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Institutional Strengthening of the Gaidar Institute for Economic Policy

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Gaidar Institute and USAID signed a Cooperation Agreement 118-A-00-00-00130-00 on August 8, 2000. The effective period thereof was originally set for July 1, 2000 thru June 30, 2003. Eventually, it was extended to December 31, 2011 in response to mutually agreed updates and amendments thereto.

The activities performed under the Cooperation Agreement over a decade have created a framework for strengthening the role of Gaidar Institute in economic reforms in Russia and implementing a comprehensive research program within the Institute. Through these activities Gaidar Institute has made a significant contribution to the political and economic reform at the turning point of the economic restructuring process. The national plan of reforms has been expanded and extended under the auspices of the President and Government of Russia. There is cautious optimism that the Russian Government is going to continue legislative, executive and other reform initiatives in monetary, fiscal, social, and financial policies.

I. Gaidar Institute's scientific and economic research

In doing its scientific and economic research, Gaidar Institute is guided by objectives such as R&D framework development, personnel training in econometrics, mathematics, and statistics. As of the effective date of the Cooperation Agreement, Gaidar Institute has conducted a series of R&D works in different areas, including but not limited to

1. Macroeconomics
2. Fiscal policy and reform
3. Financial policy
4. Agricultural policy
5. Corporate governance, protection of shareholder rights
6. Social reforms
7. Deregulation
8. Regional elites
9. Economics and elections

Fundamental research, analytical materials, and R&D results have contributed to a better understanding of scientific ideas in economics and politics. In addition, the results of the above listed R&D works have been widely disseminated and submitted via Gaidar Institute's information services to concerned members of legislative authorities, committees and subcommittees of the State Duma for consideration.

The results of Gaidar Institute's economic research were covered in its publications available for many specialists and readers interested in the Russian economy.

A list of Gaidar Institute's scientific research papers and publications as part of the Cooperation Agreement is presented in **Attachment 1** hereto.

Gaidar Institute's monthly reviews, working documents, scientific reports and monographs were disseminated (including its official website) within the academic community, among the members of executive and legislative authorities, as well as students studying economics. Points of view of Gaidar Institute's specialists towards the political and economic development of Russia were disseminated through its official website, among academic communities in western countries and all those interested in the economic development in Russia. Gaidar Institute received many letters of gratitude from students, scientists and all those interested in the development of economies in transition. Many users

of Gaidar Institute's home page expressed their gratitude for having an opportunity to read Institute's publications, scientific and research materials, and reviews.

Federal executive and legislative bodies' reviews about Gaidar Institute's R&D performance are presented in **Attachment 2** hereto.

The results of **three-year (2004 thru 2008)** scientific projects are presented below.

Analysis of interaction of capital transaction and financial instrument account with basic macroeconomic indicators in the Russian Federation

Theoretical results

Analysis of capital movement effects is very important in modern economics. The most wide-spread point of view is that foreign capital flow into a country promotes its economic growth through financing growth in investments, as well as helps households achieve higher degree of consumption and allows its smoothing in time. In addition, capital cross-flow may help developing countries achieve better diversification of their asset portfolio. However, substantial capital inflow may have an adverse macroeconomic effect such as rapid growth in money supply, inflationary pressure, real strengthening of the national currency.

The factors which govern capital movements can be divided into two groups, namely factors which are external for a capital-inflow economy, and internal factors. In particular, global interest rates can be treated as external factors which facilitate capital inflow. In other words, low interest rates in developed countries can encourage investments in developing economies. This effect can be reinforced if a developing country needs external borrowings, and low global interest rates increase its creditworthiness, mitigating the default risk. When recession is underway, investors in developed countries prefer to invest in developing countries. Therefore, international business cycles also have an effect on the direction of capital movements.

Monetary and fiscal policies, as well as overall economic situation may refer to internal factors which have an impact on capital flows. More precisely, internal factors can be divided into permanent factors which reflect most important structural characteristics of the economy, and variable factors which relate to economic policy and can be exposed to a short-term effect.

The project was intended to analyze the impact of capital movement account on macroeconomic indicators in the Russian Federation, in particular real ruble exchange rate, consumer price movements, economic growth rates, investment dynamics, and stock market index. In addition, it was important for us to determine capital inflow and outflow determinants in Russia. Time series models were used as estimation method. It should be noted that very few research papers have been published to date on the above issues in the context of this country. Furthermore, these reports describe nothing but specific fragments of capital account within a timeframe ending late in the 1990s.

Practical results

1. Most of our hypotheses about capital flow dependence on macroeconomic indicators were not rejected when they were checked on the basis of the Russian data. Since most of the hypotheses made were based on macroeconomics, such an outcome means that capital movements in the Russian Federation are very well described by fundamental economic patterns and indicators.

2. Capital inflow in the Russian Federation has no effect on economic growth rates in the country – we revealed no statistically significant dependence of domestic GDP growth rates and capital investments on investment inflow to Russia. Basically, it can be explained by the fact that the Russian Federation shows extremely insignificant volumes of direct investments which can lead to production growth.

3. The government sector keeps playing a leading role in capital movements. Until the beginning of the 2000s, this institutional sector governed most of capital movements, and almost all operations were related to the country's foreign debt management, which might have been the reason why capital inflow failed to accelerate economic growth.

4. Portfolio investment flows have a major effect on monetary conditions in the Russian Federation. In general, capital inflow to this country tends to accelerate growth in consumer prices, thereby requiring regulation of capital movements in response to high inflation and substantial amounts of revenues from exports. In this case, it is the direct investments that should be sought in the first place, which could trigger production growth, thereby absorbing money oversupply.

5. Direct investments flow in or out of the country, as well as volumes of foreign loans and credits depend largely on a ruble real exchange rate. In addition, capital inflow in the Russian Federation strengthens the national currency exchange rate in real terms. Thus, it is important to understand that further liberalization of capital movements could make it difficult to maintain stable exchange rate of the national currency.

6. It is the low quality of statistics on savings and investments that is basically responsible for controversial results as to whether or not the Feldstein-Horioka effect (joint movement of savings and investments in a country) exists in the Russian economy.

7. Dynamics of capital movements in the Russian Federation is basically driven by internal factors. External factors only can be used to describe capital outflow from the country. Thus, international investors are ready to invest in this country, provided that internal stability is ensured and positive macroeconomic dynamics have been reached.

8. Therefore, capital transaction and financial instrument accounts have a scarce impact on the real sector of the Russian economy for the time being. Furthermore, capital inflow can strengthen the national currency and boost inflation. Under the circumstances, careful approach should be taken towards liberalization of capital movements scheduled for 2007, because if current dependences remain the same, a significant capital inflow may have an adverse effect on price growth rates rather than investment dynamics and GDP. Therefore, a special emphasis should be placed upon designing mechanisms to move cash flow from the financial sector to the real sector. In other words, the key issue is develop efficient financial markets and provide incentives for international, above all, direct investments in this country.

Analysis of transmission mechanisms of the monetary policy in the Russian economy

Theoretical and practical results

Russia has recently been facing a very rapid growth in money supply in response to substantial foreign currency inflow as revenues from exports. In addition, in the period between 2006 and 2007, the Russian Federation saw a stable positive balance for both the current external balance and capital and financial instrument transaction account, which couldn't but create uptrend for the ruble exchange rate. To prevent abnormal revaluation of the national currency, the Central Bank of Russia had to broaden the money supply, thereby replenishing the national gold and foreign exchange reserves. Obviously, this step leads to price rise, but inflation is only an element in the complex chain of interactions in the economy which are triggered by changes in money supply. In particular, a crucial issue is the effect of changes in money supply on the real sector. The issue is under-explored in the domestic economic literature. This paper is dedicated to this issue.

The project was intended to study specific mechanisms which function within the pattern. In other words, currently existing methods of analysis of the effectiveness of monetary policy transmission channels are used to detect the channels which functioned in the Russian economy in the years 1999 thru 2007. As part of the project, the research is focused on analysis of short-term interaction between money, prices and real output, as well as

potential existence of different channels through which monetary policy has an effect on the real sector were studied. The latter is most important for selecting instruments and mechanisms to promote growth in the real sector through monetary policy instruments.

The following conclusions were made.

1. A descriptive approach, the vector auto regression method, as well as the use of data on individual bank balances to measure the effectiveness of the bank lending channel are most commonly encountered approaches towards analysis of transmission mechanisms. However, the descriptive approach seems to be too subjective, indeed, being a light version of econometric approaches.

2. Analysis of interaction between money, prices and output in the Russian economy leads to a conclusion that money supply shocks had no immediate effect on output dynamics in the period under review. In our opinion, this conclusion can be supported by special features and short duration of processes in the real sector throughout the entire period under review. In this case, all data refer to a single economic cycle, i.e. we made analysis of interaction between money and output within a single mid-term economic cycle. In addition, output dynamics were overlapped by recovery growth after the crisis in 1998 whose effect can't be recognized by exogenous variables included into the model. For example, our estimates show that 6-month price shocks have certain effect on output dynamics. However, it is not one-way effect, whereas changes in output are periodic. This result seems to reflect adaptation of the economy in case of price shocks.

3. We obtained negative results for all money transmission channels in impulse response functions diagrams. However, analysis of statistical qualities of the output equation in models reveals three potentially working transmission channels, namely the unexpected price growth channel, the bank lending channel, and the household wealth channel. In our opinion, such results are in line with the overall view of the nature of interaction between the real and financial sectors in the Russian economy. In particular, the existence of the unexpected price growth channel can be explained by the existence of the previously revealed output response to price shocks. Moreover, the role of the bank lending channel is not to be denied based on the studies conducted in the years 1999 thru 2007, when overall liquidity growth in the economy facilitated accumulation of assets in the banking system, eventually having a positive effect on volumes of lending to the real sector. The existence of the household wealth channel can be explained by strong growth in household income over the last few years, thereby improving significantly the consumer demand which became a leading factor of economic growth.

