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NEW RUSSIAN CABINET: STAFF "REVOLUTION" INSTEAD OF STRUCTURAL REFORMS?

Summary

On January 21, 2020, President Putin approved the structure of the new Russian Government and appointed Deputy Prime Ministers and federal Ministers. New Prime Minister Mikhail Mishustin was appointed on January 16.

What are the key specifics of the new Cabinet?

The key specific feature of the new Russian Cabinet is that while the structural changes are minimal, the staff reshuffles proved to be radical, both in terms of the number of new people appointed to top offices and change of political status of key Cabinet members (how close they are to the President).

This is an extremely atypical decision for Putin, compared to previous Cabinets over the entire period of his stay in power. Earlier, as a rule, the Cabinets included influential figures close to the President and personally associated with him, and a system of checks and balances between different elite groups existed.

But at the same time, the decision to change the approach to the Cabinet appointments is logical in the context of a broader presidential "staff policy" over recent years - the so-called "technocratisation" of power (the appointment of young "technocratic" governors, the penetration of such figures into Medvedev's second Cabinet, the appointment of the head of the Presidential Administration, a "technocrat" Anton Vayno during the Parliamentary election campaign in 2016 and the launch of "Leaders of Russia" contest in order to select and train a "succession pool" for the top positions in the federal and regional civil bureaucracy).

The new government is characterised by a lack of clear connections of its key members with the elite groups or members of the President's inner circle, and looks less fragmented than the previous ones, even despite its members potentially differing in their personal views on the economic policies and measures needed to revive economic growth. This general framework defines the following features of the new Cabinet:

- Technocratism. Many new appointees made a career in the public service starting from low ranks, and their growth is the result of their bureaucratic efficiency (the ability to fulfill the tasks within the framework of the political course and their personal powers), rather that the support of their "patrons".
- **Full "depoliticisation"**. Former PM Medvedev chaired the pro-presidential United Russia party and is considered to be among the candidates to become Putin's successor. In the new Cabinet, neither the Prime Minister nor any other leading figures could qualify as potential successors.
- Relatively high operational autonomy. Compared to the previous Cabinet, the new one has a higher credit of trust from the President and will probably have greater autonomy in making decisions that are mostly within the Government's competence (financial, social and economic policies).
- Despite being formed at the start of the political transition process, the Cabinet could become long-serving and its current composition could survive both the State Duma election and potentially the next Presidential election (particularly in case of early elections).
- The Cabinet (except for the national security/foreign affairs bloc) does not include figures connected to Putin since the 1990s, nor those who worked with him once he got his first federal appointment in 1997.

Some other remarkable features of the new Cabinet are as follows:

- High influence of people with tax backgrounds. Prime Minister Mishustin was able to ensure the appointment of two his former deputies from the Federal Tax Service to the offices of Deputy PMs, including the Head of the Government Executive Office. Apart from that, the team responsible for the tax & customs policy in the Ministry of Finance also got promotions the relevant Deputy Minister of Finance was appointed Deputy Head of the Government's Executive Office in charge of law-making activities and the head of Tax & Customs Policy Department of the Ministry was promoted to the office of State Secretary Deputy Minister.
- **First Deputy PM Andrey Belousov**, by his political weight and status in the new Cabinet, could play the role of "second Prime Minister". Belousov could maintain autonomy in relation to PM, as he has direct access to the President and could potentially use this ability, counter-balancing PM Mishustin.
 - The appointment of Belousov as an ideologist of "national projects" and a person now in charge of their implementation and Mishustin as a "fiscal" technocratic PM

responsible for public administration improvement and tougher control over the increased public expenditures also has a logic. The improvement of public administration at the federal level and control over budget spending is a necessary pre-condition for achieving Belousov's policy of re-launching economic growth through increase public investments.

