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## The Funding of the Power Agencies of the Russian State

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Julian Cooper

# The Funding of the Power Agencies of the Russian State

## Introduction

- 1 While Russian military expenditure has been subject to analysis since the end of communism, the funding of other power ministries, in particular the security agencies, has suffered neglect. There is probably a simple explanation for this neglect, i.e. a perception that the lack of transparency of such funding effectively precludes any meaningful analysis. However, having for many years studied Soviet and Russian spending on the armed forces, the author has become convinced that similar analysis can be extended to the other power agencies and that in the process some of the non-transparency of the Russian budgetary process can be dispelled<sup>1</sup>. Furthermore, the degree of classification of budgetary funding of the power ministries has not remained constant over time. Even the years of Putin's presidency have seen changes in the handling of spending on the power agencies. By 2006 there was somewhat greater openness than when he first took over presidential powers, but in the summer of 2007 there was a reversion to greater secrecy. Analysis of budgetary expenditure on the power agencies, using this as a generic term to cover a set of ministries, agencies, services and forces concerned with national security, public order and the defence of the realm, makes it possible to establish trends over time of some significance, helping to cast light on state priorities in Russia during the 1990s and the early years of the twenty-first century.

## The power agencies of Russia

- 2 In this paper the power agencies of Russia have been separated into four categories: security services, public order agencies, provision for emergencies, and the armed forces of the Ministry of Defence. Little attention is devoted to the latter as their funding has been analysed elsewhere.

### 1. Security services

- 3 Federal Security Service (*Federal'naia sluzhba bezopasnosti Rossii, FSB*). Russia's principal domestic security agency, successor to the Soviet KGB. In 1992 known as the Ministry of Security (MB), and from December 1993 to April 1995 as the Federal Counter-Intelligence Service (FSK). Subordinated to the President<sup>2</sup>.
- 4 Organs of the Border Service (*Organy pogranichnoi sluzhby*), from the end of 1993 to 2003, as the Federal Border Service, Russia's armed security forces for border protection had an autonomous status, but were then subordinated to the FSB, although for budgetary purposes they are still granted a separate line of spending. Subordinated to the President.
- 5 Foreign Security Service (*Sluzhba vneshnei razvedki RF, SVR*). Created in December 1991 on the basis of first directorate of the USSR KGB. Subordinated to the President.
- 6 Federal Protection (or Guard) Service (*Federal'naia sluzhba okhrany RF, FSO*). The service responsible for the security of the Russian president and government. Prior to 1996 known as the Main Protection Directorate (*Glavnoe upravlenie okhrany, GUO*). By a decree of March 2003 it took over many of the responsibilities of the Federal Agency for Government Communications and Information (FAPSI). Earlier, in August 1996, it took over the Presidential Security Service (*Sluzhba bezopasnosti prezidenta, SBP*), which previously enjoyed a separate existence and was the power base of Eltsin's security chief, Aleksandr Korzhakov. Subordinated to the President.

7 Federal Service for Technical and Export Control (*Federal'naia sluzhba po tekhnicheskomu i eksportnomu kontrolyu, FSTEK*). Until 2004 this government agency was known as the State Technical Commission (*Gosudarstvennaia tekhnicheskaiia kommissiia pri Presidente RF, Gostekhkomiissii*), a highly secretive organisation subordinate to the President concerned, among other things, with the technical security of systems of information and communications. It is now overseen by the Ministry of Defence. However, it is funded under the budget subchapter 'organs of security'.

8 To these security agencies should probably be added the Main Intelligence Directorate of the General Staff (*Glavnoe razvedyvatel'noe upravlenie, GRU*), but its funding is treated as part of that of the Ministry of Defence in the budget chapter 'National Defence' and as such is not separately identified.

## 2. Public order<sup>3</sup>

9 Ministry of Internal Affairs (*Ministerstvo vnutrennykh del RF, MVD*). The MVD is subordinated to the President.

10 Internal Troops of the MVD (*Vnutrennie voiska, VV MVD*): the armed force of the internal ministry, now in the process of losing some of their military capability as their heavy weapons are being transferred to the Ministry of Defence.

11 Federal Service of the Tax Police (*Federal'naia sluzhba nalogovoi politzii, FSNP*) A uniformed, armed, service created in 1995 and treated as a power agency. In 2003 its functions were transferred to the MVD and on the basis of the structures of the FSNP a new anti-drugs agency was formed.

12 Federal Service for the Control of Drugs (*Federal'naia sluzhba RF po kontrolyu za oborotom narkotikov, FSKON*). Formed in July 2003 on the basis of the structures of the tax police. Headed by Viktor Cherkesov, a prominent ex-FSB official, this organisation is clearly regarded in Russia as a significant power agency, the brief of which may well extend beyond the control of drugs. Subordinated to President. In the budget, the line previously devoted to 'organs of the tax police' was simply replaced by a line for the new agency, the volume of funding being almost unchanged.

13 Federal Courier Service (*Federal'naia fel'd'egerskiiia sluzhba, FFS*), formerly state courier service (GFS). Responsible for secure transport of goods and documents for government agencies. Subordinated to the President. Until 2000 included under the budget chapter "Transport and communications", but from 2001 in the chapter devoted to security and public order.

14 Organs of the Procuracy (*Organy prokuratury*). Spending is reported under the Office of the Procurator-General (*General'naia pokuratura RF*).

15 Organs of Justice. Spending is now reported under three agencies: Ministry of Justice (*Ministerstvo iustitsii RF*), Federal Registration Service (*Federal'naia registratsionnaia sluzhba, FRS*), and Federal Bailiff Service (*Federal'naia sluzhba sudebnykh pristavov, SFSP*). Subordinated to the President.