4. Our research results are similar to the conclusions made during the previous study dedicated to money transmission mechanisms in the years 1992 thru 2001[1]. Like in the previously issued research paper, we revealed no statistically significant working money transmission channels in the Russian economy in the years 1999 thru 2007. The result might reflect that the Central Bank of Russia lacks monetary policy instruments and, therefore, its monetary policy has a weak effect on the real sector of the Russian economy. Basically, economic growth has recently been driven by high prices of energy resources, thereby making Bank of Russia's foreign-currency purchases the principal channel to generate money supply in Russia. Therefore, there is no reason to speak about any focused and independent monetary policy.

5. Since the bank lending channel became a potentially working money transmission channel in the years 1999 thru 2007, we made additional check through panel analysis of the data on Russian commercial banks' balance to see how it was functioning. Increase in interest

[1] See Дробышевский С., Козловская А. (2002) «Внутренние аспекты денежно-кредитной политики России», Научные труды ИЭП № 45Р. (Drobyshevsky S., Kozlovskaya A. (2002) "Internal aspects of monetary policy in Russia", Nauchnye trudy IET, No. 45R)

rates in the interbank lending market leads to lower gain rates in lending to the non-financial sector (above all, legal entities). In such case, the lower is the capital and capital adequacy of a credit institution, the even lower are gain rates.

In general, in our opinion, the conducted research shows actual exogenity of the monetary policy in the Russian Federation, which was governed by the Central Bank having to buy inflowing foreign currency throughout the entire period under review, thereby accelerating money supply. In doing so, the monetary policy was not guided by the real sector's needs, as evidenced by the results showing that it is very likely that the Russian Federation has no working money transmission channels. Nevertheless, the situation improved against the previous study of this issue by Gaidar Institute's experts, because the bank lending and household wealth channels began to play a more important role, as evidenced by enhanced role of the banking system in the financing of the real sector and creating of the consumer demand.

Structural changes and economic growth

Theoretical results

The project covered the extent to which structural changes could make composite economic indices less precise during the transition period in Russia. Under such conditions, the values of composite indices may depend largely on small methodological changes, in particular the basket and averaging methods in use. It may lead to substantially different measurements in similar methods, including those based on the same data source. In case of serious structural changes, the common practice of index analysis – replacement of the entire collection of individual indices with a single composite index – is not always adequate to achieve objectives set. Substantial structural changes may require additional information on the collection of individual indices. Therefore, it is reasonable to make analysis of composite indicators of structural changes. Transformation-driven recession in the Russian industrial production may be considered overcome long before the industrial production index drops down to the crisis values. Minor cycles (less than a year) of industrial production dynamics become clearly visible against overall trend towards transformation-driven recession. In response to these cycles, industrial recession, which was observed during the transition period in Russia, developed very irregularly in time, intermittently, when periods of rapid acceleration gave way to short-term stabilization and growth. Minor cycles in the Russian industrial dynamics in the transition period make it difficult to identify the principal trend in industrial production dynamics and make forecasts far less precise. Conclusions of the project showed that structural changes in the industrial production gained intensity in the first half of the 1990s, whereupon they began to lose intensity in general.

Intensification of changes in the production volume is accompanied by intensive changes in its structure and vice versa, i.e. there is an effect similar to the effect of relationship between structural changes intensity in the price system and inflation rates. Further industrial recession was accompanied by "weighting" of the industrial production structure, whereas the beginning of growth was characterized by an opposite trend when manufacturing of high-level-processing products grew in kind at outstripping rates. The same trend can be observed in minor cycles in industrial production: short-term periods of faster industrial recession were accompanied by outstripping decline in manufacturing of high-level-processing products, whereas short-term periods of stabilization or growth were accompanied by changes in manufacturing of high-level-processing products at outstripping rates.

The following theoretical results were substantiated as part of the project: manufacturing of high-level-processing products is characterized by a far greater degree of changeability against more stable dynamics of manufacturing of low-level-processing products which is characterized by far smaller rates of both recession and growth. Such dynamics are natural for open economies which basically export raw materials and semi-finished products and import finished products, whereas developed market-driven economies,

which basically import raw materials and export high-tech finished products, show an opposite behavior: more stable manufacturing of finished products.

Since the beginning of reforms, production and price structures changed in the same manner: outstripping growth in prices of raw materials and primary processing products was accompanied by stronger focus on raw materials in the Russian economy. Further misbalance in the output structure (stronger focus on raw materials) occurred after misbalance in the price structure was fixed.

Practical results

From a practical point of view, recommendations on how to update the method for construction of Russian industrial production indices, and recommendations on economic policy were developed as part of this research project. In particular, proposals on how to enhance the procedure for extra computing, coordinate a system of indicators, update the method in order to improve its applicability for making short-term comparisons, were made.

The practical results obtained as part of the project were used by the State Statistics Committee of the Russian Federation, Center for Economic Conjuncture under the Government of the Russian Federation, Ministry of Economic Development and Trade of Russia.

Designing methods for development and quarterly monitoring of financial instability indicators in emerging markets

Theoretical results

No country, even a developed one, is insured against a financial crisis. Economies in transition and developing economies are most vulnerable to crisis, because their markets become open as fundamental instability remains unchanged. The financial crisis in Asia in H2 1997 is an illustration of a series of financial cataclysms which shocked the global financial system in recent decades. In the 1990s alone, the world was hit by a series of large-scale crises: Europe went through the currency crisis of 1992 – 1993. A few of Latin American countries saw a drastic devaluation of their national currency in the years 1993 thru 1994. A series of crises hit new industrial countries in Asia and Latin America since 1997. The Russian Federation faced a financial crisis in 1998.

Many research works show that financial crises may have common basic elements. Therefore, since financial crises tend to cause heavy costs, researchers were focused on designing models which could help politicians forecast and adequately respond to problems.

It was not until after the financial crises in the 1990s that the world realized the need to develop indicators to forecast a financial crisis. Furthermore, substantial direct (banking system recapitalization) and indirect (economic activity deterioration) crisis-hit costs have shown that on-going monitoring of the financial system is required to detect its instability signs.

There are different sources of financial system instability, namely poor asset management, low capital inadequacy at financial institutions, speculative attacks, etc. Where instability begins to grow, even an insignificant economic shock may trigger a financial crisis which may have a severe effect on the national economy.

It should be noted that this project covers quantitative indicators. Indeed, the analysis of these indicators is not sufficient to come to a final conclusion on financial system conditions, because they depend largely on non-measurable factors. Therefore, the analysis of financial crisis forecast-indicators should be treated as an element of monitoring of financial system conditions.

Our research works are structured as follows. First, to detect relations between specific indicators of financial stability and study the international experience in the application of financial crisis forecast-indicators, we will provide a review of the literature on the subject

matter in question. Second, based on the conclusions made in the first part of the work, we will propose a system of monitoring of financial stability indicators and consider specific methodological aspects of its design. Third, we will analyze practicability of the proposed system of indicators in the Russian Federation. Finally, we will study financial stability for a series of economies in transition and developing economies.

Practical results

1. The designed method was applied to analyze financial stability in the Russian Federation, CIS member countries, Central and Eastern Europe Countries, as well as developing countries in Asia and Latin America. This analysis shows that none of the foregoing countries is likely to face a crisis in the near future (1 – 2 quarters to come). However, some of the countries show negative trends which may become a source of problems in the future.

2. Growth in money supply and reduction in the gold and foreign exchange reserves in Belarus give cause for concern. According to our estimates, money supply failed to outrun its demand in Belarus in Q4 2005.

3. We detected problems in the financial sector in Kyrgyzstan: its current external balance declined in response to both reduction in exports and increase in imports late in 2005. In addition, capital outflow increased and household deposits dropped off in real terms. We believe that the aforementioned trends may have an adverse effect on the financial stability in Kyrgyzstan in the future.

4. Analysis of the Central and Eastern Europe Countries revealed no alarming trends, except Romania and Slovakia. In Romania, domestic lending increased considerably against simultaneous reduction in industrial production and capital inflow in Q4 2005. In Slovakia, real effective exchange rate of the national currency increased rapidly to eventually boost imports at the same period. Furthermore, inflation increased in the country.

5. With regard to Asia and Latin America, we place a special focus on Malaysia which showed negative terms of trade, considerable growth in imports, and reduction in its gold and foreign exchange reserves late in 2005. Nevertheless, Malaysia is unlikely to face crisis in the near future, because of its good economic dynamics.

6. The problems being faced by the foregoing countries can't deteriorate their financial sector. First of all, they show good macroeconomic figures. In addition, most of the analyzed countries have shown favorable foreign economic conditions over the last few years. It helps to remember that interest rates are being low globally, thereby allowing borrowings on favorable terms.

7. The application of our method shows that none of the analyzed countries is likely to face a financial crisis in the near future. However, the detected adverse trends should be followed up, because they may have a heavy effect on financial stability in case of weaker macroeconomic figures and deterioration in foreign economic conditions.

Crude oil pricing factors

Theoretical and practical results

Global crude oil prices is the most significant external factor for the Russian economy, federal budget, and the balance of payments. This paper is intended to identify principal factors of global crude oil pricing and price dynamics simulation which helps to forecast crude oil prices. Such a forecast is a required element to assess conditions of future development of the Russian economy and create a state policy which would conform to such conditions.

Sections 1 and 2 of the project provide principal factors of global crude oil pricing. Factors that create the crude oil demand and supply in the global market were selected as fundamental factors that drive global crude oil prices. The project covers factors such as

global economy's behavior; global crude oil demand structure; energy intensity of the economy; levels of crude oil prices; relative competitive power of other types of fuel; geological and technological factors; structural characteristics of global crude oil production and export; OPEC's actions aimed at regulating crude oil output and governing crude oil prices; other oil-producing countries' policy towards the oil sector.

