PRIVATIZATION IN RUSSIA: CATALYST FOR THE ELITE

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During the fall of 1997, the Russian press exposed a corruption scandal involving First Deputy Prime Minister Anatoli Chubais, and several other high-ranking officials of the Russian government.[1] In a familiar scenario, news organizations run by several bankers involved in the privatization process published compromising material that prompted the dismissal of the politicians on bribery charges.[2]

The main significance of the so-called "Chubais affair" is not that it provides further evidence of corruption in Russia. Rather, it underscores the importance of the scandal's timing in light of the prevailing economic environment and privatization policy. It shows how deliberate this political campaign was in removing a rival on the eve of the privatization of Rosneft, Russia's only remaining state-owned oil and gas company.

The history of privatization in Russia is riddled with scandals, revealing the critical nature of the struggle for state funding in Russia today. At stake is influence over defining the rules of the political game. The aim of this article is to demonstrate how privatization in Russia gave birth to an oligarchic regime and how, paradoxically, it would eventually destroy that very oligarchy. This article intends to study how privatization influenced the creation of the present elite structure and how it may further transform Russian decision making in the foreseeable future.

Privatization is generally seen as a prerequisite to a market economy, which in turn is considered a *sine qua non* to establishing a democratic regime. But some Russian analysts and political leaders disagree with this approach. They argue that the privatization policy implemented by the government helped oligarchic forces consolidate power and failed to create real competition—a key element in any market economy. They point out that transferring ownership from the state to private individuals in post-Communist countries is not sufficient to guarantee the creation of a market economy. It may not even constitute privatization as it is understood in the West.[3]

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It seems that Russia today is at a turning point in its history. A survey of the latest privatization scandals could give the impression that a handful of individuals seized Russia's industrial monopolies and actually controls the economy. But there remains a fundamental question: Who will eventually take over from the ruling elite? A new financial group comprised of businessmen who identify themselves as a "clean elite"—independent of political power—is emerging and already seeks to create its own lobby. The result of the impending struggle between these two elite groups will determine the outcome of the current privatization process.

The Origins of the Oligarchy

Since 1997, the Russian press has accused the ruling elite of embezzlement and exposed what it calls a secret agreement between the political spheres and the country's most prominent businessmen. This has cast a shadow over the political leadership, which is perceived by the population as greedy and cynical. One could argue that high-ranking Russian officials are not as corrupt as the press depicts them and that Russian bankers are no more powerful than their Western counterparts. This would imply that the current situation is the result of actions by a handful of government officials and that, should they be dismissed from their posts, the political system would instantly become healthier. If this is actually the case, the present government should be regarded as Russia's cleanest, considering the recent changes within the country's leadership.[4] However, it seems that the relationship between the financial elite and the political leadership is an integral part of Russia's political system and re-occurs under each successive government.

Considering Russia's recent history, the existence of such an oligarchy is not a surprise. It originated in the 1987 decision to reform the Soviet Union's economy.[5] Prior to decentralizing and privatizing the economy, it was essential to create a system based on money. Likewise, it was essential to create a class of managers able to create genuine competition. But under the Soviet system, government policymakers started from virtually nothing. Hence the necessity for the country's leadership to rely on the existing elite.

Today's financial actors were not created *ex nihilo*. They were the result of three fundamental decisions made during the last years of the Soviet regime. Those decisions were meant to structurally reform the economy and the state in order to maintain Russia's superpower status. The first reform was adopted as early as 1987, when Mikhail Gorbachev authorized the creation of private cooperatives and banks.[6] Then, in February 1990, the Central Committee decided to take away the Party's leading role in economic planning, transferring power from the Communist Party of the Soviet Union (CPSU) to the government and, on the regional level, from the Party's representatives to the local government council. Finally, the reform of the military industrial ministries and Gosplan (Ministry of Economic Planning) was important in reshaping the Soviet economy.

