

Friends or Foes? The Effect of Governor-Siloviki Interaction on Economic Growth in Russian Regions in 2005-2017

(based on the paper published at 'Russian Politics' in November 2019)

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February 2020

The problem

- Strong centralization of power in Russia in early 2000s (after Kozak reform). Since 2005 appointment of regional governors (instead of elections) – in fact governors became federal officials.
- However – deep distrust of Kremlin to the majority of governors → Federal *siloviki* as ‘sovereign eye’ in the regions (prosecutors in mid 2000s as well as heads of regional FSB branches all times).
- 2007 – introduction of formal evaluation system KPI for regional governors. It was very broad initially (about 300 indicators in 2011). However due to harder budget and political constraints since 2012 simplification of this system with focus on investment and GRP growth. ASI’s National investment climate ranking as additional tool.
- At the same time after 2012 and especially since 2014 – increase in the influence of *siloviki*, criminal investigations of FSB against governors in many regions.
- As result: stronger pressure on governors from the Kremlin. Not only loyalty but also competence and performance became needed now → ***How did governors react on these challenges?***

Overall logic of our research approach

- This pressure on governors is complex but we focus on economic consequences – because they are less studied (comparing to political factors of governors appointment) especially for the period after 2012.
- We consider not only governors but also UFSB heads – because UFSB heads are key representative of Kremlin in the region and they can create serious constraints for governors. Previous literature was focused on the role of *siloviki* mostly at national level.
- Long-term economic growth in the region as the main outcome. Such growth is not possible without investment. But for potential investors it is very important to understand “rules of the game” in the region (including informal ones).
- Frequent replacements of the key figures — namely, the governor and UFSB head — make “rules” ambiguous and increase the investment risks.
- Therefore we assumed that economic growth would be higher in the regions where governors and UFSB heads have longer tenure. That means that, in economically successful regions, replacements of governors and UFSB heads should be, on average, less frequent.
- We used simple statistical tests to check significance of our results.

Empirical data – regions

- We considered all Russian regions for 2005-2017 with few exceptions: 5 autonomous okrugs incorporated into larger regions in 2007-2008, Sevastopol and Crimea as well as Ingushetia, Chechnya and Moscow city (as outliers)
- Main criterion: GRP growth from 2005 to 2017 exceeded the average growth of Russia's total GRP by at least 20% → 22 regions meet this threshold.
- But high growth rate can be explained by low starting level or small economic size of the region → therefore we did not count as “economically successful” regions with GRP per capita in 2005 below RUB 50,000 (11 regions) and overall GRP below RUB 50 billions (the same 11 and 7 other regions).
- Additional criterion – the size of population (above 1 million people or at least above 0,5 million people).
- As result we selected two groups of successful regions: “narrow” and “extended”. All other regions were used as the base for comparison.

Regions defined as economically successful in comparison with other regions

Narrow group		Extended group	
Astrakhan oblast	Krasnodar krai	The same +	Kaliningrad oblast
Belgorod oblast	Moscow oblast		Sakhalin oblast
Voronezh oblast	Rostov oblast		Yakutia
Kaluga oblast	St. Petersburg		Yamalo-Nenets autonomous okrug

Groups of regions and number of regions in the group		Average population in 2005, million people	Average GRP in 2005, billion rubles	GRP per capita in 2005, thousand rubles
Successful regions	“Narrow group” – 8	3,3	303,8	90,9
	“Extended group” – 12	2,5	271,5	109,7
Small and less developed regions – 17		0,6	32,4	52,7
All other regions – 51		1,8	234,2	129,8

Empirical data – governors and UFSB heads

- The FSB is known as a highly secret organization, however the heads of regional FSB branches (UFSB) are appointed by decrees of the Russian Federation President, which are available for mass media. Therefore we were able to compile a database reflecting the tenures for each UFSB head in every Russian region between 2005 and 2017.
- A similar database has been created for all governors who governed Russian Federation regions in 2005-2017. Because governors are public figures, in addition to their terms of office, we collected info on their prior experience and activities following resignation.
- Our dataset includes information on 215 governors and 311 UFSB heads. Average replacement rate between 2005 and 2017 for governors was 1,7 while the figure for UFSB heads was 2,9.

Governors and the UFSB heads' tenure in Russian regions after 2005 to 2017

	Average number of years in the office after 2005			
	for the governors		for the heads of UFSB	
	In the office in 2017	Resigned by 2017	In the office in 2017	Resigned by 2017
Average	5.41	4.93	3.09	3.62
Mode	1	5	2	3
Median	5	5	3	3
N	80 *	135	80	231

** Six governors hold office from 2005 up to 2017*

Main results: replacements of governors and UFSB heads in economically successful and other regions (2005–2017)

		N	Average number of governor replacements	Average number of UFSB head replacements
All regions included in the analysis		80	1.71	2.88
Calculation for the narrow group of successful regions	Successful	8	0.75	2.13
	Other	72	1.79	2.97
	t-test p-value		0.00	0.00
Calculation for the extended group of successful regions	Successful	12	1.08	2.50
	Other	68	1.79	2.96
	t-test p-value		0.03	0.04

Discussion of results

- We confirmed our hypothesis on positive links between rapid economic growth in a region and longer tenures of the governor and UFSB. However a long tenure of the governor *per se* does not guarantee the economic success of the region.
- We identified 39 regions in which the governor was replaced only once or remained the same from 2005 to 2017. Nine regions within that group were classed as “economically successful,” with GRP growth exceeding the average growth in Russia by at least 20%. The average excess in those 9 regions amounted to 36%, but in the other 30 regions the average excess was only 5%.
- The economic progress of a region primarily depends on the policy pursued by the governor and his team interacting with the regional business elite and external investors. The policy is easier to implement if the governor can make plans with a long-term view. But the governor’s policy may be focused on extracting rents instead of regional development.
- Effective communication with the Kremlin on the appointment of *siloviki* to maintain control over the regions is essential for a governor in any case.