The project shows that extremely high crude oil prices are unlikely to keep stable for a long time. Long-term growth in crude oil prices can be constrained by replacement of crude oil with other types of fuel, marginal sources of conventional crude oil which will be classified as reserves when prices go up, and unconventional sources of crude oil which will be classified as reserves when prices keep going up. Competition in the global oil market may be expected to remain strong enough to be able to interfere with OPEC efforts to maintain extremely high crude oil prices for a long time.

In addition, stable growth in crude oil demand may be expected to keep up the pressure upon the oil market especially in emerging economies, including China and India, and OPEC member countries are expected to be able to limit oil production in order to support prices. Growth in production costs in response to depletion in many conventional crude oil production areas and development of new, more rugged oil fields will have a significant effect. Therefore, global crude oil prices may be expected to be higher than in the past two decades preceding the price rise in the years 2004 thru 2006.

Forecast global crude oil prices create favorable conditions for generating federal budget revenues, building up the stabilization fund, and developing the oil sector in Russia. However, a special taxation policy to encourage investments is required for the development of new high-cost oil fields to increase oil production and export, especially in the east of the country.

Improvement opportunities for the existing methods of crude oil price forecast were analyzed as part of the project. There are three types of oil market participants, namely consumers, independent producers, and OPEC member countries. The fact that supply is divided into independent producers and OPEC member countries relates to internal market structure. Independent producers have relatively small crude oil reserves and don't coordinate their own crude oil output. Consequently, these producers have neither strong market position, nor significant effect on crude oil prices. In addition, small crude oil reserves of such producers make the finiteness of the reserves constantly relevant. OPEC member countries have a substantial volume of the global crude oil reserves and can coordinate their own crude oil output. Therefore, first, these producers may have a significant effect on crude oil prices, and, second, their behavior can't be simulated individually.

Under the project, a high emphasis was placed on simulation and study of forecast ability of the designed crude oil demand model. The size of global economy together with the development of oil-saving technologies is a key crude oil demand factor. According to the proposed theoretical model, development of oil-saving technologies depends on the maturity and previous development of such technologies, and crude oil price. Nevertheless, development of oil-saving technologies can be accelerated by crude oil price growth.

The authors offered a method to simulate crude oil demand with consideration for the maturity of oil-saving technologies based on the Kalman filter. Not only does the Kalman filter determine the maturity of oil-saving technologies, but also evaluate factors of such maturity. Consideration of the development of oil-saving technologies helps the model enhance considerably its forecast characteristics vs. other, simpler, models.

Taxation of mineral resources sector

The project was intended to develop conceptual and legislative proposals aimed at enhancing the effectiveness of taxation of the mineral resources sector in the modern Russian

economy and providing resource rent withdrawal in favor of the state, and creating a better investment environment.

Theoretical results

As part of the project, analysis was made of the world experience in mineral resources sector taxation, including the system of mineral resources sector taxation in leading industrialized nations, the Russian system of mineral resources sector taxation, as well as the existing proposals on how to upgrade the system. Guidelines were laid down and practical recommendations on tax reform in the mineral resources sector in Russia developed.

Gaidar Institute's specialists substantiated the following theoretical results. The need to switch to market crude oil prices for tax assessment purposes in order to overcome adverse tax effects of transfer pricing; retaining the function of royalty as payment to the host government (the state) for a mineral extraction license, and prospects of introduction of a higher single royalty rate; making changes in sharing the royalty among budgets at different levels in favor of the federal budget; developing and adopting a respective legal framework for royalty relief for depleted and challenged reserves; abolishing the mineral replacement tax and introducing globally accepted mechanisms of geological exploration costs recovery; applying annual oil export duty as long as domestic and global crude oil prices differ largely, the duty is to be abolished in the longer term; introducing a tax on extra hydrocarbon revenues when new fields are developed. The need for transition to a taxation system of the mineral resources sector based on three principal components, namely royalty, tax on extra hydrocarbon revenues, and profit tax, was substantiated. Furthermore, guidelines for the development of production sharing agreements were developed.

Practical results

Legislative proposals and recommendations were made as part of the project, especially proposals for and amendments to a draft chapter (Mineral Tax) of the Tax Code, as well as other laws and by-laws regulating taxation of the mineral resources sector. The materials and proposals based on the project's results were used by the Ministry of Finance, Ministry of Economic Development and Trade, Ministry of Natural Resources and Environment of Russia, and the Center for Strategic Research. Moreover, the project's results were used for the development of a Russian Government's Program, specifically pertaining to tax reform and draft laws which were submitted to the State Duma of the Federal Assembly of the Russian Federation for consideration, including draft chapters of the second part of the Tax Code regulating taxation of the mineral resources sector.

Monetary policy in post-crisis period

The project was intended to analyze the issues faced by the Russian monetary authorities in the post-crisis period and identify conditions for optimal monetary policy under existing conditions within the framework of the existing theoretical approaches.

Theoretical results

A series of issues faced by the monetary authorities in Russia in the post-crisis period were analyzed and conditions for optimal monetary policy under existing conditions within the framework of the existing theoretical approaches were determined.

Theoretical analysis of the economic situation in the post-crisis period in Russia was made by using a small open economy model for a short-term period on the basis of the IS-LM approach (similar to the Mundell–Fleming model), in which money demand depends positively on the national currency real exchange rate. Therefore, the LM curve has a negative slope in $e - Y$ coordinates. Preconditions for such dependence was studied, as well as comparative statics on monetary and fiscal policy shocks in the model were analyzed.

The following theoretical results were substantiated as part of the project. Specific appearance of the LM curve means that the economy might have more than one equilibrium

states. Consequently, subject to the initial state of the economy and a fiscal or money shock value and permanence, the resulting effect on the economy may vary a lot and differ largely from the results obtained through the conventional Mundell–Fleming model. Such differences were shown in the comparative statics as part of our model. Furthermore, the study showed that this model can describe the movement line of the real exchange rate and output in the Russian economy in 1995 thru 2000. Based on the assumption that the Russian economy initially has a steady equilibrium, its movements in 1995–1997 can be described as movement along the LM curve in unsteady equilibrium with high ruble real exchange rate and low output, that was followed by exogenous decline in the real ruble exchange rate, thereby creating a gap in the economy between equilibrium values of output for IS and LM curves, i.e. money oversupply.

Practical results

A comprehensive analysis of the current situation in the monetary and banking sectors of the Russian economy was made as part of the project. The analysis showed specific features of the nature of the current monetary policy. In particular, it was underlined that the money supply mechanism was destroyed amidst systemic crisis of the banking system. Furthermore, credit rationing increased, household savings as bank deposits failed to resume their pre-crisis level, the support to the banking system was found to be extremely expensive.

Gaidar Institute's specialists proposed measures aimed at limiting short-term foreign capital inflow in order to prevent accumulation of excess liquidity. Analysis of the international experience in setting different capital control regimes showed that a policy similar to that in Chile and Colombia in the 1990s meets the objectives of the capital inflow limit measures proposed for Russia.

Proposals to set size limits on foreign liabilities at Russian commercial banks and introduce a regulation on mandatory non-refundable provisioning for most types of foreign investments in the Russian economy were made. The provisioning standard rate should be set in inverse proportion to investment terms.

The foregoing measures aimed at limiting short-term foreign capital inflow should be complimented with a series of steps towards liberalization of the foreign exchange market and capital movement regime in Russia. In particular, the following proposals were developed. Reduce the standard for mandatory sale of export earnings, remove barriers in the foreign exchange market, provide liberalization of non-resident transactions through 'S' accounts, and reconstruct the organized market of currency futures and derivatives on the ruble exchange rate.

Financial sector and costs of inflation in economies in transition

Theoretical results

The project was intended to make an attempt to assess the effect of inflation on the development of the financial sector in economies in transition. Highly variable inflation rates and financial sector development indicators in such countries over the past decade were observed, both in each particular point of time and throughout the entire period of development in any single country. In addition, according to Bolton and Berglof (2001), two groups of countries which differ largely in the depth of financial sector can be distinguished. Consequently, the authors showed in this project that inflation might just as well be a key cause of different levels of development of a financial sector.

Welfare costs of inflation were determined and presented as part of the project. Furthermore, costs of inflation in the financial sector resulting from cash outflow in the financial intermediation sector in response to growth in inflation rates were studied in addition to conventional costs of inflation resulting from the contraction in the demand for money

balances. Our evaluation of inflationary effect on the financial sector in economies in transition reflects the fact that both the amount of loans provided and stock market capitalization decline in response to inflation upturn.

However, the authors realized that the costs of inflation under review can't reflect the entire scope of potential welfare costs of inflation. The existing channels of inflationary effect on the economy are quite manifold even during a brief review of potential causes and effects of inflationary distortions. Consequently, any attempt to assess welfare costs or benefits of inflation is a time consuming task, given that not all inflationary effects can be detected. Therefore, any research is limited to a certain set of effects at given characteristics of economic system and the nature of inflation itself. In that case, the authors considered welfare losses from totally (fully) anticipated inflation.

In addition, the difference in the welfare costs of inflation under review in countries with different levels of financial sector development was evaluated as part of the project. A series of theoretical results argue for the fact that development of the financial system and competition in the financial services sector which are normally accompanied by growth in the number of interest-bearing instruments can mitigate the effect of highly or strongly variable inflation on the real value of agents' financial assets, thereby reducing respective welfare losses of inflation in general.

Besides the conventional approach which evaluates costs of inflation as the area under the curve of the demand for real money balances we used an approach based on the Imrohoroglu model (1992). We studied both the original Imrohoroglu model and its modification which allows better adaptation of the model to the Russian economic environment, thereby obtaining more adequate evaluation of costs of inflation.

Practical results

Our research results of significant and adverse effect of inflation on the financial sector indicate that the Central Bank of Russia should conduct a monetary policy focused on reducing inflation.

