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Controversy over the draft law on the Russian Financial Agency

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On 25 January, at the first reading, the State Duma adopted a government bill to amend the Russian Federation's budget code and to set requirements to the staff of a specialised financial organisation. The project envisages the establishment of an open joint-stock company under the working name of the Russian Financial Agency (Rosfinagentstvo). This agency is intended to manage the state's financial reserves deriving from the proceeds of the mining and export of Russian oil and gas which have been accumulated in the Reserve Fund and National Welfare Fund, as well as the debt obligations of the Russian Federation, together with the money accumulated in the Pension Fund. This will be done on the basis of a contract with the Ministry of Finance. The funds which the company is planned to receive amount to US$300 billion – a sum which accounts for 70% of Russia's federal budget revenues for 2013, and 13% of Russia's GDP.

The act's stated purpose is to move away from the current conservative investment policy based on investing the accumulated reserves in safe long-term financial instruments (including foreign government bonds), towards a more active policy, which offers higher risks, but also the possibility of higher income (including stocks and corporate bonds).

The idea to create Rosfinagentstvo arose in 2008. The proposal by the then Finance Minister Aleksei Kudrin to appoint a new state corporation was not endorsed by President Dmitri Medvedev. However on 12 December last year, in his address to the National Assembly, President Vladimir Putin repeated the proposal to create a management structure that would invest the funds held in the Reserve Fund and National Welfare Fund in strategic infrastructure projects.

Commentary

- Consolidating such huge state-owned reserves in the hands of a trading/ commercial company should be seen as risky, given that Russian economy is inefficiently managed, bureaucratic and afflicted with pervasive corruption. The money earmarked for infrastructure projects may be directed to companies involved with the ruling team. This was the case in a number of projects funded from the state budget, such as the construction of facilities for the Winter Olympic Games in Sochi, and investments in Vladivostok connected with the summit of APEC countries held there in September 2012.

The way the money for these projects was spent have raised many concerns, and led to suspicions that the funds were misappropriated.

- The draft bill is general and vague; it does not regulate the relevant legal aspects of the Rosfinagentstvo company. Among other aspects, it does not ensure 100% participation by the state, which opens up the risk that the funds will be taken over by other companies. The detailed arrangements for the agency's status and the regulations for investment are to be drawn up in implementing acts.

- The ambiguous bill has met with criticism, not only from the opposition parties but also from the pro-presidential United Russia; the concerns were raised that the resources collected in the Reserve Fund and National Welfare Fund will be excluded from the direct control of the state. These issues were raised by (among others) Andrei Makarov, representing United Russia, who is the head of the budget and finance committee of the State Duma; he deemed the legal form of the company to be inadmissible, and the delegation of parliamentary powers to the government to be unconstitutional. In view of the numerous controversies regarding the bill, it has already been signalled that before the second reading, the government will introduce a number of corrections, which will focus on altering the legal status of Rosfinagentstvo.