- At the same time, PM Mishustin also has significant bureaucratic resources and was able to bring his own team to the Government. Mishustin "took control" over the Government's Executive Office and secured the appointment of several people close to him (not only from the ranks of the Federal Tax Service) to the offices of Deputy Prime Ministers.
- In the future, the relatively equal status of Mishustin and Belousov could become the main conflict line in the Cabinet.
- Importance of the regional factor (many members of the new Cabinet both Deputy PMs and federal Ministers - come from the regional bureaucracy or have been recommended by the governors of key regions - first of all Moscow Mayor Sergey Sobyanin.
- Strengthening the position of "social" Deputy PM Tatyana Golikova: in fact, the President entrusted her with reorganising the structure of social ministries/agencies and changing their senior management.
- Full reshuffle of the "digital" bloc of the Cabinet, but unlike the "social bloc", it will not have a clear "leader", since Prime Minister Mishustin, First Deputy PM Belousov and newly-appointed Deputy PM Dmitry Chenyshenko will be directly involved in the digital agenda.
- The Presidential Administration will maintain an important role in monitoring and coordinating the Government's activities, particularly in law-making, economic policy, foreign trade & EAEU agenda, since some former Cabinet members got appointments in the Presidential Administration and will have regular access to the President (*please see below*).

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New Russian Government



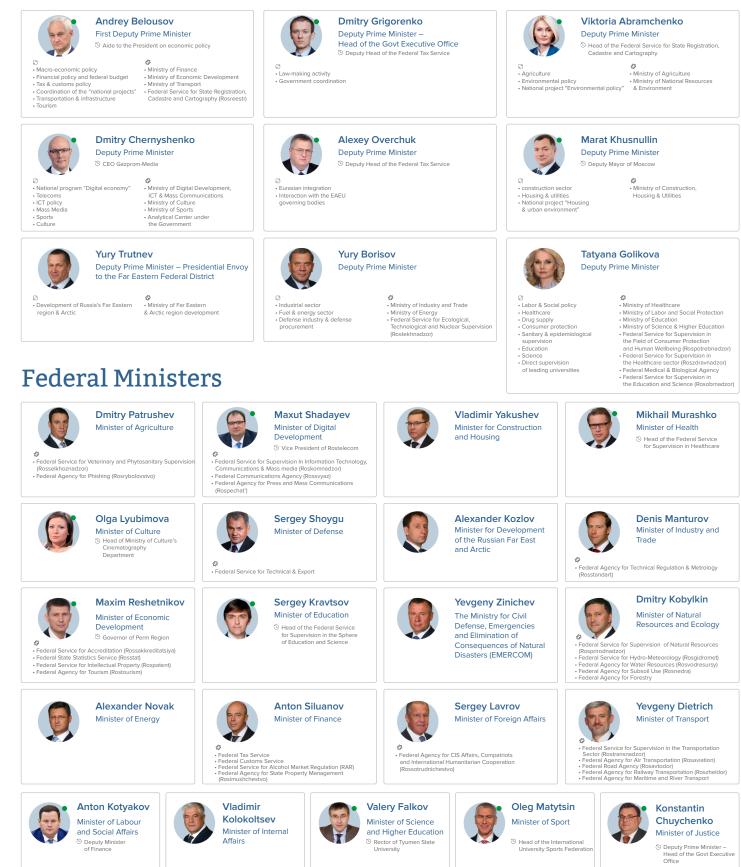


Mikhail Mishustin

Prime Minister

🕒 Head of the Federal Tax Service

Deputy Prime Ministers



What are the reasons behind the Government shuffle?

In summary, there could be two major reasons behind changing the Government:

- Political part of Putin's "big" plan to ensure/create conditions for the stable transition
 of Presidential power and minimise the risks on the eve of the electoral cycle of 20212024 (*including the possibility for early parliamentary and presidential elections, although Putin is not a supporter of such a "technology"*). From this broader perspective,
 we cannot rule out a "failure" a probability that a launched plan could trigger
 uncontrolled political and social processes and break the scenario of stable power
 transition (*please see below*).
- Economic/public administration the need to get away from the "stagnation" scenario, both in terms of the economy and the quality of public administration. Medvedev's government made no breakthrough economic decisions, national projects stalled, and it lacked its own macroeconomic vision and strategy, which brought more and more political risks for Putin (*the need for his personal involvement in resolving even technical economic policy matters, negative impact on both the President's status and his public approval*).

What should the public affairs practitioners expect from the new Russian Cabinet?