Russia is currently regarded as economy in transition with very high annual inflation rates (more than 10%), which in the aggregate with other factors (heavy concentration in the banking sector, immature legal framework, high country risks, lack of required confidence in financial institutions, immature credit history practice, etc.) fails to make bank deposits more attractive than foreign exchange cash holdings. Instead, more intensive development of the financial intermediation sector would create favorable conditions for long-term economic development by enhancing effectiveness in allocation of resources, corporate control, capital mobilization, and risk management.

Therefore, to achieve early development of the financial sector and reduce welfare costs of inflation, the Bank of Russia and Russia's Government should take the following measures:

Conduct a policy of gradual disinflation to a level measured in simple numbers; coordinate a policy of liberalization of prices and tariffs of natural monopolies' services and products with Central Bank's actions;

Switch to inflation targeting and set credible inflation benchmarks; ensure that actual values of inflation comply with target values;

Conduct institutional and structural reforms in the banking sector, namely cease to hold or reduce considerably a state-held interest in the largest Russian banks; create an efficient and credible deposit insurance system; update regulations for and methods of prudential supervision;

Make more financial instruments available for physical bodies; issue indexed financial assets;

Ensure stable exchange rate of the national currency; prevent the foreign exchange market and banking sector from increase in uncertainty in order to support the demand for ruble money balances; continue dedollarization of the Russian economy.

Foreign debt and monetary policy

Theoretical results

The project was intended to study the extent to which new borrowings can be combined with issuance mechanisms in order to limit debt accumulation. A debt management formal model was proposed and analyzed to make a series of qualitative conclusions on optimal monetary policy amidst debt overhang. Minimization of inflationary load in a long timeframe was the target function in the model, while the deleveraging requirement was exercised through terminal restriction of the debt-to-GDP ratio. This model differs from most of the existing models in that it offers these proposals and can be applied in numerical analysis of the national debt policy.

The following aspects are of principal interest in consideration of this model. First, analysis of conditions under which inflationary financing of debt payments is reasonable and, second, analysis of government's response to unexpected budget deficit changes (shocks).

The optimal policy analysis showed that government's financial position should respond to a short-term shock, whereas seigniorage is less responsive to a short-term shock and more sensitive to permanent shocks. Budget deficit can be exposed to both short-term and permanent shocks, because it includes factors with different degrees of inertance. It means that a deficit financing (allocation of surplus) option is determined by specific changes in budget expenditures and revenues. For example, an increase in budget expenditures in response to unforeseen events (natural disasters) has no long-term effect and should be compensated by a decline in the county's net assets. Decline in permanent income in response to fall in prices of exported products depends on how inert the price shock is, whereas increase or reduction of taxes in response to institutional changes or revision of debt obligations belong first of all to a long-term effect. Therefore, a decision on the transition to monetary financing must be strategic. Inflationary measures would be reasonable under favorable current situation, provided that financial situation in the country is very likely to aggravate in the long-term period.

Practical results

The research allowed us to make specific recommendations on monetary policy and national debt management policy. The foregoing model is a useful tool to analyze debt policy under different options of economic development. In particular, different scenario forecasts for debt and monetary policies were offered for the period 2001 thru 2010, which were calculated on the basis of real data on the Russia's foreign debt repayment schedule. Analysis of these forecasts in terms of foreign and internal debt management is necessary for economic policy, and they can definitely enhance the effectiveness of state government bodies in terms of liability management and control.

Economic policy proposals were developed on the basis of the results obtained. The Ministry of Finances of Russia uses these proposals for the development of the national debt strategy.

State-held interest in Russian corporations: efficient governance issues and state regulation objectives

The project was intended to analyze the current situation and develop applied recommendations concerning the national economic policy in terms of management of state-held assets in the corporate sector.

Theoretical results

A considerable volume of statistical information was analyzed and innovations in the legal framework assessed as part of the project. A systematized study of actual situation with the management of state-owned assets in the corporate sector in 2004-2006, including many corporate practice case-studies in Russia showing different aspects of this problem and related conflicts, was done.

The following theoretical results were substantiated as part of the project. The need to reinforce financial stability through adaptation of business entities at the micro level, the need for the state to have its interest in businesses from the perspective of interacting with other lines of the national economic policy (antimonopoly, social, industrial policies); aspects of government's influence on corporate governance and investment climate in this country were analyzed.

Practical results

Conclusions and recommendations on the national economic policy from the perspective of state-held asset management in the corporate sector were presented upon completion of the project. They include a complete set of short-term, mid-term and long-term measures. Periodic recertification of government representatives for the conformance to requirements is desirable in the short run. Specifying the eligibility of state-held interest in business entities based on certain criteria**,** of which the size of an interest is most relevant, is the key issue within midterm time horizon. Gradual development of a logic system of management of state-held shares, interest, units in joint-stock companies and other mixed-ownership enterprises on the basis of individual approach towards each managed entity and the program and target principle may be required in the long term. The foregoing requires that a state-held interest in any enterprise have a goal, well-defined tasks be developed, and methods of influence on a managed entity be documented on a mandatory basis, to the extent that efficient tools of control are available.

Corporate governance and property rights: up-to-date sectors for reforms

The project was intended to identify key issues of property rights protection in the context of economic reform objectives (given new approaches in the modern theory) and provide a comprehensive evaluation of the principles and objectives of the reform in property rights protection in Russia.

Theoretical results

Analysis of issues relating to property rights protection in the context of economic reform objectives (given new approaches in the modern theory) and comprehensive evaluation of the principles and objectives of the reform in property rights protection in Russia allowed the authors to develop applied recommendations essential (from an authors' point of view) for further positive development of the corporate sector in Russia. The following aspects should be focused on in the context of **corporate law.** Broadening the scope of monitoring to be conducted by boards of directors and minority shareholders over corporate executive bodies and major shareholders; prohibiting insider transactions; qualifying transactions with affiliated persons, extending the meaning of 'affiliated person', etc. Legally, a reasonable compromise should be achieved between the need to provide (minority and foreign) shareholders with legal remedies against violations of property rights, on the one hand, and prevent the legal framework from "obstruction" by frivolous actions, on the other hand.

Practical results

Since government departments' decisions are not sufficient to prevent violations **in the process of reorganization,** amendments and restatements to the basic legislation should be

made, including the development of a standalone federal law "On Reorganization of Legal Entities" ("On Reorganization and Liquidation of Commercial Organizations"). Violations of **disclosure requirements** must be prevented through both implementation of the provisions set forth in the federal laws "On Joint-Stock Companies", "On the Protection of Rights and Legitimate Interests of Investors", "On the Securities Market", and introduction of the International Accounting Standards (tax accounting is separated from financial reporting), criminal liability for non-disclosure. The issue concerning **withdrawal of assets** ('assets relief') and transfer pricing in prejudice of the issuer, shareholders, lenders, and state should be resolved both pursuant to the provisions set forth in the Federal Law "On Joint-Stock Companies" and by applying in practice the provisions set forth in the Criminal Code (Articles 165, 201, 204), enhancing tax legislation and its enforcement (towards the issuer and physical bodies – beneficiaries of cash flow control), enhancing the forms of financial statements in the context of labor legislation reform (simplifying the procedure for dismissal of general directors), hardening the requirements for large and stakeholder transactions, revising treaties on avoiding dual taxation with offshore zones.

Econometric analysis of time series of principal macroeconomic indicators

The project was intended to analyze time series which reflect dynamics of the development of principal macroeconomic indicators describing the economic situation in Russia.

Theoretical results

Gaidar Institute's experts analyzed methodological research approaches towards economic time series, making it possible to distinguish between TS and DS series. A simplest productive knowledge base which could become a framework for further development of an expert system of time series analysis was considered. The system can simplify and unify time series analysis and serve as the basis of econometric analysis of different indicators of economic dynamics.

Practical results

Analysis of statistical properties of time series revealed regularities in the movement of the variables under review which should be taken into account in the context of economic policy.

In particular, stationarity of money supply growth rates against stochastic trend shows that the Central Bank of Russia can't use them as interim (but not necessarily stated) goals of the monetary policy, i.e. perform money supply targeting. The time of trend change shows the moment when the Bank of Russia relatively lost its independence in terms of monetary policy.

Stochastic trend in the series of federal budget tax revenues indicates a permanent effect of exogenous real and institutional shocks triggered by both changes in macroeconomic conditions and tax legislation on budget revenues. Under the circumstances, the effects of economic policy measures (both fiscal and monetary) can hardly be seen in the short-term perspective, because they overlap the effects of previous shocks. Moreover, in the short-term period, the resulting effect may be opposite in sign to the goals of the measures taken, if adverse effect of previous shocks is overlapped.

The obtained results are in line with the basic comprehension of the nature of inflationary developments. Time series of inflation rates is a 'random walk' process. Very inert price growth rates based on economic agents' price anticipation inertance makes the effect of shocks permanent over a long period of time. However, it impedes a successful antimonopoly policy if there is no high degree of confidence in monetary authorities' intentions.

A so-called transformational decline relating to the transition from the command economy to a market-driven economy was the key factor governing the dynamics of industrial production in Russia late in the 1990s. The decline can be observed in all economies in transition leading to a U-shaped movement pattern of industrial production (and real GDP). Short-term deviations from the trend in a slope of the curve, e.g., due to attempts to "support" production through money emission, were followed by further decline. One may say that the transformational decline began to slow down since mid-1994, when market-driven mechanisms began to have an effect on the economic situation. Negative trend in the production dynamics remained the same, whereas the nature of the process changed. The movement became more variable. The minimum point of transformational decline was reached in 1996 and production began to grow as early as in 1997. However, the uptrend was overlapped by a strong, negative market shock and industrial production growth rates resumed negative values in response to drastic deterioration of the foreign economic situation and the global financial crisis in H2 1997 thru H1 1998.