16 The Penal System. Federal Service for the Implementation of Sentences (*Federal'naia sluzhba ispolneniia nakazaniia, FSIN*), overseen by the Ministry of Justice and, as such, subordinated to the President.

17 In this category the court system has been excluded. Until 1998 the Supreme Court, Constitutional Court and Higher Court of Arbitration were included in the budget chapter for security and public order agencies as part of the funding line "judiciary", but from 1999 to 2004 were separated out to form a separate chapter devoted to the federal legal system, which from 2005 was absorbed into the chapter (1) "General public services".

### 3. Provision for Emergencies, Natural Disasters and Civil Defence

- 18 Ministry of Civil Defence, Emergency Situations and Liquidation of the Consequences of Natural Disasters (*Ministerstvo Rossiiskoi Federatsii po delam grazhdanskoi oborony, chrezvychainym situatsiiam i liquidatsii posledstviu stikhiinykh bedstviu, MChS*). Has armed forces which participate in peace keeping activities. Subordinated to the President.
- 19 Main Directorate of Special Programmes of the President (*Glavnoe upravlenie spetsial'nykh programm prezidenta, GUSP*). The Russian security agency shrouded by the greatest degree of secrecy and about which the least is known. The former 5th directorate of the administrative office of the Russian Federation Council of Ministers, first created in January 1977<sup>4</sup>. Responsible for mobilisation preparedness of the organs of state power in the event of war or major national emergency, including the building and maintenance of secure alternative locations (bunkers) for the president and government agencies, for which it has a Service of Special Objects (*Sluzhba spetsial'nykh ob"ektov*). Believed to have some 20 000 personnel<sup>5</sup>. Subordinated to the President.
- 20 Before leaving security services and public order agencies it is necessary to consider two other organisations which in Russia have been conventionally grouped with them for budgetary purposes. Firstly, the Federal Customs Service (formerly State Customs Committee), which in the government reorganisation of 2004-2005 was converted into a normal civilian agency, first under the Ministry of Economic Development and Trade, and later under the direct oversight of the prime minister. It now appears in the budget chapter 1, "General public services". Secondly, the Federal Fire Service, under the Ministry of Civil Defence and Emergencies and, as such, included in the budget chapter for security and public order. In most other countries the customs and fire services would not be regarded as security or public order agencies and they have not been granted this status in this analysis.

### 4. Armed Forces

- 21 Armed forces of the Ministry of Defence (*Ministerstvo oborony, MO*). Here the concern is the budgetary chapter entitled "National Defence", the scope of which has undergone minor changes over the years, but has always included spending on the MO forces, operations and maintenance plus arms procurement and R&D, including outlays of the nuclear weapons industry on the development and production of nuclear devices for the MO forces. The MO is now once again under Presidential subordination, having for a while been the structures of government, probably because the defence minister at the time, Sergei Ivanov, was a deputy prime minister.

## The Russian federal budget and the power agencies

- 22 Most of the expenditure on power agencies is included under two chapters of the federal budget, one devoted to "National Defence", the other to "National Security and Public Order" (the title of this chapter has varied over time, before 2004 it was known as "Public Order and Providing for the Security of the State"). However, at various times some spending has been covered by other chapters, in particular allocations to provision for emergencies, to which a separate budget chapter, "Warning and Liquidation of the Consequences of Emergency Situations and Natural Disasters" (including civil defence), was devoted in the years prior to 2005. The most recent significant change in the Russia budget classification went into force in 2005, leading to a partial loss of continuity in analysis of year-to-year comparisons of funding.
- 23 The budgetary process for security and public order agencies is in essence the same as that for military spending<sup>6</sup>. The draft federal budget is drawn up by the Ministry of Finance on the basis of an economic forecast provided by the Ministry of Economic Development and Trade. The Ministry of Defence, FSB, MVD and other power agencies submit proposals on their desired spending for the following year, with account of the forecast development

of the economy. The finance ministry takes account of these proposals, but is under no obligation to accept them if it judges them incompatible with economic possibilities. After initial approval by the government, a draft budget is submitted to the Federal Assembly, the Russian parliament. Details of the budget are presented in a set of appendices. With respect to budget expenditure, the principal documents are a summary of total spending in terms of functional chapters and main lines of funding (all in accordance with the prevailing statutory budget classification), a detailed summary of allocations to individual government departments, again by functional chapter, and thirdly a functional breakdown in detail for all spending explicitly allocated to specific government departments. In addition, there is an appendix setting out the ‘state defence order’ for arms procurement and military R&D for the MOD and other power agencies. Summary details of MOD procurement and R&D were made public between 1992 and 1997, but from 1998 classified. The more detailed appendix on the state defence order (for the MOD, MVD and FSB) was published for the budgets of 2002-05, but has been classified for since 2006. As discussed in more detail below, in 2007 there was a transition to a new three-year budget, the first from the period 2008 to 2010, and with this change the level of classification of the budget increased to a significant degree.

24 While all State Duma deputies are provided every year with the draft federal budget, the chapters on “national defence” and “security and public order” are presented in highly aggregated terms with little meaningful detail. More information is provided to a special commission of the Duma “for examining outlays of the federal budget directed to securing the defence and state security of the Russian Federation”. This commission has some forty members drawn predominantly from the Duma’s committees for defence, security, budget and taxes, and industry, with barely a quarter from the security committee, some of these having backgrounds in the FSB and MVD. The commission meets in camera and its members have to have appropriate security clearance. The commission can recommend amendments to the draft budget but in recent years it does not appear to have done this to any significant extent with respect to security or public order agencies. Once the budget has been adopted the commission stands down and plays no role in monitoring budget implementation.