Taking into account both the above-mentioned specifics of the new Government and the reasons of Medvedev's Cabinet's resignation, we could expect the following potential changes (both positive and negative) to be relevant for public affairs practitioners in Russia:

- More effective tax administration growing pressure both in terms of inspections and the search for additional sources of budget revenues, which becomes more important for the Government in the light of planned massive increase of social spending. The industries which have been in the focus of the Federal Tax Service over the last years (*e.g. tobacco, direct sales, etc.*) face the highest risks.
- Growing fiscal pressure in a broader sense acceleration of the decision-making process to introduce new and increase existing tax and non-tax fees.
- General toughening of control and oversight activities along with growing powers of oversight bodies. It is possible that under this Cabinet's term of office, the oversight bodies would be consolidated into some kind of oversight "mega-regulators" and vested with powers approaching those of investigative authorities.
- Simultaneously, such initiatives of the previous Cabinet as "regulatory guillotine" and broader control and supervision reform could be slowed down.

- Tightening control over budget spending (which is more important for GR-activities related to access to public procurement, ensuring involvement in implementation of national projects, etc.).
- Alignment of conditions for foreign and Russian businesses in the sectors where the Government's view is that foreign business has competitive advantages compared to domestic one (*e.g. cross-border e-commerce*).
- Better dynamics of national projects and programs' implementation, particularly the "Digital Economy" program, accompanied with even further reduction of private business role (*business as a technical executor of national projects, but not their ideologist and participant equal to Govt structures and SOEs*).
- Acceleration in the implementation of initiatives ensuring control and transparency of what the Government considers the "external environment" (e.g. tagging of goods with identification tags).
- Preservation of the trend for digitalisation of public services and a broader transfer of business to government interactions into a technological format (*issuing licenses and permits, etc.*)

What are the main changes in the Government's structure and composition?

On January 16, 2020, Vladimir Putin appointed Mikhail Mishustin, the former head of the Federal Tax Service, as the new Prime Minister. The appointment was followed by the official resignation of Dmitry Medvedev, who had acted as government chairman for almost 8 years.

By January 21, a new composition of the government was appointed, composed of deputy Prime Ministers and Ministers, which resulted in significant changes to the Cabinet (*please see details in the Appendix*).

The economic and social blocs of the government have been almost entirely renewed; in comparison, the national security and law enforcement bloc (*presidential vertical*) has been subject to less substantial shifts. On the basis of the reshuffle executed, the following conclusions can be drawn:

Prime Minister Mishustin obtained considerable extent of autonomy (therefore, he cannot be considered a purely technical figure):

- Four of Mishustin's deputies are in the sphere of his direct influence (*their assumed authorities are not yet announced officially at the moment*):
 - Deputy Prime Minister Viktoria Abramchenko (Agricultural Sector, Environmental Policy, etc.)

- Deputy Prime Minister Alexei Overchuk (Economic Integration, EAEU, Trade Policy)
- Deputy Prime Minister Dmitry Chernyshenko (Digital Economy, Communications, Sports, Culture etc.)
- Deputy Prime Minister, Head of the Government's Executive Office Dmitry Grigorenko (State Control and Supervision Reform, Government Project Office, etc.)
- The authority of the First Deputy Prime-Minister has been enlarged substantially (the defacto "Second Prime-Minister"). This position is taken by Andrey Belousov, the former Presidential Aide on Economic Matters:
 - Belousov leads the entire financial-economic bloc in the government.
 - His domain also includes the performance of national projects (in connection with this fact he will be also entrusted with governance in the transportation and infrastructure sector).
- The mandate of the "military-industrial" Deputy PM Yuri Borisov has also been strengthened. Along with the defense industry, he will supervise industrial and fuel-and-energy sectors (the Ministry of Industry and Trade, the Ministry of Energy, Rosstandart).
- Strengthening of the Moscow Mayor's (S. Sobyanin) role should also be noted. His sphere of influence includes the following nominees:
 - Deputy Prime Minister Marat Khusnullin, in charge of construction sector (ex-Deputy Mayor of Moscow).
 - Minister of Construction Vladimir Yakushev.
 - Minister of Economic Development Maxim Reshetnikov.
 - Minister of Science and Higher Education Valery Falkov.
 - Minister of Natural Resources & Environment Dmitry Kobylkin.

However, we note the varying degrees of proximity of these people to Sobyanin.

