improper government influence and corruption in the judiciary are perceived as high, while vested interest groups connected to political factors can exercise strong influence over the judiciary. Court decisions in similar cases differ, giving advantage to the party with political connections. That leads to unpredictability of verdicts. There are strong claims that authorities are transforming civil cases into criminal cases, leading to substantial increase in penalties. Private property could be seized by the state with the level compensation deemed unfair. Extortions committed by state officials, as well as corruption, remain present. On the other side, legal enforcement of contracts incurs low costs as compared to the value of the claim and is settled within a reasonable time limit of 340 days. The insolvency process is mostly terminated via piecemeal sale, contributing to a relatively low recovery rate of 38%. Although there are commercial courts, they do not use automated processes. Enforcing contracts has recently been made more difficult by making pre-trial resolution obligatory before filing a claim before the competent court. Foreign ownership of land in border or other sensitive areas is restricted, while in other cases foreign entities cannot own more than 50% of plots of arable land; the land could however be leased for the duration of up to 49 years. Government approval is necessary for investing in 45 specific areas and industries that are considered as having strategic importance.

## **Size of Government: Expenditures, Taxes, and Enterprises :**

### **7.17**

Public expenditures in Russia are moderate, reaching 36% of GDP in 2016. Russian economy experienced recession in 2016 due to low oil and natural gas prices - which accounted for two thirds of Russian exports and approximately half of the government revenues - accompanied by the EU trade sanctions and protectionist measures by the Russian government. However, energy prices started rising from their historically low levels, almost doubling from January 2016, promising more positive economic prospects although with low growth rates. High budget deficit was recorded again in 2016 - reaching 3.6% of GDP, but public debt remains low by international comparisons, standing at 17% of GDP, providing substantial fiscal space. Inflation was substantially lowered from its very high level of 15% in 2015, but its new level of just over 7% remains high. New fiscal rules have been discussed, that would provide for a more rapid fiscal adjustment in case of lower energy prices. Taxation system uses flat rates, with minor progressive methods in determining the level of social contributions: personal income tax is 13%, VAT 18% and corporate tax varies from 15.5 to 20% due to regional tax deductions. Social contributions consist of 30% of the gross wage, paid by the employer. Government activity through as many as 64 000 state-owned enterprises (SOE) is present in many sectors, not just in those that are legally considered as being of strategic importance, such as public utilities, mining, energy or production of military equipment, but also those in agriculture or services. More than half of the banking sector is in the hands of the state-owned banks. Numerous SOEs enjoy large direct or indirect subsidies so as to maintain their operation. Although government privatized 19.5% of the shares of the company Rosneft, broader privatization agenda was scaled down due to political pressure, because the return of economic growth brought back the old - loose - fiscal amenities. Therefore, further Rosneft equity privatization was postponed, as well as the privatization of the second largest bank, the VTB.

## **Regulation of Credit, Labour, and Business : 5.19**

The Russian business environment is plagued with unnecessary administrative procedures,

inefficient government bureaucracy and a high level of corruption, which is further fueled by often vague and ill-defined regulation. Starting a business is both easy and inexpensive, without minimum paid-in capital requirement. However, it takes almost 8 months on average to obtain a construction permit, since the process involves a high number of procedures. Getting electricity is also lengthy, in part due to inefficiency of the SOE MOESK in charge of it, but the situation was made easier by eliminating the meter inspection. Costs involved are low by international comparison. The number of annual tax payments is low and most procedures are online, but the tax rules are still considered as complicated. Flexible working hours and low redundancy costs that are not increasing with the number of years in tenure make strong points in labour regulations, but firing regulations are at the same time complicated due to obligatory trade union notifications, redundancy rules and reassignment and/or retraining obligations. Centralized collective bargaining is mostly concentrated within the public sector, while the minimum wage is low as compared to international standards, set at approximately 20% of the average wage. A significant burden is the mandatory 12 months` military service. The system of comparing business climate on the regional level by the Agency for Strategic Initiatives led to an increased effort to improve business climate in several regions of the country. However, corruption and tax rates remain the most significant obstacles to a more business friendly environment in Russia.

## **Freedom to Trade Internationally : 7.52**

Free trade in Russia is mostly respected. However, there are important exemptions: first of all, economic sanctions have been frequently used as a foreign policy tool in dealing with neighbouring countries. Economic conflicts took place with Georgia, Moldova, even Belarus, while recently also with the EU and Ukraine. Secondly, the existing trade sanctions are used as a cover for a wide program of policy substitution, especially in the field of agriculture. The current import substitution policy is often responsible for creation of burdensome business regulation for imported goods in order to create advantage for domestic producers. For projects funded by the state, there is often a requirement that equipment is made in Russia. Russia became a World Trade Organization (WTO) member in 2012, which somewhat liberalized trade, but overall tariffs have remained elevated, with the average MFN applied tariff rate of 7.1%. Technical barriers to trade (TBT) are still not fully disclosed to the WTO and are seen as a burden to trade. Establishment of the Eurasian Economic Union (EEU) in 2015 did not significantly boost trade, due to lack of complementarity of economies included, and due to non-alignment of sanitary and phytosanitary measures, that remained outside the supranational authorities. Introduction of new labour regulations significantly restricted prospects for foreign migrant workers - inclusion of mandatory language and culture test, and, most importantly, very high license fees, have proved as a significant barrier to their inclusion into the labour market. Two thirds of Russian exports are fuels and minerals.