## **Budget allocations to the power agencies**

25 Prior to 1995 the published federal budget contained limited information on the funding of the MOD and other power agencies. This was a time of severe economic contraction and high rates of inflation which meant that in practice the budget had little significance. However, for 1995 the budget law as published was unusually transparent and for this reason provides a valuable starting point. Between 1995 and 1998 economic conditions remained unfavourable; a modest recovery in 1997 being followed by a serious financial crisis in 1998. The approved budget had limited meaning as the government resorted to sequestration, starving the MOD and other agencies of funding. In these circumstances analysis of budget intentions has little meaning. Furthermore, very little was made public on actual budget implementation. The situation changed substantially from 1999. The economy began to recover, actual budget outlays became more closely related to the allocations set out in the budget law, and from 2001 the Federal Assembly began to approve laws on budget implementation on a regular basis, the first being for the budget of 1999. For this reason the following analysis first considers the budget for 1995, then actual budget implementation over the period 1999 to 2004, and finally, in the absence of detailed data on implementation, the budget laws of 2005 to 2007, and the three-year budget, 2008-2010.

## **The power agencies in the 1995 federal budget**

26 For one year only, 1995, was there a large degree of openness in the federal budget on the funding of the power agencies. The law, adopted 31 March 1995, had an unusually detailed

appendix on funding by government department. This provides a useful reference point for understanding the less transparent budgets of later years<sup>7</sup>.

27 The data (see Table 1) have been presented in a form comparable to that employed in the analysis of budget spending of later years. It can be seen that funding of the security services as such represented a modest share of total budget funding, so much so that the funding allocation to all the security services amounted to little more than 10 per cent of the funding of “national defence”. The principal domestic security agency, then known as the FSK, accounted for less than half of total spending on security services, but was allocated almost five times the funding devoted to the foreign intelligence service.

**Table 1 - Power Agencies in the Federal Budget for 1995 (law of 31 March 1995)**

	Allocation under chapter 4 <sup>1</sup> (million roubles)	Per cent total budget expenditure
<i>Security services</i>		
Federal Counterintelligence Service (FSK) <sup>2</sup>		
Federal Border Service	1 013 578	0.41
Foreign Intelligence Service (SVR)	2 331 073	0.94
Federal Agency Govt Comm & Inf (FAPSI)	208 921 722 447	0.08 0.29
Main Protection Directorate (GUO)	479 094	0.19
Service of Security of President (SBP)	33 710 1 508	0.01 .
State Technical Commission (Goskomissiya) <sup>3</sup>		
Total security services	4 790 331	1.93
<i>Public order agencies</i>		
Ministry of Internal Affairs (MVD)		
Internal Troops of MVD	5 627 732	2.27
Penal system	1 441 699	0.58
Tax Police	2 287 833	0.92
Procuracy	211 767	0.09
Ministry of Justice	606 945	0.24
Courier Service <sup>4</sup> (ch.9, ‘transport & comm’)	950 570 45 688	0.38 0.02
Total public order agencies	11 172 234	4.50
<i>Emergencies and civil defence<sup>5</sup></i>		
Ministry for c.d., emergency situations	861 869	0.35
Directorate for special programmes, PA <sup>6</sup>	572 060	0.23
Total emergencies and civil defence	1 433 929	0.58
‘National Defence’ (chapter 3)	44 562 182 <sup>7</sup>	17.94
Total power agencies	61 958 675	24.95
Total budget expenditure	248 344 300	100.00
	Allocation under chapter 4 <sup>1</sup> (million roubles)	Per cent total budget expenditure
<i>Security services</i>		
	1 013 578	
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Service of Security of President (SBP)	1 508	0.01
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Total security services	4 790 331	1.93
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Total budget expenditure	248 344 300	100.00

- 1. Budget chapter "Public order and providing for state security". Note, in 1998 the rouble was revalued, one new rouble becoming equal to 1,000 old. The table presents funding in terms of the rouble of 1995.
- 2. Renamed Federal Security Service, FSB, in April 1995.
- 3. Under chapter 1 of budget, "state administration".
- 4. Then the Federal directorate of the courier service attached to Ministry of Communications; under chapter 9 of budget, 'Transport and communications'.
- 5. In the 1995 budget this budget line also included funding for a number of state programmes (by far the largest a programme of measures for dealing with the Chernobyl disaster) and for mobilisation preparation, both to be financed by the Ministry of Finance. From 1999 these items were transferred to other parts of the budget so have been excluded here.
- 6. Then known as Directorate for planning and realisation of special programmes of Administration of President (later GUSP).
- 7. For compatibility with later years, pensions excluded.

Source: Sbornik zakonov Rossiiskoi Federatsii, 1995, no.14, article 1213

28 More insight into the relative standing of the security services in the mid-1990s is provided by additional data released at the time the draft federal budget for 1995 was presented to the State Duma in October 1994. The author has in his possession a copy

29 of this draft which includes information on the authorised staffing levels of the principal power agencies as of the beginning and end of 1995. This permits estimation of funding per person for each agency. (Table 2)

**Table 2 - Authorised staffing levels of power agencies, 1 January 1995<sup>1</sup>**

	Staff	Funding per person (m.r.)
Federal Counterintelligence Service	76 900 <sup>4</sup>	13.2

FAPSI	54 000	13.4
Federal Border Service <sup>2</sup>	210 000	11.1
Ministry of Internal Affairs <sup>3</sup>	540 000	10.4
Internal Troops of MVD <sup>2</sup>	264 000	5.5
Tax Police	24 000	8.8
Ministry of Defence, armed forces		
Servicemen	1 917 400	
Civilian	600 000	

- 1. *Shtatnaia chislennost'*, i.e. the number of personnel authorised for funding from the federal budget. In reality, agencies may have had more or less people actually on their payrolls. In Russian practice the authorised staffing level excludes various categories of so-called auxiliary personnel such as cleaners and office security staff.
- 2. Servicemen and civilians
- 3. Personnel funded from federal budget only, i.e. excluding personnel funded from regional/republican budgets.
- 4. Note: the Ministry of Security, the agency that preceded the FSK, had a staff of c.137 000, plus c.200 000 border troops (*Izvestia*, 7 December 1993, p.5).