In the post-crisis period, the industrial production pathway resulted from overlap by three real shock which differ in nature: fundamental economic growth followed by transformational decline in response to the development of a new market sector, post-devaluation import-substitution growth and extremely favorable conditions in global markets. To date, the number of monthly observations alone is insufficient to conduct time series stationarity tests, and the question of transitivity or permanence of both the aforementioned and other (economic policy-related) shocks is still open.

Evaluations for time series of Russian stock index correspond to the 'random walk' process, which the financial and financial market theory normally interprets as an argument in favor of the efficient market hypothesis (in a weak form). Such a result would be extremely important for analysis of Russian financial markets, however, knowing the market characteristics (companies' capitalization, principal participants' strategies, number of traded stocks, liquidity, etc.), we can't affirm that the market efficiency has not been rejected.

Primary health care reform: obstacles and prospects

Theoretical and practical results

1. Given the Russian and international experience in primary health care reform, the following should be retained as the guidelines of reforms: create and develop a general practice (family physician) institution, switch to the provision of a major part of primary health care by a standalone or totally independent group or individual general practices. It implies neither abolition of pediatricians, nor shutdown of outpatient clinics, nor unemployment for outpatient medical specialists. Instead, it means the creation of new different opportunities so that they can deliver primary and secondary health care. Outpatient clinics should be gradually transformed into consultancy and diagnostic centers and a system of independent and competing medical practices governed by agreements with a financing party, in-patient facilities and other medical organizations. In doing so, all inherent outpatient advantages, above all, close cooperation between different elements of health care should be retained on a contractual basis only.

2. The need for reform, including its goals and objectives, should reflect not only poor structural efficiency of the existing system, but, above all, provide for higher quality of and equal access to health care. Rules for general practices and their financing should be transparent and comprehensible for the general public and health care professionals.

3. A reform requires changes to be made in its implementation management technologies:

- Transition to general practice requires management programming of medical and technological, and institutional and economic changes, without being restricted, as is currently the case, to medical personnel training and supply of practices;
- Planning towards the creation of a general practice network should be combined with management programming of transformation of outpatient functions;
- changes in volumes, functions, staff composition of outpatient specialists should be a standalone item of management programming;
- Management programming should cover strategies for interaction between health care institutions at different levels involved in reforming and different categories of doctors and patients, as well as methods designed to ease their resistance, compensate costs, create reform allies.

4. The health care delivery framework should be reformed on the basis of the type of a human settlement. It would be more reasonable to create new general practices in addition to the existing outpatient network in rural areas or some urban residential areas located far away from outpatient clinics. The scheme of creating these practices should differ largely from the procedure for creating medical practices on the basis of outpatient clinics. It would be reasonable to create such practices as independent economic agents on the basis of private or municipal property. A stagewise reform of outpatient clinics and creation of general practices should be envisaged for urban areas.

5. Creating economic incentives so that medical institutions and personnel can operate in a new environment is the key economic condition of a successful reform in the primary health care. To strengthen the preventive care component of the primary health care, it would be reasonable to use a method of financial budgeting of its activity with the use of per capita standard per contractual patient, whereas the Pension Fund and the Ministry of Health and Social Development of Russia have recently been promoting the introduction of visit based payment for outpatient medical treatment, thereby discouraging the development of preventive care and general practices.

So that a general practitioner may assume a real responsibility for the health of patients he/she is assigned to, he/she should be provided with tools enabling him/her to influence medical assistance for the patients at other stages of health care. Funds-holding at primary health care institutions is the best mechanism for this. The threat that general practitioners might be encouraged to apply unreasonably less for ambulance and outpatient services can be effectively mitigated by adequately selected family practice financing mechanisms and the development of state and professional control over their work.

6. The reform should allow for stagewise transformation of outpatient clinics and the development of general practice institutions by a degree of independence of these practices, by introduced mechanisms of their financing, by regional groups which differ in maturity of health care management and financing systems.

Analysis of effectiveness of public financing of federal health care institutions

The project was intended to study the structure of earnings and expenses of federal health care institutions subordinate to different government departments.

Theoretical results

The structure of earnings and expenses of federal health care institutions subordinate to different government departments, in particular federal clinics subordinate to the Ministry of Health and Social Development was analyzed as part of the project. In addition, scientific analysis of innovations introduced by the Ministry of Health and Social Development into the financing mechanism of federal clinics in the years 2004 thru 2006 was made.

As part of the project, recommendations were developed on how to enhance the effectiveness of utilization of federal budget funds allocated to federal health care institutions, including the transition to a single-channel public financing of federal health care institutions' clinical affairs on the basis of tariffs payable for completed medical treatment cases; establishing explicit obligations of federal clinics to the budget administrator; delivering medical services within agreed scope of services; introducing joint planning procedures for the Ministry of Heath of Russia and health care institutions of the constituent territories of the Russian Federation; delivering high-tech types of health care; changing the legal status of federal medical institutions, etc.

Practical results

The conclusions and recommendations of the research project were considered and supported by the Heads of Development & Economic Department under the Ministry of Health and Social Development and Social & Scientific Department under the Ministry of Finance of Russia.

Alternative sources of agricultural employment

Theoretical results

Growth in labor productivity in the agricultural sector leads to lower demand for agricultural labor in general and growth in the demand for skilled labor force. Therefore, technical advancement in rural areas has been creating a group of marginal workers non-marketable in the existing rural labor market, whereby creating a basis for steady rural poverty.

There is close relationship between the effectiveness of agricultural production and rural poverty in economies in transition.

Generally speaking, this problem can be covered by three strict strategies, namely (1) growth in agricultural employment earnings of rural population, (2) growth in non-agricultural employment earnings, and (3) rural population migration to urban areas. The first strategy assumes that the demand for agricultural products grows at rates which outstrip the growth in labor productivity in the agricultural sector. Under the Engel's law, the foregoing strategies can be implemented through agricultural protectionist practices, protection of the domestic market from imported products and maximum possible promotion of domestic products in global markets, as well as all kinds of support to labor intensive technologies in the agricultural sector. Rural population migration to urban areas would lead to depopulation of rural areas, loss of control over vast territories of the country, irrational overurbanization, loss of a part of the national culture which relates to the rural way of life, and many other undesired effects. In addition, if rural population fails to be competitive (that is quite possible) in the urban labor market, it would move rural poverty to urban areas. When developed countries faced a drastic growth in agricultural labor productivity they eventually came to a conclusion that an alternative agricultural employment should be created as optimal strategy to cope with surplus agricultural labor.

Agricultural production is no longer the principal source of employment for rural population in modern Russia. Agricultural employment covered more than a half of the employable rural population early in the 1990s, whereas the census in 2002 showed that it covered only one third of the employed. It is not only agriculture that has been ceasing to be the core economic activity in rural areas, but also any labor activity rather than personal subsidiary economies has becoming a marginal source of income for rural population. Quantitatively, agricultural employment comprises employment in three sectors, namely agricultural organizations, private farms, and personal subsidiary economies (provided that it is a core employment in sales of products). It is only employment in private farms which simply didn't exist prior to the reform, as well as personal subsidiary economies that were growing in the period of reforms.

Should labor productivity be measured as the ratio of gross output to total workers involved in the agricultural sector production, Russia would be outstripped in this indicator by the principal CEE countries going through the same process of transformation. Over a decade of reforms most CEE countries showed more rapid reduction in agricultural employment against decline in production volumes, whereas Russia showed the opposite dynamics.

A visible positive gap was revealed through comparison of labor's marginal product with wages in the agricultural sector. If we ignore potentially incorrect assessments and consider that the rural labor market is not monopolized, the gap may mean one of the two options: the agricultural sector is underemployed, or nominal wages fail to reflect labor costs for employers in the agricultural sector. Since empiric analysis shows that the agricultural sector is overemployed rather than underemployed, one may say that the cost of labor force for rural employers is much higher than wages including contributions (according to assessments, the difference is larger for rural areas rather than the economy at large, not least because labor force surplus has to be kept at enterprises or social peace maintained in rural areas).

In addition, in many cases, agricultural enterprises are the sole employer in rural areas. Therefore, as a monopsonic agent they might pay less vs. equilibrium wage. Remoteness of rural settlements from urban labor markets, transport infrastructure immaturity, and, most importantly, poor quality of rural labor discourage competition among workers thereby creating monopsony in labor supply at agricultural enterprises.

Follow-up studies are needed to determine how strong is the effect that monopoly and high labor costs have on the difference in labor's marginal product and wages. Whatever the reasons for the difference, it is obvious that the lack of alternative employment in rural areas is a key reason for low wages in the agricultural sector, low living standards in rural areas, and poor labor productivity in the agricultural production.

In the world literature *off-farm employment* means any person's employment other than at his/her own farm. Various definitions in the literature are generally reduced to whether or not off-farm employment is to cover employment in the agricultural sector other than at the farm, as well as whether or not such types of economic activity as fishing and hunting are to be referred to agricultural activity.

Two groups of factors which have an effect on non-agricultural employment, namely the need and demand factors, are described in the literature. The demand factor describes a situation when agricultural sector employees have a beneficial opportunity of non-agricultural employment. The need factor describes a situation when insufficient income in the agricultural sector makes individuals seek for another extra low-paying source in the non-agricultural sector. In other words, there are two types of factors which force rural population to switch to non-agricultural types of activity, namely the demand for the results of an activity leads to an income growth which exceeds the income generated from agricultural activity, or individuals in need seek for potentially extra sources of income.

For Russia, like for most other post-socialist countries, alternative employment should be defined in different terms. What is the difference?

First, unlike other countries, hired labor prevails over family farm labor in rural areas of post-communist countries. Hired employment on a farm is alternative employment in a classic agricultural sector, not in a post-collective farming environment: in response to a fall in wages or layoff at an agricultural enterprise, workers in most cases (as illustrated above in a Russian case) have to run their own (personal subsidiary economy or farm) business, produce the same products as the large enterprise does, but at lower level of productivity. In this case, alternative employment is therefore can't be defined as off-farm employment.