In general, the composition of the government has been renewed only by half (*13 Deputy Prime Ministers and Ministers have been removed from their roles, 12 retained their offices*). A variety of nominations to the positions of Deputy Ministers, as well as in the Government's Executive Office, has been already arranged.

The Cabinet structure has been partially transformed. The Ministry for the Northern Caucasus has ceased to exist, its functions have been submitted to the Ministry of Economic Development.

Rosreestr, Roszdravnadzor and the Federal Biomedical Agency have been resubordinated to the Government directly. The activity of the Federal Property Management Agency has also been transferred to the jurisdiction of the Ministry of Finance. These structural changes, as well as shifts in staff employed, additionally help to reduce the level of conflict within the government.

Staff reshuffles in the Presidential Administration

It is noteworthy that the change of the Cabinet's composition usually triggers structural and staff changes in the Presidential Administration.

- In comparison with the drastically refreshed Government, the reshuffles in the Presidential Administration are quite moderate at first glance.
- Former Minister of Culture Vladimir Medinsky and former Minister of Economic Development Maxim Oreshkin were appointed as aides to the President (probably to supervise culture and economic affairs respectively). Former Deputy PM Dmitry Kozak was appointed Deputy Head of the Presidential Administration (the portfolio is expected to include Eurasian Integration, the EAEU and the CIS).
- These appointments at the very least confirm that President Putin is focusing the new Government on socio-economic issues, highlighting that the foreign policy agenda is a special presidential priority. Kozak's appointment may signal that the economic integration and further development of the EAEU (a presumable area of his responsibility) are among the key issues in this agenda. In many regards the key decision-making powers, defining Russian position on key directions of EAEU's development, are "officially" transferred from the Government to the Presidential Administration.

What are the prospects for Mishustin's Cabinet?

In general, we can note the following key differences between the Cabinets of Mr. Mishustin and Mr. Medvedev:

- The government has become more technocratic:
 - The main problems stated are tightly linked with increasing the effectiveness of governance and budget spending, digitalisation, the development of social sphere and healthcare. The significant part is that the initiatives are to be implemented through national projects.
- The 'fault line' between the ministries and agencies:

- The current government seems less fragmented compared to the previous one;
- The ministerial team consolidation can be attributed to the necessity of high-level performance of social initiatives, launched by the President himself and the national projects (*see below*), which, in their turn, are essential with respect to elections to Duma (2021) and, consequently, presidential elections (2024).
- Figures that irritated professional communities and business have been removed from the government. The list of such examples includes: The Minister of Culture Vladimir Medinsky, the Minister of Education Olga Vasilieva, the Minister of Education and Science Mikhail Kotyukov, Deputy Prime Minister Vitaly Mutko and the Minister of Labour Maxim Topilin. Their names were closely associated either with mass-media scandals or with unpopular reforms (pensions, etc.).
- Strengthening the direct influence of the President on the government by positioning people from the closest environment (A. Belousov, etc.).

Today, there are two main scenarios regarding the prospects of Mishustin's Cabinet:

- The government operates until the next major political event, such as the election of the Duma in 2021. In case of low efficiency, the government may resign before/after the election of the new Duma.
- The government operates until the presidential election in 2024 (*then it automatically resigns*).

The choice in favour of those scenarios depends upon two factors:

- The effectiveness of the government in terms of implementing Putin's social initiatives (*and the correlation between the government performance with Putin's approval ratings, in general*).
- The time when the Constitutional amendments related to expanding authority of the Duma with respect to assembling the government take effect.

Amendments to the Constitution

Along with the rearranging the government, the President initiated amendments to the Russian Constitution. On January 23rd, the Duma approved the changes in the first reading (the second reading is to be held on February 11th).

The amendments in their current wording imply further strengthening of the presidential power and are aimed at increasing the controllability of elections/transit of power after V. Putin leaves the presidential office in 2024. From the public affairs perspective, the following changes to the Constitutuon are of the highest relevance:

- The priority of Russian legislation over international law:
 - The amendments legally establish the priority of the Constitution over decisions of international bodies (probably, this might be considered as a measure to protect the Russian Federation from decisions of international courts in the context of sanctions and "trade wars").
- The powers of the State Duma in the formation of the government are being strengthened:
 - The State Duma not only receives the opportunity to approve the candidacy of the Prime-Minister, proposed by the President, but also to consider candidacies for the posts of Deputy Prime-Ministers and Ministers (excluding the presidential vertical - law enforcement, national defense and security). At the moment, members of the Cabinet (i.e. non-presidential bloc of the government) are appointed by the President on the proposal of the Prime Minister.
 - At the same time, the President will propose candidates to lead the national defense and security and law enforcement bodies, as well as the and the Ministry of Foreign Affairs in the course of consultations with the Federation Council (this increases the role of the latter in decision-making). Moreover, heads of regional prosecutor's offices are also to be appointed in the course of consultations with the Federation Council.
- Granting the State Council with the status of a constitutional authority:
 - According to the amendments, the President forms the State Council with the aim of "implementation of the coordinated functioning and interaction of state authorities, determining the main directions of the domestic and foreign policy of the Russian Federation and corresponding priority areas of the socioeconomic development of the state". Details will be stated in a separate federal law to be initiated.
 - At the same time, Putin has explicitly stated that he has no intention of forming a supra-presidential collective governing body due to risks of dual power. The initiative is rather related to establishing a modified system of checks and balances, allowing Putin to keep his influence after resignation from the post of President.
- Additional requirements for top-level public servants:

- A prospective candidate for the Presidency must have lived on the territory of the Russian Federation for at least 25 years and possess no citizenship (or residency permit) of any other state.
- Members of the Government, the Federation Council and governors may be those individuals who have reached the age of 30 and have no citizenship (residency permit) of any other states. Similar residency requirements apply to candidates for the Duma who have reached age of 21.
- The amendments also provide that the President, once elected, cannot hold office for more than two terms (*the current wording is as follows: "more than two consecutive terms"*).
- This measure cuts off an enormous layer of potential applicants for senior government posts and serves as a solid security measure for the system from the appearance of non-system players.
- Changes at the local governance:
 - Municipalities are integrated into a "unified system of public authority". Therefore, municipalities are included in a unified management vertical, which is aimed at helping to strengthen state control over the municipal authorities.
- Changes in the judicial area:
 - On one hand, the opportunity of dismissing members of the Constitutional and Supreme Courts are at the disposal of the President from now on;
 - On the other hand, the Constitutional Court is nominated with the authority to review any federal law (after the President's request). Even if the Duma overcomes the President's veto, the act in question will be declared contrary to the Constitution. This gives an optional tool for the President to control the Duma.

What do the current political developments mean for public affairs in Russia?

The change of Government, along with potential Constitutional reform, change the environment for government affairs work in Russia, including the following:

• Russia enters the active stage of power transition (earlier than was expected), which may cause political turbulence (unclear perspectives of the new Cabinet, possible further staff reshuffles, etc.).

- The initiatives to combat poverty and massive increase of social spending announced by President Putin require significant growth of overall budget expenditures (according to various estimates, \$5 billion in 2020 with potential considerable increase up to 2024).
- Both government's financial reserves (in particular, Russian National Wealth Fund) and business could be considered as potential sources for covering these additional expenditures:
 - On one hand, the creation of a "New Investment code" in the form of laws codifying agreements allowing to protect / attract investments (SZPK), SPIC 2.0 and other mechanisms, should create more attractive conditions and additional safeguards for investments to launch the investment process, which has been stalled since 2014.
 - On the other, in the case of low efficiency of "carrots" (additional incentives), the "stick" in the form of more aggressive state fiscal policy could be applied.
- The personnel composition of the Government, from Prime Minister Mishustin to some federal ministers, indirectly indicates that a harsher approach is more likely to be chosen (in any case the Government is ready to switch to such an approach in the future). When Mishustin headed the Federal Tax Service, the fiscal pressure on business significantly increased and the growth of tax revenues compared to the dynamics of economic growth was tenfold faster.
- The renewed power configuration stated in the Constitutional amendments may lead to a revision of the powers, functionality and political heft of certain stakeholders in decision making process:
 - The President holds a key role in decision-making.
 - The State Duma may increase its reputational influence in connection with the mechanism of future Cabinet formationd (increase of Vyacheslav Volodin's political heft).
 - The Federation Council gets additional powers.
 - The State Council is integrated into political system (however, with yet unclear functions).
 - The role of Security Council increases after former PM Dmitry Medvedev was appointed to this body.