As, the only existing bridge between the Central Committee and industry, the military industrial ministries were the keystone of the Soviet centralized economy. They passed on state commands to the factories, monitored manufacturing and, finally, delivered the final products. By abolishing the military industrial ministries, Soviet leaders created a void, which eventually had to be filled. Industry was not able to cope with the new economic rules that suddenly appeared. Although managers accepted the lack of state direction, they asked for time and money to find new partners. There was no alternative other than to transform the sectorial ministries into multinational corporations.

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From 1990 to 1992, those corporations were still commissioned to place orders with the factories and they kept their networks untouched. Although they were often considered economic parasites, they played an essential role during this transition period. By keeping the existing framework intact, they gave the factories time to develop new horizontal networks and therefore made the transition less painful for the industry. After the collapse of the Soviet Union, these corporations helped create several so-called territorial associations, which were meant to compensate for the loss of key factories located in the newly independent states. They also stimulated the creation of new industrial groups and helped stop the existing chaos in the industry from worsening. Given that no market economy existed prior to 1991, it was difficult—even impossible—for those corporations to play a role other than the one described. They eventually turned into huge industrial and financial trusts.

The development of a monetary system led logically to the creation of financial institutions. From the very beginning, the banks also grew with the backing of the political authorities. Gorbachev's program of *perestroika* necessitated regulation of money in circulation. The existing banks were connected to specific industrial sectors and were used as depositories. They were maintained in the new system and continued working with the corporations in their traditional industrial sectors.[7] The creation of new banking institutions was not so easy in a nonmonetized environment. During the period between 1988 and 1991, when the Soviet state agreed to create a free market, it could only rely on a few institutions which had sufficient capital: the Central Committee of the CPSU, the Komsomol (Communist youth organization), and the KGB. They created the first financial institutions, which today are among Russia's biggest banks.[8]

In this context it was the government officials who gave rise to the new regime. To fashion it, Russian public officials needed to keep political, economic and judicial powers under a centralized control. After a new constitution was adopted in December 1993, the executive branch regained its former might, linking the Kremlin to the regional governors within the vertical chain of power. Until 1994, the executive assumed virtually all power and increasingly shaped the new economic system.

Thus, beginning in 1993, the new financial elite was able to begin amassing empires thanks to the inflation of the first years of Yeltsin's presidency. By specializing in financial matters and creating the banking products Russia was lacking, the new banks fashioned a money-based economy. But they lacked industrial experience and could not manage industrial matters without entering into partnership with industrial corporations, i.e., the former Soviet ministries. Together with the former soviet ministries they created big industrial and financial groups, which then fought to keep their monopolies.

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The ruble crash of October 1994 should be considered a turning point in the relation between the state and the banks.[9] It allowed the political leadership which masterminded it to protect certain banks by warning them of the crash days ahead while allowing other banks to flounder. However, it also revealed that the political leadership was running out of money.

After the crash, the banks began to take power from the political leadership by using the most efficient weapon they had at the time: their control of the media. During the 1996 election campaign, the bankers chose to support the incumbent Yeltsin. In return for tax exemptions and greater investment opportunities, they offered him control over the media. During the year that followed the elections, the banks managed to consolidate their power by funding the government shortfalls in certain strategic areas. For example, in the spring of 1997, Defense Minister Igor Rodyonov summoned the country's leading bankers and asked them to finance short-term food supplies to the army's starving garrisons.[10] The existence of the oligarchy was exposed after the government tried to regain control of the economy during the summer of 1997.[11]

The alliance between financial institutions and politicians has never been hidden. Under the various governments of Yeltsin's presidency, most senior government officials have also served as board members of private enterprises. They have been the necessary liaison between the financial and political worlds.[12]

Obviously, those developments in the political and economic environments have modified the very structure of decision making. Under the Soviet regime, three industrial monopolies—defense, metallurgy and machine building industries—ranked among the most influential lobbies. They were joined during the 1960s by the oil and gas sector and, a decade later, by the automobile and aeronautics industries.