Source: *Federal'naia byudzhet Rossiiskoi Federatsii na 1995 god. Proekt*, Moscow, October 1994, p.19. Funding per person calculated using data of Table 1.

30 On the assumption that the funding of the other security services was at a level similar to that for the FSK, i.e. 13.2 m.r. per person, the SVR would have had a staff of approximately 16 000, the Main Protection Directorate (GUO) some 36 000 and the Presidential Security Service (SBP) 2,500, giving a total staff of all security services of approximately 400 000<sup>8</sup>. This can be compared with the total staff of the KGB in 1991, a claimed 420 000, including border troops<sup>9</sup>.

## Actual spending of power agencies, 1999-2004

31 The available laws on budget implementation, 1999-2004, permit a consistent analysis of the pattern of spending on power agencies since Vladimir Putin became, first, prime minister, and then President of Russia. The equivalent law on the implementation of the 2005 federal budget should be adopted during the first half of 2007. Actual funding is shown in Table 3 (See Annex).

**Table 3 - Budget implementation, 1999 - 2004 (million roubles, current prices)**

	1999	2000	2001	2002	2003	2004
Security services <sup>1</sup>	8,554.5	13,667.7	24,593.4	34,476.5	47,509.6	51,861.6
Border service	5,562.1	10,500.5	13,912.3	19,279.7	25,066.4	30,710.5
Total security	14,116.6	24,168.2	38,505.7	53,756.2	72,576.0	82,572.1
MVD	18,443.7	31,517.2	39,241.9	50,916.2	70,793.9	115,510.0
MVD IT	5,050.3	12,974.3	15,923.2	15,445.7	19,382.4	23,579.8
Penal system	10,960.5	17,856.4	26,440.0	33,822.0	46,644.0	48,200.9
Procuracy	2,435.7	4,268.7	6,835.0	9,396.7	11,797.1	14,537.7
Justice	890.5	1,937.8	2,944.7	3,968.0	7,287.5	8,254.4
Tax police/ FSKON	1,346.0	1,911.0	3,766.2	5,406.2	3,380.6	7,584.9
Courier service	129.7	208.5	282.3	375.3	646.6	1,062.6
Total public order	39,256.4	70,673.9	95,433.3	119,330.1	159,932.1	218,730.3
MChS	1,289.3	2,174.8	3,053.0	4,062.4	5,791.0	6,536.8
GUSP2	2,522.1	2,652.8	3,858.6	4,727.2	7,158.4	9,333.8
Total emergencies	3,811.4	4,827.6	6,911.6	8,789.6	12,949.4	15,870.6
'National defence'	115,594.3	191,727.6	247,703.0	295,392.9	355,691.7	429,998.7

All power agencies	172,778.7	291,397.3	388,553.6	477,268.8	601,149.2	747,171.7
Total budget exp.						
P.a. as % total exp.	666,930.5	1,029,184.0	1,321,902.7	2,054,194.0	2,358,546.3	2,698,867.2
inc security	25.91	28.31	29.39	23.23	25.49	27.68
public order	2.12	2.35	2.91	2.62	3.08	3.06
emergencies	5.89	6.86	7.22	5.81	6.78	8.10
national	0.57	0.47	0.52	0.43	0.55	0.59
defence	17.33	18.63	18.74	14.38	15.08	15.93
GDP	4,823,200	7,305,600	8,943,600	10,830,500	13,243,200	16,966,400
P.a. as % GDP	3.58	3.99	4.35	4.41	4.54	4.40
inc security	0.29	0.33	0.43	0.50	0.55	0.49
public order	0.81	0.97	1.07	1.10	1.21	1.29
emergencies	0.08	0.07	0.08	0.08	0.10	0.09
national	2.40	2.62	2.77	2.73	2.68	2.54
defence						

- 1. FSB, SVR, FSO.
- 2. Not identified explicitly, but appears as a classified residual which, following the practice of the 1995 budget law, must be GUSP. However, it is possible that this residual also includes some classified funding of MChS.

Source: *Sobranie zakonov Rossiiskoi Federatsii*, 2001, no.26, art. 2584; 2002, no.17, art. 1602; 2003, no.23, art. 2176; 2004, no.19, art. 1836; 2005, no.15, art.1275; <http://www.president.gov.ru>, law of 15 April 2006.

32 It can be seen that during the six-year period spending on the power agencies as a share of GDP rose, with a more marked increase in allocations to the security services and public order agencies than for the armed forces. During the first two years of Putin's presidency the share of budget spending devoted to the power agencies increased quite rapidly, reaching a peak in 2001. This was a time when the economy was showing strong growth and the government was also attempting to check the proportion of budget spending in GDP. In 2002 the share of the power agencies in total spending was checked, but their GDP share continued to increase.

## Power agencies in the federal budget, 2005-2007

33 In 2005 a new budget functional classification was implemented, bringing Russian practice into line with the widely-used Classification of Functions of Government (COFOG) originally produced by the OECD. At the same time, the budget was amended to take account of a major reorganisation of the structures of government, creating some new agencies and services. These changes introduced an element of discontinuity as the scope of the budget chapters on 'national defence' and 'national security and public order' underwent modification in part because spending on 'civilian' activities by the MOD and other agencies, mainly on education, health, and housing, was transferred to other relevant chapters of the budget. With respect to 'national defence', the new budget classification has been considered in detail elsewhere by the author<sup>10</sup>. Budget chapter 3, "national security and public order" now, like the "national defence" chapter (2), includes two additional lines, "applied research" and "other questions", under which some allocations are classified. The "other" line also includes the allocation to the Federal Courier Service. For the purposes of the present analysis, these two budget lines have been excluded, apart from the inclusion of the courier service. It is not clear whether the funding under these two lines was included in allocations to the security services and public order agencies prior to 2005, the amounts involved are not very large (apart from the budget for 2005, perhaps a transitional year), and it is difficult to allocate the classified parts of these two budget lines as they could relate to either the security services or emergency provision under GUSP.