Second, personal subsidiary economy is another type of agricultural employment, not an alternative employment. If a worker leaves a large dairy plant and begins to produce milk at his/her own farm, it is not an alternative employment, because the milk is sold in the same

market. Even though the milk is consumed by the worker's family instead of being sold, total demand for milk in a respective market is therefore reduced by a volume of the milk consumed. In this particular case, however, an alternative employment becomes available when the worker begins to produce, say, goat's wool or berries, or fat up fowls or pigs. These products are delivered to the niche market which either existed *a priori* or was established by this production *a posteriori.* Even though this activity is agricultural too, it serves as alternative against that in which overemployment occurred.

Third, not all types of non-agricultural employment in rural areas can be considered as alternative employment. For example, there are certain invariable types of employment, namely employment in social services – health care, education, social agencies, as well as state and municipal administration – in which labor demand doesn't depend (at least directly) upon a situation in the agricultural labor market. Indeed, the demand for these services depends upon population size which depends largely upon the effectiveness of the local economic mainstay, normally an agricultural enterprise. However, these types of employment are very limited in absorbing agricultural overemployment. Therefore, for the purpose of our research these sectors shouldn't be referred to alternative employment.

From all has been said, let's define alternative employment as involvement of employable rural population in non-agricultural types of activity other than social services and state and municipal administration. Indeed, such an employment may be full-time or part-time, primary or extra, formal or informal. As noted above, the key issue in the rural labor market is the need to drastically enhance agricultural productivity without reducing employment and growth in total income in rural areas. Full-time study and formal alternative employment are most essential in the context of this issue.

The social portrait of rural population involved in alternative types of activity was examined as part of the project on the basis of the data of a survey of 892 respondents held in 8 districts of the Perm Region in 2004. The database was found to be useless for selecting and examining workers involved in formal types of alternative employment (employees or self-employed persons in non-agricultural sectors, except for administration and social services). Anyway, certain results were obtained.

For example, principal types of informal agricultural employment in rural areas were identified: delivering (construction, consumer, part-time farm cultivation) services to fellow villages, hunting and selling of non-wood forestry products (mushrooms, berries, medicinal herbs) and, to a very small extent, letting houses and premises. In addition, hunting for mushrooms and berries has been becoming a more and more formalized type of employment, because a private hunter has appeared in the market who work for large regional and national companies specializing in processing and supplying these products to the domestic and external markets.

Furthermore, it was revealed that persons with high education and agricultural occupations, without full-time education or even part-time job, with low-paid odd jobs, or fully unemployed that were basically involved in these types of activity. This population strata tend to diversify their income sources, may let their land share, and normally have more than one type of alternative employment. Indeed, the studied employment factor is the need rather than demand. This group of rural population consider more than others that lack of money, high taxes, complicated procedures for business registration, stonewall attitude of fellow villages towards them is what basically prevent them from improving their material well-being. Despite such an active survival strategy, this population group earns less than other groups on average.

Thus, the foregoing types of alternative employment in rural areas can help to cope with overemployment in the agricultural sector and other rural industries. To further develop this labor market in rural areas, the national policy should be focused on creating a small and

microcredit framework, changing the paradigm of high education and retraining in rural areas, altering rural population's imaging of this type of employment.

Development of Russian agricultural market in transition

This completed research project was intended to analyze the Russian agri-food market in transition in the context of principal structural changes, evolution of the state's role and functions in the market, as well as propose quantitative methods of measuring these changes (price analysis, analysis of the market margin on certain types of agricultural products).

Theoretical results

Key structural changes in agri-food markets in transition were analyzed as part of the project. Key factors of immaturity of agri-food markets in transition were identified. Qualitative analysis of vertical integration processes in the agri-food sector as adaptive processes to market immaturity was made. The effect of vertical integration on the development of the Russian agri-food markets in the agri-food sector was assessed. Approaches towards quantitative assessment of food market immaturity (analysis of price structure and market margin) were selected.

The following theoretical results were substantiated based on the results of the research project: key factors of immaturity of agri-food markets in transition were identified; the effect of vertical integration on the development of the Russian agri-food markets in the agri-food sector was assessed; approaches towards quantitative assessment of food market immaturity were selected (price analysis, analysis of the market margin on certain types of agricultural products were made).

Practical results

Recommendations on the guidelines of the national policy for regulation of agri-food markets in modern environment were developed and submitted to respective government authorities. Recommendations on the guidelines of the national policy for regulation of agri-food markets in modern environment were developed and submitted to respective government authorities. In particular, proposals on the scope and priorities of state regulation of the markets were made: promoting and creating food market institutions, developing informational support and creating conditions for markets' transparency, enhancing antimonopoly regulation in response to rapid development of vertically integrated holdings in the food sector over the past few years, streamlining statistical accounting. In addition, recommendations on foreign trade regulation of product-specific markets were prepared.

Russian economy deregulation: overregulation reproduction mechanism and institutional support to competition in commodity markets, and public servants' loyalty

The project was intended to systematically describe principal types of state regulation of the economy both at the federal and regional levels, and reveal their relative significance and interaction, as well as prepare practical recommendations on legislation development.

Theoretical results

A great number of federal and regional regulations were analyzed. A wide spectrum of issues relating to deregulation of the Russian economy was studied. The existing powerful groups of special interests reproduce regulation most often in the areas where reformers work hard to lower administration barriers interfering with business development. This fact underlines the relevance of blocking the overregulation reproduction mechanism; search for approaches towards creation of a mechanism of "counter-regulatory" trends (self-regulation, general public against regulation).

Engaging public servants in participating in groups of interests which oppose economic liberalization is an important aspect of the same issue. Therefore, the development of measures aimed at developing a mechanism of efficient and rapid feedback between economic and social situation and public servants' financial standing and prestige should be highlighted as important aspect.

The following conclusions were substantiated as part of this project: integrated data on the subject-matter in question were introduced into scientific use, the data were analyzed by using an economic theory tool (costs – benefits). Comparative analysis of the administrative and economic regulation reforms in European countries and North America was made with a focus on the role of non-governmental institutions. Cases of legal innovations in the history of Russian reforms (ranked by the amount of costs on the protection of rights which were actually established for concerned persons after a regulation was introduced) were analyzed.

Practical results

A concept of legal acts blocking state control reproduction mechanisms and encouraging the solution of bounded rationality issues (consumer's high costs for reliable information in economies in transition) and information asymmetry through civil and private (including business) initiatives was developed as part of the research project. Recommendations on the enhancement of the legal framework which regulates civil servants' activities, professional qualification and financial remuneration and provides their effective interaction with individuals and private businesses were prepared.

Providing efficient mechanisms to support innovative activities in the Russian economy

Theoretical results

A classification of the currently existing infrastructure of innovative activities in the field of technological innovations was proposed, and its financial, technological and HR components described as part of the project.

Comprehensive analysis of the level of innovative activities, types and sources of financing of innovative activities was made on the basis of statistical reports' data and sampling sociological studies, as well as key stimulating and constraining factors were revealed.

Components of innovative activities in which key innovative participants are facing many – informational, financial, HR, administrative – problems were identified.

The national policy for the promotion of innovative activities over the past decade was analyzed, principal mechanisms and forms of state participation were classified. The national policy's potential was measured in terms of resolving the issues faced by the key innovative participants.

Practical results

High-potential forms of state support to innovative activities were identified. The relevance of further development of competitive project financing and support for the establishment of innovative and industrial systems on the basis of matched funding was substantiated.

A list of guidelines of the national policy for the promotion and development of innovative activities in the short- and mid-term was offered.

Mechanisms of public financing of science in Russia

Theoretical results

The project was intended to analyze and classify key tools and guidelines (priorities) of public financing of science in Russia, compare them with international practice, as well as develop recommendations on optimization of public financing of science. The issue of identifying mechanisms of efficient public financing of science is relevant for Russia. First, public financing remains the principal source of financing of science, accounting for more than 60% of total domestic R&D spending. Second, unprecedentedly high growth rates in amounts of public financing of science over the past three years have not led to anticipated growth in returns from research and development. Therefore, the problem is not only the amount, but also the mechanisms of budget allocations.

Such tools as basic public financing, financing as part of federal special scientific and research programs, financing with state scientific funds were examined. These mechanisms are considered in terms of being efficiently used and applicable for the solution of specific tasks. The novelty of this project research is that it relies on a series of unique empirical data collected by the author in the period of 2002 thru 2005. The empirical section of the research includes sample interviews of the heads of research organizations, two state research foundations (Russian Foundation for Basic Research and Russian Humanitarian Science Foundation), members of research councils as part of the "Research and Development of Guidelines for Scientific and Technical Development" federal special research and technology program, as well as the results of interviews with grantees of public research funds.

The research shows that it is currently impossible to clearly identify a share of state budget funds allocated as part of the basic public financing of state-funded research institutions. Therefore, it is extremely difficult to make valid managerial decisions on optimization of the network of research organizations. Sampling analysis shows that state-funded scientific and research institutions lack 35 to 80% of public financing. Furthermore, public financing doesn't cover some costs required to support such institutions. Under the circumstances, basic public financing should be optimized together with organizational changes in the Russian scientific and research sector to first of all shrink the oversized public scientific and research sector which no longer meets the needs and capability of this country. It was shown that the method of performance-based financing of research organizations through competitive allocation of 20-30% basic state budget funds should be used more extensively in planning of basic public financing. Such an approach would allow rewarding of best-performed organizations and supporting the framework at different research institutions, thereby creating conditions for their development.

Analysis of the MBR method of financing of R&D revealed the difference of between the Russian system of selection & implementation of priorities and the international practice, indentified issues and outlined potential options for their solution. The research shows that a list of critical technologies is basically based on technological development objectives as well as national security and defensive capacity. Such an approach towards selecting of critical technologies was typical of largest economies in the period when there was no such concept as national innovative system, and science was considered as a standalone sector.