Today the reign of the sectoral lobbies is over. The industries have sealed alliances with the banks to create several powerful financial-industrial groups, all identically shaped and constituted of the same elements: banks, financial services, such as insurance and investment companies, industries, commercial import-export companies and media firms. As the number of these financial-industrial groups has grown, the influence of the banks and of the industries no longer depends on the strategic importance of any one industry. These groups are immensely wealthy and are thus financially independent of state commands. But they are not necessarily independent of political influence.[13]

One explanation for this situation is that these trusts were created with the approval of the political leadership. Second, these groups managed to maintain good relationships with the regional authorities in order to get access to newly privatized real estate. Third, the political leadership decides to privatize the biggest industries. Understanding when and how privatization takes place is essential to understanding the development of these holdings. The links between those groups and the political milieu are so firmly established that the Russian press always sees a financial relationship behind each new presidential or government decree.

The Power at Stake

The privatization of state enterprises officially began in 1991-1992.[14] It was conducted in two stages and played a key role in the making of today's oligarchic system. The first stage, also known as the mass privatization phase, was originally meant to symbolize popular capitalism. "What we need is millions of owners, not a handful of billionaires," Yeltsin said at the time. Each Russian citizen, old or young, was then given a 10,000 ruble voucher. The government focused on educating a population ignorant of market economy rules. The creation of corporate governance mechanisms was considered an issue of secondary importance.

In order to implement privatization, in spite of growing opposition from the ministries and the still communist-dominated parliament, the government offered large concessions to management and employees of enterprises and sold the remaining shares to individuals. Consequently, employees became the largest shareholders with managers holding the second largest block of shares. Non-state outsiders owned relatively few shares in the period immediately following privatization in fact only 13 percent according to a government survey of 312 privatized enterprises, with about a quarter of these shares in the hands of private citizens.[15]

The result of this reform is controversial. Using quantitative indicators and emphasizing the speed of the privatization process and the volume of state property that changed hands during this first stage, its initiators claimed it was a success.[16] Kremlin leaders justified their decisions saying they had to move swiftly for fear that the growing impatience among voters would bring the Communists back to power.

But other commentators argue that the reform cannot be disassociated from the political context in which it took place.[17] As already noted, the government wanted to give money a real value and considered this task as important as depoliticization and decentralization. In 1992 hyperinflation led to the creation of a money-based economy and allowed the banks to become real economic actors. Whether or not the hyperinflation was deliberate remains unanswered.

Whatever the assessment of the privatization policy, it is clear that Russia's political leadership endeavored to create the prerequisite conditions for a market economy. They offered state enterprises several options. As early as 1988, state enterprises were allowed to set up commercial companies based on their most competitive and profitable production units. This program was later labeled "spontaneous privatization."[18] At the same time, those enterprises were encouraged to sign leasing contracts with their parent ministries. After a certain period of time, they were allowed to buy up the goods under contract and transform themselves into joint-stock companies. This was a very profitable scheme since the sale price was not increased to account for inflation. The state enterprises were able to accumulate a certain amount of capital which, most of the time, turned out to be insufficient to meet rising production costs.

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Chubais' privatization plan implied that companies should be put in private hands as rapidly as possible. The objective described in the privatization law was to form a group of private owners who would contribute to the emergence of a socially oriented market economy by making the enterprises more efficient and attractive to foreign and domestic investors.[19]

The result turned out to be quite different. While management remained in the hands of the enterprises' managers, equity was dispersed in such a way that none of the shareholders was likely to diligently monitor the behavior of the managers. First, most of the shares were distributed to non-voting employees. In addition, many directors attempted to prevent company employees from selling their shares to outsiders, often by organizing trusts. Third, the government often passively retained shares in privatized companies. Such a situation, in which top management enjoyed virtually unlimited control, eventually resulted in inefficiency. Management did not fear dismissal and therefore had little incentive to maximize profits for the other shareowners.

Russian and Western observers have pointed out that the former nomenklatura consolidated its power by gaining control over most of the privatized companies. Such an assertion usually leads to a double confusion. First, one has to distinguish between control and ownership: management's control does not necessarily mean that top managers own most of the shares.[20] Second, the word "nomenklatura" is often used to refer to both the high-ranking officials of the former Soviet regime and the managers of the big industrial plants.

Mentioning the oligarchy's power, Russian journalists do not always have in mind the former Soviet management, but rather those few bankers who used the privatization policy to control the country's most strategic enterprises.