34 Spending intentions in the federal budgets for the three years 2005-2007 are shown in Table 4 (See Annex).

**Table 4 - Power agencies in the federal budget, 2005-07 and actual spending 2005-2006 (million roubles, current prices)**

	2005	2005 Actual	2006	2006 Actual	2007
Security services <sup>1</sup>	2,315.8	66,000.2	91,682.2	91,539.1	113,244.3
Border service	1,685.0	35,908.2	44,984.3	48,797.8	55,283.1
FSTEK	18.9	18.9	21.8	(21.8)	21.8
Total security	95,019.7	101,927.3	136,688.3	140,358.7	168,549.2
MVD	119,873.3	147,804.6	164,685.0	166,029.1	185,572.6
MVD IT	23,893.8	26,986.5	35,766.9	38,382.5	45,918.7
Penal system	56,024.8	61,493.7	77,646.2	78,368.7	91,333.0
Procuracy	17,534.9	20,734.4	27,256.3	27,331.8	32,267.8
Justice	18,084.8	19,599.5	28,249.2	28,015.6	39,714.3
FSKON	8,164.9	9,063.7	11,229.3	11,249.7	12,861.5
Courier service	1,239.8	1,347.2	1,561.6	(1,582.0)*	1,747.6
Total public order	244,816.3	287,029.6	346,394.5	350,959.4	409,415.5
MChS	8,851.7	9,527.1	11,060.9		19,068.3
GUSP2	13,203.0	12,542.7	18,553.6		21,226.1
Total emergencies	22,054.7	23,069.8	29,614.5	29,722.3	40,249.4
'National defence'	531,139.2	581,144.3	666,026.6	681,802.9	822,035.9
All power agencies	893,029.9	993,171.0	1,178,723.9	1,202,843.3	1,440,250.0
Total budget exp.					
P.a. as % total exp.	3,047,929.3	3,514,347.6	4,270,114.7	4,281,329.2	5,463,479.9
inc security	29.30	28.26	27.60	28.10	26.36
public order	3.12	2.90	3.20	3.28	3.08
emergencies	8.03	8.17	8.11	8.20	7.49
national	0.72	0.66	0.69	0.69	0.74
defence	17.43	16.54	15.60	15.93	15.05
GDP3	18,720,000	21,620,100	24,380,000	26,781,100	31,220,000
P.a. as % GDP	4.77	4.59	4.83	4.49	4.61
inc security	0.51	0.47	0.56	0.52	0.54
public order	1.30	1.33	1.42	1.31	1.31
emergencies	0.12	0.11	0.12	0.11	0.13
national	2.84	2.69	2.73	2.55	2.63
defence					

- 1. FSB, SVR, FSO
- 2. Possibly GUSP plus some classified spending of MChS.
- 3. GDP forecast (of Ministry of Economic Development) on which budget based.
- \* Estimate: same inc over 2006 budget as total other public order agencies.

Source: 2005 (law of 23-12-04) and 2006 (law of 12-05), website of Ministry of Finance (<http://www1.minfin.ru>, last accessed 19 December 2006), 2007 budget (law of 19-12-06), website of President (<http://document.kremlin.ru/doc.asp?ID=036926>, accessed 21 December 2006). 2005 actual: <http://document.kremlin.ru>, law of 9-4-07. 2005 GDP: GDP, revised, 4/07: [http://www.gks.ru/bgd/free/b01\\_19/IssWWW.exe/Stg/d000/i000610r.htm](http://www.gks.ru/bgd/free/b01_19/IssWWW.exe/Stg/d000/i000610r.htm), 11-4-07. 2006 actual (provisional): [http://www.roskazna.ru/store/reports\\_file189.xls](http://www.roskazna.ru/store/reports_file189.xls)

35 This shows the budgets as originally adopted, without account of amendments adopted towards the end of the budget years of 2005 and 2006.

36 It can be seen that GDP shares for the security services and public order agencies have stabilised but have declined for the armed forces. Actual spending in 2005 revealed a check in the growth of spending on security, but in 2006 growth resumed.

## Power agencies in the three-year federal budget, 2008-2010

37 In 2007 Russia made a transition to a rolling three-year budget framework, the first such budget being drawn up for the period 2008 to 2010. A first draft version of the budget,

with total spending broken down by budget chapter and subchapter, was made available in March 2007. However, by the time the draft budget was approved by the government for consideration by the State Duma the usual appendix showing total funding by chapter and subchapter had disappeared. The only information presented on the functional allocation of spending was spending by chapter and subchapter excluding all classified expenditure. When the budget was finally signed into law by President Putin on 24 July it retained the same form. In effect, total spending according to the main budget chapters – not only “national defence” and “national security and public order”, but also “general public services”, “national economy”, “education”, “culture” and “health” – has been made a state secret. This extraordinary development, for which no explanation has been offered, complicates determination of spending intentions with respect to the power agencies. However, it can be established that, in the case of spending under the chapters “national security and public order” and “national defence”, the draft budget of March 2007, providing a breakdown of total spending by functional chapter and subchapter, almost certainly provides an acceptable approximation to the spending intentions embodied in the final budget law<sup>11</sup>.