Government agencies poorly coordinate with each other in implementing programs designed to follow the guidelines of the development of science and technology and related critical technologies. In cases when they do coordinate (normally, when programs are developed), such coordination is complicated, protracted and not followed up. Both the establishment of interdepartmental relations and more active involvement of the business community in selecting the contents and amount of financing of federal special programs look promising. In addition, a mechanism of contracting small firms to perform a part of R&D

might be introduced as precondition for financing large companies, thereby encouraging relations between science and production through a small innovative entrepreneurship sector.

So far, first attempts of close interaction with businesses has been made only as part of major national innovative projects (megaprojects), i.e. pilot projects designed to develop a public financing scheme with the use of the public-private partnership tool. Given a certain success, megaprojects can become a more effective tool of utilization of state budget funds, provided that financing would be allocated by private businesses, not research organizations, through outsourcing R&D to research organizations. This scheme would make it easier to achieve balance between the private business' demand for R&D and R&D supply by public research organizations.

Analysis of development trends in grant financing by state scientific foundations in Russia revealed that foundations' ideology and values differ largely from those inherent in the basic and budget financing. Grant financing draws on freedom of scientific creativity, equal and non-hierarchical assess to state budget resources. This predetermines the advantages and efficiency limits of both the grant system and research foundations which use the grant system. Therefore, foundations should coexist with other types of financing of science.

Foundations have advantages as financial institutions, namely they allow identification of and support for most significant and top-priority research, facilitate multi-disciplinary, interdepartmental and interregional cooperation, promote obtained results to general public. Furthermore, they constitute a form of acknowledgement of achievements of researchers and research teams.

However, foundations can't be a universal mechanism of financing of R&D and, of course, are limited in their effectiveness, since they are not intended to systemically support the scientific infrastructure, can't recover the HR structure and succession, whereas they facilitate its enhancement. Finally, the grant system allows detection of HR ballast in science, but can't automatically eliminate HR disproportions.

State research foundations can further be developed through changes in their legal status and by simultaneous defining grants as type of a deal, enhancing foundations' capabilities of financing joint projects, *inter alia* through public-private partnerships, by permitting foundations to finance fundamental research in general, i.e. projects which end up providing a report on technical and economic feasibility of further research work.

Finally, a list of recommendations on optimization of the system of public financing of science was provided. In particular, it was suggested to improve transparency of processes and mechanisms of allocation of state budget funds for science. It was recommended to create conditions for competition for resources in allocating public financing, and methods of integration of the competition mechanism into the existing forms of public financing were proposed.

Optimizing budget expenditures on state administration and local self-government

Theoretical results

This issue is vital for Russia, where the state as the principal tool of socio-economic reforms has been poorly covered by reforms and still remains an outdated Soviet body. This is a key obstacle for creating an efficient economy and civil society. Civil service should be upgraded by making the state devote itself to the cause of the society, focusing on satisfying specific social needs. Retargeting of the financing system from financing of government bodies to result-based financing of functions should become a major integral part of state administration reform (modernization) in general and civil service in particular. Changes in the principles of financing should become the principal tool of civil service reconstruction.

Modern methods of planning and performance measurement of public authorities are intended to achieve these goals. In doing so, identifying different types of public authorities by nature of their functions is an important objective which requires different indicators applicable in planning and performance measurement. It refers basically to political administration and regulation functions and public service delivery proper. 'Supporting' (static) and 'developing' (dynamic) functions and related indicators should be differentiated during instrumentalization of goals set at the political level as the basis for the development of a system of indicators for planning and performance measurement. The former relate to the need for supporting (achievements of) certain socially normal (acceptable) levels or provision of services, whereas the latter relates to the development of certain social life domains. Creating a system of indicators and their measurement to prevent misrepresentation of information and 'pseudo-activity' of government bodies is not less important issue and objective. Functional differentiation of public authorities and a system of indicators is a necessary precondition for the application of modern methods of result-based budget management, and performance management.

Practical results

The research reveals that the issue of required transparency in the financing of state administration costs – a share of actual state administration costs recognized in other budget lines – still remains to be tackled. Financing of government bodies with extrabudgetary sources of financing have not yet been eliminated completely. The structure of costs in the 'State administration and local self-government' budget line is immature. 'Salaries' (remuneration of labor) based on the limits established by the Ministry of Finance of Russia accounts for most of the expenditures. 'Administration costs' (tangible costs) are based on the existing amounts and chronically underfinanced.

The recommendations developed on the basis of the analysis are aimed at making civil service organization more flexible and giving more liberty to the heads of government bodies to utilize state budget funds, provided that they assume more responsibility for their performance.

II. Advisory services to federal legislative and executive authorities

Politico-economic analysis and delivery of advisory services to government agencies and top government officials is an important activity in making economic policy analysis. This activity is focused on express testing aimed at providing government agencies with high-quality analytical materials and latest information about economic policy in progress. Leading specialists of Gaidar Institute delivered advisory services to the Russian Government on topical issues concerning the economy and institutional reform. Over seven years since the onset of the project Gaidar Institute's specialists have prepared and submitted more than 370 analytical materials and notes concerning the principal areas of research carried out in Gaidar Institute. The following areas of research are worth noting.

1. *Macroeconomics and fiscal policy, fiscal federalism*

This area of research is focused on macroeconomic stabilization. Gaidar Institute's specialists carried out the research and prepared proposals concerning expenditures and budget analysis on an annual basis. Special emphasis was placed on the development and alternative scenarios for better understanding of fiscal decisions. Participation in preparing a federal budget draft law is an important part of the work performed by Gaidar Institute.

Special emphasis should be placed on a substantial contribution that Gaidar Institute's experts made in computing the allocation of subsidies for minimum fiscal capacity equalization (as part of the Fund for Financial Support of the Regions), as well as substantiating allocations of subventions for public benefits to citizens with children (subventions from the Equalization Fund). In its planning the Ministry of Finance of Russia

used our estimates for different options of substitution of shortfalls in budget revenues after the tax on motor road users was abolished.

Gaidar Institute's specialists were actively involved in the discussion of the issues concerning further development of the structure and financing of federal expenditure mandates and public minimal social standards, and made proposals on how to enhance the local self-government framework and budget system at the level of constituent territories of the Russian Federation, budget status of autonomous areas within a region.

Gaidar Institute is the principal developer of the Stabilization Fund concept. Gaidar Institute's theoretical and empirical research substantiated the mechanism of establishment of the Stabilization Fund. A draft federal law "On the Amendments and Restatements to the Budget Code of the Russian Federation" which regulates the mechanism of establishment and operation of the Stabilization Fund was a very important practical result. The draft law provided the basis for the Russian Government, Ministry of Finance and Ministry of Economic Development and Trade proposals to establish the Stabilization Fund in the Russian Federation (the proposals are being under consideration at the State Duma of the Russian Federation).

2. *Fiscal and monetary policy*

Gaidar Institute studied the entire aspect of tax reform though microeconomic analysis. Through its research Gaidar Institute provided comments on tax reform options and made special practical proposals. In particular, a flat-rate income tax schedule was approved; the currently effective Chapter (Value Added Tax) of the Tax Code contains a great deal of Gaidar Institute's proposals, namely the VAT composition and exemption procedure, tax base evaluation procedure, tax exemption procedure, excise warehouses were introduced, the system of excise taxation of combustibles and lubricants were restructured, basic turnover taxes were abolished, integration of contributions to social extrabudgetary funds into a single social tax was approved.

In addition, Gaidar Institute developed changes in the list of services eligible to privileged VAT regime, lower VAT rate, assessment of the effect of VAT allowances, assessment of fiscal effects of sales tax abolition, and proposals on compensation for shortfalls in revenues.

Gaidar Institute's specialists prepared recommendations concerning analysis of different approaches towards depreciation in corporate profit taxation, integration of income taxation and corporate profit taxation, deductions for defining a profit tax base. Moreover, recommendations on the application of market prices to assess this tax were written.

Gaidar Institute made analysis of the issues concerning real estate taxation, namely allocation of real estate tax revenues among budget tiers, integration of the individual property tax, corporate property tax, land tax into a single real property tax.

Gaidar Institute's specialists were involved in analysis of taxation of personal income from securities and abolition of turnover taxes and different options of compensation for shortfalls in revenues.

Tax reform in the mineral resources sector was an important segment of Gaidar Institute's research. Gaidar Institute's proposals and recommendations were aimed at enhancing the effectiveness of the taxation system in the mineral resources sector, increasing federal budget tax revenues, and creating favorable conditions for investments. Gaidar Institute prepared and substantiated conceptual proposals for tax reform in the mineral resources sector, being incorporated into Chapter 26 (Mineral Tax) of the Tax Code of the Russian Federation, as well as supplements and amendments to other legal acts. The main result of the work performed was a new tax (mineral tax) introduced into the Russian taxation system on January 1, 2002, whereby replacing the tree previous charges, namely royalty, mineral replacement tax, and oil excise. In addition, a specific oil tax rate adjustable to global

crude oil prices and ruble exchange rate which was introduced for a period of 2004 thru 2007, was a key result. The introduction of mineral tax simplified and harmonized the tax system with the international practice. The specific oil tax rate mitigated the adverse fiscal effect of transfer pricing.

3. *Corporate governance*

Gaidar Institute has made a substantial contribution in the development of recommendations on the enhancement of the corporate governance model and protection of the rights of shareholders and investors in Russia. Applied recommendations and amendments to legal acts were prepared in addition to empirical studies of the ownership structure, corporate governance and enterprises' financial behavior. Recommendations and amendments proposed by Gaidar Institute's researchers were incorporated into refined draft laws and final texts of federal laws, namely the federal law "On Joint-Stock Companies", a new federal law "On Insolvency (Bankruptcy)", a new federal law "On Privatization", amendments to the Civil Code of the Russian Federation concerning statute of limitations for privatization transactions, recommendations for a draft law "On Reorganization of Business Organizations", recommendations on the regulation of mergers and acquisitions, conceptual and applied recommendations on the enforcement in protecting shareholder rights, etc.