The end of the voucher privatization of medium and large enterprises in July 1994 was not the end of privatization. As noted by Blasi, Kroumova and Kruse, one of the goals of the program was to subsidize the federal and regional governments' budgets with the proceeds from the sale of shares. On July 22, 1994, Yeltsin issued a decree on the second stage of privatization; the remaining state holdings were to be sold for cash at competitive auctions, with part of the proceeds going to the companies as capital for their restructuring and the rest going to the government. The land which the privatized enterprises occupied was to be sold to the enterprises. The government hoped to raise about U.S. $2 billion during the first nine months of the privatization to finance its budget deficit without printing more money. But the results fell far short of initial expectations. The government had planned to sell 136 large companies. However, procedures for the auctions were issued at the very last moment, land ownership was yet to be established, and the minimum prices set were too high. The sales had to be postponed.[21]

The banks also wanted to restrict the involvement of foreign investors in buying up Russia's strategic enterprises.

Earlier, in March 1994, a consortium of commercial banks had offered to lend the Russian government funds and take large blocks of shares in the country's giant companies as collateral.[22] The banks also wanted to restrict the involvement of foreign investors in buying up Russia's strategic enterprises.

The creation of this banking consortium was directly linked to federal policy; although later those banks claimed that this was a spontaneous phenomenon. The original plan was to create a consortium of foreign banks; however the idea came from the Economics Ministry and the presidential administration's own analysts. On August 31, 1995, Yeltsin authorized a version of this plan that came to be known as the "loans-for-shares" scheme.

According to this scheme, the banks would inject money into the most heavily indebted enterprises in return for a significant volume of shares. This plan was also meant to save the bond market. In this way, the government would be funded but would not have to sell the shares it owned in the enterprises. The aim of the scheme was to prevent a plunge in the price of equities. In the context of the Kremlin's monetary policy, everything sounded logical.

Despite official statements that banks faced no preconditions and that shares in the enterprises would be granted to those banks offering the best loans only a handful of bidders were authorized to take part in the auctions. It may be coincidental, but the fact remains that all the banking consortium members had close links with the political power brokers. In September 1995, a presidential decree made the existence of the consortium official.[23] Shares in the companies were given only to the consortium members that had already been chosen by the government to manage the federal budget. The bidders whose offers were eventually turned down said they feared the outcome of future auctions would only profit the banks that took part in the "loan-for-shares" privatization.[24]

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The authorized banks were soon given shares in some of the most strategic enterprises. This was the case when OneksimBank acquired a 51 percent stake in Norilsk Nickel, Russia's main nickel producer. Reflecting on such examples, some commentators argued at the time that the auctions were only a screen to hide a new distribution of wealth.

By allowing private individuals to manage state funds, privatization strengthened the influence of the authorized banks. During the second stage of privatization not only had private individuals been restrained from bidding for company stakes, but only a few of the authorized banks were allowed to participate in the auctions. From that time on, those powerful banks were in a position to exert their influence on two highly sensitive issues: the privatization of industrial giants via the "loan-for-shares" scheme and the selection of the economic agents, such as the enterprises and joint-stock companies, that they wanted the state to support. Those very banks that managed the state funds gained a controlling interest in the privatized companies.

Even though it was not part of the original plan, privatization has evidently consolidated the power of the oligarchy. According to some economists close to Chubais, this was merely an accident. They argue that in their haste to accelerate the pace of the economic reforms, political leaders failed to predict the outcome of the "loan-for-shares" scheme. But one could reasonably argue that the political leadership did not care about the consequences of the plan and was not anxious to create a truly competitive economy.

The Struggle for Power

The facts surrounding the privatization of the giant telecommunications company, Svyazinvest, in July 1997 show that the government still had not given up its plans to maintain a centralized economy. After a hotly contested auction, OneksimBank took control of Svyazinvest, unleashing a bitter war between the losing bidders and Chubais' team. Because the highest bidder won Chubais held up the deal as a model of the government's new commitment to fair play. But the losing consortium accused him of favoring OneksimBank.