38 The results of analysis of the three-year budget are shown in Table 5.

**Table 5 - Power agencies in the three-year federal budget, 2008-2010 (million roubles, current prices)**

	2008	2009	2010
Security services <sup>1</sup>	135 293	152 683	162 471
Border service	65 540	80 046	87 455
FSTEK	182	155	52
Total security	201 015	232 884	249 978
MVD	217 774	246 450	273 395
MVD IT	51 441	57 385	58 250
Penal system	110 199	131 980	147 879
Procuracy	33 716	35 934	39 507
Justice	47 095	52 253	56 902
FSKON	15 221	17 664	18 846
Courier service	2 049	2 250	2 353
Total public order	477 495	543 916	597 132
MChS	21 362	23 504	25 146
GUSP2	25 650	30 876	30 334
Total emergencies	47 012	54 380	55 480
‘National defence’	959 600	1 061 500	1 191 000
All power agencies	1 685 122	1 892 680	2 093 590
Total budget exp.	6 570 298	7 451 154	8 089 965
P.a. as % total exp.	25.65	25.40	25.88
inc security	3.06	3.12	3.09
public order	7.27	7.30	7.38
emergencies	0.72	0.73	0.69
national defence	14.61	14.23	14.72
GDP3	35 000 000	39 690 000	44 800 000
P.a. as % GDP	4.81	4.77	4.67
inc security	0.57	0.59	0.56
public order	1.36	1.37	1.33
emergencies	0.13	0.14	0.12
national defence	2.74	2.67	2.66

- 1. FSB, SVR, FSO.
- 2. Possibly GUSP plus some classified spending of MChS.
- 3. GDP forecast of Ministry of Economic Development on which the budget is based.
- *Note:* in the budget as adopted into law there is an additional budget subchapter (03 12) in the chapter ‘national security and public order’, namely ‘modernisation of the internal troops, troops of civil defence, and public order and other organs’. However, the

spending now shown under this new subchapter appears to have been reallocated from the previous subchapters with the result that the data shown in table are not affected.

Source: Ministry of Finance of RF, Poyasnitel'naia zapiska k proektirovкам osnovnykh kharakteristik federal'nogo byudzhetna na 2008 god I na period do 2010 goda i raspredeleniyu raskhodov federal'nogo byudzhetna na 2008 I na period do 2010 goda po vedomstvennoi strukture i razdelam funktsional'noi klassifikatsii raskhodov byudzhetna Rossiiskoi Federatsii, appendices 2 and 3 ([http://www1.minfin.ru/mar07\\_02.htm](http://www1.minfin.ru/mar07_02.htm), 30 March 2007) and <http://www1.minfin.ru/> (law on 2009-2010 budget).

- 39 The table suggests that spending on security and other power ministries will be held fairly constant as a share of total budget expenditure and of GDP over the three-year period but it is possible that spending after 2008 is somewhat understated, especially for 2010. In both 2009 and to a much greater extent in 2010 the budget includes some unallocated spending and it cannot be ruled out that some of this will be allocated to power ministries. This may explain the decline in the GDP shares of the security services and national defence shown for 2010.
- 40 Trends over time are illuminated further in Table 6, which shows the changing shares of total budget spending on power agencies.

**Table 6 - Shares of total funding of power agencies, 1995-2010 (per cent)**

	Per cent share of total funding of power agencies			
	Security services	Public order	Emergency provision	National defence
2010B	11.9	28.5	2.7	56.9
2009B	12.3	28.7	2.9	56.1
2008B	11.9	28.3	2.8	57.0
2007B	11.7	28.4	2.8	57.1
2006	11.7	29.2	2.5	56.6
2005	10.3	28.9	2.3	58.5
2004	11.1	29.3	2.1	57.5
2003	12.1	26.6	2.1	59.2
2002	11.3	25.0	1.8	61.9
2001	9.2	22.8	1.7	66.3
2000	8.3	24.2	1.7	65.8
1999	8.2	22.7	2.2	66.9
1995B	7.7	18.1	2.3	71.9

- B: as budget law, other years actual spending.

Source: calculated from data of Tables 1,3, 4 and 5.

- 41 This suggests the possibility that in circumstances of strict budgetary constraints the growth of spending on security services and public order agencies over time has been to some extent at the expense of increased spending on the armed forces. In effect, the security services, public order agencies and the Ministry of Defence are rival claimants for a given sum of budget funding, the volume of which is determined by the Ministry of Finance. Some support for this hypothesis was a disclosure in 2006 that Putin had at some point signed an order (*ukaz*) to the effect that to 2015 32 per cent of non-interest payments of the budget will go to national defence and security/public order<sup>12</sup>.
- 42 This shows that the share of the security services increases to 2009 but then declines in 2010, possibly, as noted, because funding for that year is understated. The shares of “public order” and “national defence” stabilise.
- 43 Spending trends can be seen more clearly if the growth of allocations is shown in real terms. As has become normal for analysing military expenditure in real terms, in the absence of a deflator specifically designed to capture price changes as experienced by the power ministries, the GDP deflator is employed. The results are shown in Table 7 (See Annex).

**Table 7 - Rate of growth of spending on power agencies in real terms, 1999 to 2010**

GDP % changea	GDP deflator	GDP 1999= 100	Security services		Public order		National defence	
			% real	1999=	% real	1999=	% real	1999=

				changea	100	changea	100	changea	100
2010B	106.2	106.3	216	101.0	390	103.3	331	105.6	220
2009B	106.0	107.0	203	108.3	386	106.5	320	103.4	208
2008B	106.1	107.5	190	110.9	356	108.5	300	108.6	201
2007B	106.5	107.6	179	111.6	321	109.8	276	112.1	185
2006	106.7	116.1	168	115.5	288	103.9	251	101.1	165
2005	106.4	119.2	157	103.6	249	110.1	242	113.4b	167 b
2004	107.2	120.1	148	94.7	240	113.9	220	100.7	147
2003	107.3	114.0	138	123.3	253	117.6	193	105.6	146
2002	104.7	115.7	129	120.7	205	108.1	164	103.1	138
2001	105.1	116.5	123	136.8	170	115.9	152	110.9	134
2000	110.0	137.7	117	124.3	124	130.7	131	120.5	121
1999	106.4	172.4	110		100		100		100

- a. Per cent of preceding year.
- b. In 2005 there was a change in the scope of the “national defence” chapter of the budget giving rise to a slight discontinuity in the series.
- *Note:* GDP deflator: calculated by author from Rosstat GDP data (<http://www.gks.ru>, last accessed 19 December 2006)

Source: Spending on power agencies from Tables 3 and 5.