In the Svyazinvest auction, the losing consortium was led by Boris Berezovsky, an influential businessman and at the time the number two man in the Russian Security Council. Berezovsky, Chairman of Logovaz, a car-trading company, made his own fortune by setting up a powerful financial-industrial group. But he was not part of the handful of industry tycoons who managed to gain the confidence of the political leadership in the first years of the economic reforms. The fact that Berezovsky was left out during the first stage of privatization tells much about the structure of today's oligarchy. The winner of the Svyazinvest auction, OneksimBank Chairman Vladimir Potanin, has a radically different background; he came from the very closed circle of foreign trade executives. Although OneksimBank was only created in 1993, it has always been in favour with the federal government. On January 20, 1993, Finance Minister Boris Fyodorov sent a note to Central Bank Chairman Viktor Gerashchenko asking him to quickly grant a license to the OneksimBank.[25] Fyodorov argued that this new bank would help increase Russia's hard currency reserves, stop capital flight and exert reliable control over the fiduciary circulation:

> I am aware that we need to set up efficient structures that will help the government implement its monetary policy toward privatized enterprises. Given that some of Russia's prominent import-export companies would like very much to see a bank of this kind granted a license....I therefore consider it necessary to favor the creation of a national import-export bank, and I am asking you to make the necessary arrangements to accelerate its registration.

First Deputy Foreign Trade Minister Oleg Davydov backed Fyodorov's request. He even asked Valeri Khokhlov, chairman of the board of the International Bank for Economic Cooperation (MBES), to give some of the bank's property to OneksimBank.[26]

Two other banks, the Vneshtorgbank and the International Bank of Moscow (MMB), were at that time authorized to manage the hard currency accounts of Russia's foreign trade organizations.[27] But OneksimBank progressively took control over most of their accounts and staff members. Although Potanin's bank was officially presented as a private establishment, in fact, it represented the interests of the state and, on a private level, those of some of the foreign trade ministry's top executives. Shortly after it was created, OneksimBank became the government's official representative.[28]

Berezovsky, who knew that OneksimBank had a privileged relationship with the political leadership, claimed that the Svyazinvest auction was a hoax. Obviously, he feared that he would not be allowed to take part in other strategic auctions. A fierce battle thus broke out in the summer of 1997 between Berezovsky and Potanin. Using the control they exerted over some of Russia's most influential newspapers and broadcasting companies, the two men fought on privatization's battlefield.[29]

Prominent journalist Alexander Minkin gave two interviews publicizing the enormous sum of the royalty paid Chubais' team for a book about privatization in Russia and then launched a three-month press campaign against Chubais.[30] The timing of this attack is very interesting. The campaign's aim was not only to initiate a personal vendetta against Chubais, but, first and foremost, to gain the attention of the government and try to convince the political leadership to introduce competition into the economy. This was of crucial importance at a time when the government had just announced the impending privatization of Rosneft, the oil and gas company, which at that time represented Russia in all the production-sharing agreements with foreign companies.

Privatization "à la Chubais" has excited envy. About a dozen businessmen are now ready to break the rules to get a slice of the nation's riches.

Russian media have scrutinized the nation's financial circles over the past year, sometimes labeling it an "oligarchy," sometimes a "family" in reference to Sicily's *Cosa Nostra.* The merger of Yukos and Sibneft, oil and gas companies, last January has aroused numerous comments in the Russian press. The new company, YUKSI, plans to take part in Rosneft's auction in the spring.[31] Although the monetization of the economy has helped in the evolution of privatization, it seems that as in the past, only a few privileged individuals have access to the country's riches.

The Clean Elite, Politics and the Future of the Russian Economy

Privatization "à la Chubais" has excited envy. About a dozen businessmen are now ready to break the rules to get a slice of the nation's riches. They intend to launch a new battle for power and gain access to the privatized strategic enterprises. Although one of them, Vladimir Lopukhin, is a former Fuel and Energy Minister in Gaidar's government, they have no privileged relationship with today's political leadership. Nor do they have links with the banks close to the government. This group is composed of businessmen who claim they should be considered "clean." By this, they mean that they owe their fortunes to their own work, not to their families or to political connections.

These businessmen have always avoided direct confrontation with members of the banking consortium and have refused to play their rules. They have their own strategy and were among the first to ask for a deregulation of the Railroad Ministry (MPS), one of the three natural monopolies First Deputy Prime Minister Boris Nemtsov has been asked to restructure. While the authorized banks were struggling to gain control over Svyazinvest and the telecommunication sector, the latter businessmen were asking for a tighter control over the MPS's finances to provoke a drop in the transport prices, and consequently obtain a lucrative but non-strategic share of the ministry's assets. They claim that Chubais was so interested in their proposal that he even promised to give his approval. But the first deputy prime minister suddenly changed his mind and failed to give any explanation for his about-face. Whatever Chubais' motives were, the businessmen understood his reaction as a way to ensure the bankers get another piece of the cake. They felt excluded from the privatization process and started devising ways to break the existing power structure.[32]

It may sound paradoxical, but those businessmen say it is time to bring politics back into the economy and transform those institutions they consider as merely window dressing into political weapons. They want to create what they call a truly liberal opposition to fight the government so that patronage or compromise with the Communists will no longer dominate federal policy. About thirty businessmen have decided to run in the next legislative elections and create a parliamentary group to confront the arbitrary nature of the executive. Being wealthy enough to feel independent of the Kremlin, they think they have sufficient popularity to convince a significant number of parliamentarians that the present decision-making system should undergo dramatic changes.

Herein lies the greatest paradox of the privatization policy. After having fashioned an oligarchic system, privatization may now help destroy it. Although nobody is naïve enough to believe these businessmen are concerned with democracy in Russia or the future of the rule of law, their thirst for shares in newly privatized industrial monopolies could foster a genuine competition in the Russian economy. It could also give additional legitimacy to the legislative branch.

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The Russian privatization policy has catalyzed the formation of a new elite. Even if the government did not really plan to build an oligarchic system, it had no way to avoid a path of dependency and could not deal with totally independent managers. For the last five or six years, most Russian investors clearly knew they needed to be co-opted by the political power trusts before negotiating with strategic enterprises. But, at the same time, the Russian privatization policy has developed along its own logic, a logic in which the struggle for wealth and power plays a key role. Today, one cannot rule out a scenario in which the government would be forced to deal with new economic actors. This could even be a positive trend, provided the aim of this independent elite group is not to retain the existing olicharchic system.