44 The table shows clearly that the rate of growth of spending in real terms on national defence over the period 1999 to 2006 has been approximately in line with the rate of growth of GDP and, according to the three-year budget, this relationship will be maintained to 2010. The rate of growth of spending on public order has been significantly higher than that of GDP and on security services even more so. Over the years 1999 to budget year 2010, GDP is set to grow at an average annual rate of 6.7 per cent, spending on national defence by 6.8 per cent, on public order by 10.5 per cent and on the security services by 12 per cent, far outstripping the rate of growth of the economy.

## Transparency of the Russian budget in relation to the power agencies

45 Throughout the 1990s, with the partial exception of the budget for 1995, there was very little transparency in the funding of the security services and public order agencies. After about 2001 the situation somewhat improved. As noted above, laws on budget implementation are now adopted on a regular basis and provide enough detail to establish the general trends of spending. Prior to the budget for 2002, the appendix providing details of spending on a functional basis excluded the budget chapters on national defence, security and public order activities, and provision for emergencies, making it impossible to establish the classified component of spending. Between 2002 and 2007 both the functional appendix and the appendix on funding allocations by government department gradually became more detailed and open, but with some reversals back to reduced transparency, e.g. the reclassification from 2006 of the budget appendix on the state defence order. The three-year budget for 2008 to 2010 marks a much more serious retreat from transparency and if the practice of excluding from the budget total spending by chapter and subchapter is to become standard practice it will become increasingly difficult to establish the true scale of spending on power agencies and the trend of such spending over time.

46 From the 2003 budget, for the first time, some spending on security agencies and the border service was openly acknowledged in the appendix on funding by government department, but the proportion of total spending on these budget lines so acknowledged was extremely small. In the case of the border service, a major improvement in openness in the 2003 and 2004 budgets was reversed in 2005. The trend towards slightly greater openness has been reversed

with the adoption of the three-year budget to 2008. The changing degree of openness of these two budget lines is shown in Table 8.

**Table 8 - Share of total allocations to the security services (under chapter 3 of budget) openly acknowledged in the budget appendix on allocations by government department (million roubles)**

	'Organs of security'			'Organs of border service'		
	Total funding	Funding by department	%	Total funding	Funding by department	%
2010	162 471	630	0.4	87 455	-	0.0
2009	152 683	700	0.5	80 046	-	0.0
2008	135 293	800	0.6	65 540	-	0.0
2007	113 244	2 927 <sup>1</sup>	2.6	55 283	1 357	2.5
2006	91 682	3 475	3.8	44 984	525	1.2
2005	62 316	1 488	2.4	31 685	-	0.0
2004	49 737	595	1.2	29 993	23 946	79.8
2003	47 993	-	0.0	24 065	20 941	87.00.0
2002	31 814	-	0.0	17 558	-	

- 1. FSB 257.2, SVR 1,062.4 and FSO 1,568.2 (plus 80.8 Ministry of Finance).

Source: budget laws of relevant years.

47 In 2007, for the first time since 1995, the existence of GUSP was openly acknowledged by an entry in the appendix devoted to spending by government department, although a mere 16.5 million roubles funding was acknowledged, all for health provision.

48 With slightly improved transparency, there has been some acknowledgement of allocations under chapter 3 to non-security/public order agencies. As noted above in the footnote to Table 8, the budget now includes an allocation to the Ministry of Finance under the budget line "organs of security", but in the 2007 budget there is also a much larger, unexplained, allocation to the finance ministry, 2,878.6 m.r., under the budget line "other questions in the field of national security and public order". The 2007 budget also includes chapter 3 allocations to the Russian Academy of Sciences: 19.7 m.r. for R&D and 8 m.r. "other"; and to the Federal Agency for Health and Social Development, 21.5 m.r. for R&D (14.5 in the 2006 budget).

49 In relation to the MVD and MVD interior troops, until the 2008-2010 budget, the only classified budget item was funding allocated under the "state defence order" (for arms procurement, the modernisation and repair of arms, and arms-related R&D). This funding is presented in a separate appendix, which in recent years has been classified. However, from the time when this appendix was published there is no doubt that the currently classified item of MVD spending relates to the state defence order. Its magnitude in recent years is shown in Table 9. Unfortunately, the higher level of classification of spending makes it difficult to establish the equivalent data for 2008-10.

**Table 9 - Budget allocations to the MVD and MVD Interior Troops under the state defence order (million roubles)**

	MVD	Interior troops
2007		9,741.2
2006		4,546.6
2005		8,573.6
2004		6,816.3
2003		3,171.7
		2,261.7
		1,587.3
		2,010.0

Source: budget laws of relevant years.

50 The data suggest that in recent years there has been a steady improvement in funding of the supply of arms and other equipment to the interior ministry, but with a marked shift of funding to the advantage of the ministry as such at the expense of the Interior Troops. In part this growth of spending may relate to the ministry's role in Chechnya.

51 However, in comparison to the Ministry of Defence the MVD's funding under the state defence order is extremely modest. In the 2007 budget the equivalent total for the MOD is 300 billion roubles, 36 per cent of the total allocation to "national defence"<sup>13</sup>.