Notes

1. The scandal involved Alexander Kazakov,. former privatization chief and President Boris Yeltsin's deputy chief of staff; Alfred Kokh, the privatization chief who resigned from his post in August 1997 following the "Svyazinvest scandal"; Maxim Boyko, another of Yeltsin's deputy chief of staff, who succeeded Kokh at the head of the state privatization committee (Goskomimushchestvo); and Arkady Yevstafev, a former Chubais aide enmeshed in a finance scandal in 1996 when Chubais was leading Yeltsin's re-election campaign.
2. Known as the "book scandal" in the West, and called by the Russian press the "Writers' Union scandal" in reference to the old Soviet times. This episode concerned the advance royalties Chubais and four members of his team were offered for their contributions to a book discussing the recent history of Russian privatization. The authors were placed in a vulnerable position because their publisher, Segodnya Press, was owned by OneksimBank, which had recently won a series of auctions of state property in August 1997. Shortly after the scandal broke out, Chubais declared that 95 percent of the royalties were meant to "create a special fund to protect private property in Russia." The Fund for the Protection of Entrepreneurship and Middle Class Interests, which happened to be run by former Prime Minister Yegor Gaidar – a close ally of Chubais—was connected to Montes Auri, an investment fund run by Kokh, co-author of the controversial book. For more details, see Alessandra Stanley, "Scandal Deepens for Russia's Top Economic Reformer," *The New York Times*, November 15, 1997.
3. Grigori Yavlinsky, the leader of the Yabloko liberal group in the Russian Duma, the lower house of the parliament, noted during a visit to Washington D.C. in the fall of 1997 that up to 82 percent of enterprises within the Russian Federation no longer belonged to the state. But he suggested that only a few of them were actually privately owned. Paul Goble, "Russia: Analysis From Washington—The Paradoxes Of Privatization," September 29, 1997, RFE/RL Reports.
4. Prime Minister Viktor Chernomyrdin was dismissed by President Yeltsin on March 23, 1998, officially to "concentrate on the 2000 presidential elections." First Deputy Prime Minister Anatoli Chubais and Interior Minister Anatoli Kulikov were also dismissed—the later was trying to impose control over the privatization process.
5. The law on individual activity, adopted in November 1986, is in fact the first legislative act related to privatization in the then Soviet Union. However, its implications were limited.
6. The authorization was established by presidential decree. In 1988, a year after, the Supreme Soviet (parliament) voted the Law on Cooperatives. See A. Jones and W. Moskoff. *Ko-ops: The Rebirth of Entrepreneurship in the Soviet Union* (Bloomington & Indianapolis: Indiana University Press, 1991).
7. Those banks were the following: Agroprombank (agriculture), Vneshtorgbank (foreign trade), Vozrozhdenie ("Renaissance"), Mezhregionbank, Promstroybank of Russia, Promstroybank of Saint Petersburg, Sberbank (savings bank), Tveruniversalbank.
8. They are the following: Menatep, Most Group, Kredobank, Mostbusinessbank, and Inkombank.
9. On October 11, 1994, the ruble dropped by 27 percent in a single day. It recovered its value within the next 48 hours. The banks that profited the most from the ruble crash were Most Group ($14 million), Neftekhimbank ($12 million), Alfa Bank ($7 million), MMB ($5 million), and Mezhkombank ($5 million). *Segodnya*, November 4, 1994.
10. Three banks—OneksimBank, Vozrozhdenie, and Neftekhimbank—won tenders launched by the Finance Ministry to fund the Defense Ministry. OneksimBank offered Rodyonov a one trillion-ruble worth loan. To compete in the tender, the banks had to have capital equivalent to 200 billion rubles as of April 1, 1996, and have a network of

regional agencies. OneksimBank had already offered a 725 billion-rubles worth loan to the Defense Ministry in December 1995. See *Segodnya*, May 7, 1996.

11. On September 15, 1997, Yeltsin summoned the six most prominent Russian financial leaders and made clear to them he wanted to put the government back in control of the economy. The invited bankers were: Vladimir Potanin (OneksimBank), Mikhail Fridman (Alfa Bank), Aleksandr Smolensky (SBS-Agro), Vladimir Gussinsky (Most, Media Most), Mikhail Khodorkovsky (Menatep, Yukos-Rosprom), and Vladimir Vinogradov (Inkombank). Boris Berezovsky was not invited. Some observers suggested that the anti-Chubais media campaign launched a few weeks later was connected to the fact that the then first deputy prime minister (and then still finance minister) wanted to force the industrial holdings to pay their debts to the federal budget. See *Izvestia*, September 16, 1997, and *Kommersant Weekly*, September 23, 1997.
12. There are numerous examples of such co-optations: Vladimir Kadannikov (Chairman of the Avtovaz automobile company was appointed deputy prime minister in charge of the Economy); Vladimir Potanin (Chairman of OneksimBank was appointed deputy prime minister); Vitali Ignatenko (Director of the *TASS* news agency was appointed deputy prime minister in charge of the press); and Boris Berezovsky (Chairman of the Logovaz automobile company was appointed deputy chairman of the Russian Security Council).
13. I. Starodrubroskaya, "Finansovo-promyshlennye gruppy: illyuzii i real'nost," ("Financial-Industrial Groups: Illusions and Reality"), *Voprosy Ekonomiki* 5 (1995): 135-147.
14. Privatization was initially based on two legal documents: the Law on Privatization, voted in July 1991, and the Privatization Program adopted in June 1992 by the Supreme Soviet. The opposition between the parliament and the president during 1992-1993 explains why those laws were not immediately implemented. The conflict between the two branches of the power was resolved during the October 1993 parliamentary crisis.
15. *RusTrends*, No. 22, July-September, 1997 [www.securities.com].
16. Maxim Boyko, Andrei Schleifer, and Robert Vishny. *Privatizing Russia* (Cambridge and London: MIT Press, 1995), 165.
17. Viktor Kouznetsov, "La privatisation en Russie," *Le courrier des pays de l'Est*, 400, (June 1995): 23.
18. The same process took place inside the central ministries and Party organizations. See Simon Johnson, Heidi Kroll, and Santiago Eder, "Strategy, Structure and Spontaneous Privatization in Russia and Ukraine," in *Changing Political Economies: Privatization in Post-Communist and Reforming Communist States*, ed. by Vedat Milor (Boulder and London: Lynne Rienner, 1994), 147-173.
19. J. Blasi, M. Kroumova, and D. Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London: Cornell University Press, 1997), 38-39.
20. Ibid., 82.
21. Ibid., 72-76.
22. The members of this consortium were OneksimBank, Imperial, Stolichny, Menatep, and Inkombank. See *Kommersant Daily*, April 1, 1995, and *Segodnya*, May 16-18, 1995. Inkombank left the consortium in August 1995, *Kommersant Daily*, August 15, 1995.
23. *Segodnya*, September 13, 1995.
24. Alexander Lyubinin, Rossiski Kredit deputy chairman, considered the deal to be "rather political than economic." Boris Sergeev, a member of the board of Tokobank, thought that the consortium affair was ruining all kinds of honest competition on the market, *Kommersant Daily*, April 1, 1995.
25. OneksimBank (a short name for Obedinennyj Eksportno-Importnyj Bank) obtained its license from the Central Bank on April 20, 1993.
26. *Kommersant Daily*, November 16, 1995.
27. The MMB was set up on October 1, 1989, using Vneshekonombank's hard currency reserves. It was initially meant to replace Vneshekonombank, which was at the time in financial straits and owed the state large sums of money it could not pay back from

earlier granted loans. In 1991, the Soviet government seized the Vneshekonombank's assets.

28. In 1995, OneksimBank became the bank of the State Committees for Bankruptcy and Privatization. It was also authorized by the federal government to manage the funds allocated for the reconstruction of the war-torn breakaway Republic of Chechnya.
29. In the winter of 1997-1998, Russian business control of the media was the following:
    ·Boris Berezovsky (Logovaz): ORT-TV (51 percent government, Berezovsky, chairman of board + 8 percent); TV-6; *Nezavisimaya Gazeta,* and *Ogonyok.*
    ·Vladimir Gusinsky (Most): *Segodnya* (newspaper); Ekho-Moskvy Radio; Sem Dnei (publishing house); *Itogi* (weekly); 4 Channel Satellite; NTV (70 percent); and *Moskovsky Komsomolets.*
    ·Vladimir Potanin (Oneksimbank): *Izvestia* (newspaper); *Komsomolskaya Pravda* (newspaper, 20 percent), and *Literaturnaya gazeta.*
    ·Rem Vyakhirev (Gazprom, Gazprombank): NTV (30 percent); *Trud* (newspaper, 20 percent); *Komsomolskaya Pravda* (newspaper, 20 percent), 20 regional papers; and ORT-TV (3 percent).
    ·Vagit Alekperov (Lukoil): *Izvestia.*
    ·Yuri Luzhkov (Moscow City Council, Bank of Moscow): *Vechernaya Moskva* (newspaper); TV Center Network.
    ·Mikhail Khodorkovsky (Menatep, Yuksi): *Literaturnaya Gazeta* (newspaper, 70 percent), and *Moscow Times.*
    Government: RTR-TV; and ORT-TV (51 percent)
30. The first interview was given on Ekho Moskvy radio (which belongs to Gussinsky's Media Most); the second interview was given on ORT, the first TV channel controlled by Boris Berezovsky. He finally wrote a long article in the independent newspaper *Novaya Gazeta.*
31. Sibneft is owned by Berezovsky. Yukos president, Mikhail Khodorkovsky, was elected chairman of the board of the new company.
32. Interview with Grigory Tomchin, Investment Forum, Harvard Kennedy School of Government, January 12, 1998.