## Conclusion

52 Analysis of the pattern of budget spending in Russia since the mid-1990s reveals that the power agencies have gained an increased share of GDP and that the principal beneficiary has been the security services, which have fared better than the armed forces. How can this be explained? One possibility is that the security services have been favoured as a matter of policy. Given the background of Putin and some key figures in his administration and government this would not be surprising. To those inclined to interpret present-day Russian politics largely in terms of the influence of the so-called *siloviki* this would seem a highly probable interpretation. "However, it is also possible that the security services and public order agencies have gained improved funding, at least in part, as an unintended outcome of the general policy process. In absolute terms the financial allocations to the FSB, SVR, FSO and the border service are not large, representing very small shares of total budget expenditure. Their allocations are also non-transparent. In comparison, the Ministry of Defence is a very large-scale recipient of funding and more exposed to scrutiny in the Federal Assembly and the press. In nominal terms the annual increases in funding of the armed forces appear to be very substantial. In discussion of the budget in parliament and the media little attention is devoted to spending trends in real terms. Actual budget implementation receives little analysis. The laws on budget implementation appear with a delay of more than two years by which time they have marginal impact on current policy. The author has seen little analysis of spending on the power agencies of the type presented here in Russian publications<sup>14</sup>. Indeed, it may be the case that even in Russian government circles there is little or no awareness of the pattern of spending on the power agencies and changes over time in real terms. However, the trends identified suggest that a legacy of Putin's rule will be that Russia will possess better-resourced, and presumably more powerful, security services and public order agencies and this fact may have implications for Russia's future development.

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## Endnotes

1 On military expenditure, see the present author's, "The military expenditure of the USSR and the Russian Federation, 1987-1997", *PRI Yearbook 1998*, Stockholm International Peace Research Institute and Oxford University Press, 1998, pp.243-259 and "ussian military expenditure and arms production", SIPRI and Oxford University Press, 2001, pp.313-322.

2 Here, and for other agencies, formal subordination is in accordance with the Presidential order (*ukaz*) of 24 September 2007, "questions of the structure of organs of executive power". This order was adopted following the appointment of Viktor Zubkov as prime minister (<http://document.kremlin.ru>, 28 September 2007).

3 This term is employed as it accords with that of the Classification of the Functions of Government which was adopted for budgetary purposes by the Russian Government from 2005.

4 <http://www.gusp.gov.ru/896/index.shtml>, accessed 28 September 2007 (the recently created website of GUSP, which for some time was the sole government agency in Russia without its own Internet presence).

5 V. Baranets, "U supersekretnoi sluzhby Rossii poyavilas' svoya emblema", *Komsomol'skaia Pravda*, 12 April 2000 (accessed via EastView database). Baranets makes reference to the "fantastic secrecy" of GUSP.

6 Discussed in J. Cooper, 'Society-military relations in Russia: the economic dimension' in S. Webber and J. Mathers (eds.), *Military and Society in post-Soviet Russia*, Manchester University Press, Manchester, 2006, pp.141-146 and *SIPRI Yearbook 1998*, pp.247-8. See also V. Zatsepin, "Russian

military expenditure: what's behind the curtain?", *The Economics of Peace and Security Journal*, 2007, vol. 2, # 1.

7 The 1995 budget was subsequently amended in December of the same year but this has no significance for the analysis presented here.

8 According to one source of 1995 GUO had an authorised staff of 44,000 and the SBP 1,500 (*Izvestiya*, 26 April 1995, p.5 (V. Kononenko, "Kto u kogo v Rossii 'pod kolpakom'?"), but another source of the same year gives a SBP staff of over 4,000 (*Sankt Peterburgskie vedomosti*, 31 January 1995, A Borisov, "Riadam s prezidentom").

9 *Komsomol'skaia pravda*, 4 July 1995, "Generalov v spetssluzhbakh Rossii v 7 raz bol'she, chem v KGB SSSR" (interview with an anonymous highly-placed security service official). However, another authority, Evgeniya Al'bats, writing in 1993, claimed that in Russia the KGB had a staff of c.500,000, and in the entire USSR 700,000 (*Izvestia*, 7 December 1995, p.5, E Al'bats, " 'Lyubyanka': budet li etomu konets?").

10 Julian Cooper, "Military Expenditure in the 2005 and 2006 Federal Budgets of the Russian Federation. A Research Note », January 2006, published by SIPRI, [http://www.sipri.org/contents/milap/cooper\\_russia\\_20060130](http://www.sipri.org/contents/milap/cooper_russia_20060130)

11 The three-year budget and the procedure required to obtain reasonably reliable estimates of spending on defence and security are discussed by the author in a Research Working Paper, "Military expenditure in the three-year budget of the Russian Federation, 2008-10" available <http://www.sipri.org/>, October 2007.

12 *Gazeta*, 10 May 2006, p.13 Andrei Lavrov, "Byudzhet tsveta khaki".

13 *Nezavisimoe Voennoe Obozrenie*, 8 December 2006.

14 Notable are the analyses of Russian military expenditure now issued on a regular basis by staff of the Institute for the Economy in Transition, Moscow, but these do not cover all the security and public order agencies.

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### ***Abstract***

The Russian power ministries account for a steadily growing share of total spending under the federal budget. The article will explore the evidence on the funding of the Russian power ministries, its structure, share of gross domestic product and trends over time. Changing priorities will be assessed. The handling of such spending in the budgetary process will be examined, including the role of the Federal Assembly. Much spending on the power ministries

is classified and secrecy has increased during the period of Putin's leadership. What does the secrecy conceal and what forces account for the urge to classify?

**Keywords** : Power Ministries, FSB, Security Agencies, Funding

**Research Fields** : Economy

**Countries** : Russia

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