Furthermore, it should be noted that Gaidar Institute has made its contribution in the development of state-owned property management in the corporate sector and corporate governance at mixed-ownership enterprises. Recommendations on the creation of a system of public control over utilization and disposal of state-owned property in the corporate sector and assessment of Russian Government's specific measures in this field, including proposals on updating the existing legal framework and introduction of new tools designed to support state interests in mixed-ownership enterprises are most useful for practical application. They represent a considerable interest and can be used by federal authorities for maintaining relations with market participants, enterprises and regions.

Gaidar Institute's researchers cooperate with the Corporate Governance Task Team and the Committee for Property of the State Duma of the Federal Assembly of the Russian Federation, Ministry of Economic Development and Trade, Ministry of Property Relations, Chamber of Commerce and Industry of Russia, etc. Gaidar Institute's USAID-supported research allowed it not only to develop required amendments to the legislation, but also provide concerned government agencies with Gaidar Institute's analytical materials and publications on a regular basis. In addition, it should be noted that the research has an educational effect (both in terms of introduction of a considerable volume of new (for Russia) research into scientific use and the existing demand for respective Gaidar Institute's publications).

4. *Reforms in agricultural sector*

Gaidar Institute's specialists were involved in the development of a Government's draft law on agricultural land transactions, a concept of subsidies for agricultural loans. Jointly with the Ministry of Agriculture of Russia, Gaidar Institute was involved in the development of a Russian grain market regulation concept. Guaranteed minimum prices for grain interventions were estimated and prepared for the Prime Minister of Russia. Jointly with the Perm Region administration, Gaidar Institute developed a Program of Agricultural Sector Development in the Perm Region in 2002-2006. Draft federal laws "On the Amendments to the Federal Law", "On the Amendments and Restatements to Part 2 of the Tax Code of the Russian Federation and other Legal Acts on Taxes and Levies of the Russian Federation" were developed for the Ministry of Agriculture of Russia. Introduction and proposals for the concept of a draft federal special program for "Social Development in Rural Areas Through to 2010" were written for the Ministry of Economic Development and Trade. Proposals on the regulation of tariffs of imports of apple concentrates were prepared for the Ministry of Economic Development and Trade.

Gaidar Institute's specialists submitted analytical materials and notes to executive authorities such as the Council of Federation (Committee for Financial Markets and Money Circulation, Committee for Agri-food Policy), State Duma of the Russian Federation (Committee for Property, Committee for Economic Policy and Entrepreneurship, Committee for Local Self-Government), Moscow Duma. Gaidar Institute's specialists submitted analytical materials to federal executive bodies such as Russia's Government, Ministry of Economic Development and Trade, Ministry of Finance, Ministry for Taxes and Levies of Russia. Gaidar Institute's specialists responded to requests from the Central Bank of Russia, RAO UES of Russia as part of the project.

5. *Taxation in mineral resources sector*

Tax reform in the mineral resources sector was an important segment of Gaidar Institute's research. Gaidar Institute's proposals and recommendations were aimed at enhancing the effectiveness of the taxation system in the mineral resources sector, increasing federal budget tax revenues, and creating favorable conditions for investments. Gaidar Institute prepared and substantiated conceptual proposals for tax reform in the mineral resources sector which were incorporated into Chapter 26 (Mineral tax) of the Tax Code of the Russian Federation, as well as supplements and amendments to other legal acts. The main result of the work performed was a new tax (mineral tax) introduced into the Russian taxation system on January 1, 2002, thereby replacing the tree previous charges, namely royalty, mineral replacement tax, and oil excise. In addition, a specific oil tax rate adjustable to global crude oil prices and ruble exchange rate which was introduced for a period of 2004 thru 2007, was a key result. The introduction of mineral tax simplified and harmonized the tax system with the international practice. The specific oil tax rate mitigated the adverse fiscal effect of transfer pricing.

Adoption of the amendments to the Budget Code of the Russian Federation which provide for radical reallocation of mineral tax payments to the federal budget was an important result. Under the previously applicable law, 40% of royalty for crude hydrocarbons was paid to the federal budget against 20% for crude hydrocarbons produced on the territory of the autonomous area within a region or territory (krai) (80% was paid to local budgets). Since 2002, 80% of mineral tax is to be paid to the federal budget for crude hydrocarbons vs. 74.5% for crude hydrocarbons produced on the territory of the autonomous area within a region or territory.

As part of the work performed for tax reform in the mineral resources sector, Gaidar Institute prepared its proposals on further development of the taxation system for production sharing agreements (PSAs). In particular, the proposals provide for legal regulation of royalty rate for PSAs, retaining the existing limits on the PSA regime at 30% of explored mineral reserves, as well as compulsory requirements to use home equipment, materials and domestic human resources under PSAs (70% for home equipment and materials and 80% for staff size).

Gaidar Institute substantiated the guidelines for further reforming the system of taxation in the mineral resources sector: transition to the application of market prices of mineral raw materials for the purpose of tax assessment; enhancing flexibility of the mineral tax collection mechanism; developing and adopting a respective legal framework for the application of tax allowances for depleted and challenged reserves; introducing a tax on extra income from greenfield hydrocarbon production, instead of a part of mineral tax; establishing a special tax regime for production sharing agreements.

The main result of advisory services is that Gaidar Institute has increased its role as economic policy advisor.

As part of the advisory services delivered, Gaidar Institute has prepared conclusions, proposals and recommendations for the Ministry of Finance of Russia (**a total of 91)**, Ministry of Economic Development and Trade of Russia (**a total of 66)**, Russian Government

(**a total of 23),** Ministry of Natural Resources and Environment of Russia, State Duma of the Federal Assembly of the Russian Federation.

III. International scientific conferences

The results of Gaidar Institute's economic research were considered at nine international conferences hosted by Gaidar Institute. A list of conferences prepared and hosted by Gaidar Institute is presented in **Attachment 3.**

Well-known economists made reports at international conferences: Anne O. Krueger, a professor at Stanford University; Arnold C. Harberger, a professor at University of California, Los Angeles; Anders Aslund, a leading officer at the Carnegie Endowment for International Peace, Washington; Robert Conrad, a professor at Duke University; Laurence J. Kotlikof, a Professor of Economics at Boston University; Robert Mundell, a Professor of Economics at Columbia University, New York, a Nobel Prize winner in 1999; William Esterly, a senior expert at Center for Global Development and Institute for International Economics; Barry Eichengreen, a Professor of Economics and Political Science at University of California, Berkeley; Thorvaldur Gylfason, a Professor of Economics Department of Economics at University of Iceland; Leon Aron, a senior expert at American Enterprise Institute, Washington, and others.

All of the conferences were basically intended to learn from the experience of the past period of socio-economic reforms and in some cases develop a national development strategy concept for the coming years. The host's task was to develop specific practical proposals concerning economic policy on the basis of the results obtained at these economic forums.

IV. Gaidar Institute institutional development

Gaidar Institute employs the Cooperation Agreement for the development of its infrastructure to enhance the role of Gaidar Institute both in Russia and other countries. The following activities were conducted for this purpose.

1. Promoting Gaidar Institute in the field of economic policy of Russia requires continuous and substantial updates in the concept and contents of Gaidar Institute's official website – **www.iet.ru**. Materials written by Gaidar Institute's experts have been available on a new version of Gaidar Institute's official website since January 2001. All Gaidar Institute's publications are posted here at the time or even before they are published anywhere else. Being aware of that computerization is still being in progress in Russia, and access to latest professional information is complicated due to the lack of dissemination infrastructure, the Board of Directors of Gaidar Institute made two critical decisions. First, all posted publications are available for free, second, a simple internal code allows navigation by using low-grade hardware and software.

All Gaidar Institute's periodical publications are available on the website, including monthly journals such as *Russian Economy: Trends and Prospects*, *Industrial Business Surveys*, as well as *Research Works*, publications as part of Gaidar Institute's special projects (including research works under the USAID program), our specialists' reports made in mass media, published in Russian and foreign journals.

Not only does Gaidar Institute's domain publish research results of Gaidar Institute's researchers, but also has been acknowledged as a forum for leading economists from other

countries. Full reports made by world renowned scientists and researchers at international conferences and articles of Nobel Prize winners in economics are available here. Representatives of the World Bank, International Monetary Fund and our colleagues from Russia, Belarus, France, Canada, Great Britain, Sweden and other countries are always welcome to our website to share their views. No less important scientific and informational resources such as the *Center for Legislative and Parliamentary Work* and the *Analytical Center for Agri-food Economy* are available in the Internet under the auspices of Gaidar Institute. Furthermore, Gaidar Institute provides its server space for third-party research organizations such as the *Military Economy and Finance Academy*.

Such an array of economic information attracts a huge professional audience interested in latest statistics, representatives of social and political organizations, students. The website has search engines designed for better navigation. Hundreds of search requests are made daily on the website 5000 pages, thereby showing a great variety of interests of our visitors. We value our unique audience, and visitors may communicate with each other through our forum and guestbook.

Scientific communication can't be anonymous. Gaidar Institute's specialists support their personal pages containing information sorted by interest, personal data, recent publications, as well as communicate with them, in particular with the Director of the Institute: there is an archive of interviews at his personal page, one may get to know his point of view on different issues.

Since foreign research and governmental centers account for one fourth of our visitors, not only do we translate into Russian publications our guests, but we also support an English version of the website, thereby being a unique source of information on the Russian economy. The diagrams show that Russia accounts for the most (70%) of our website visitors, whereas the United States and Canada for 7%, Ukraine for 6%, and CIS and non-CIS countries for the rest. Of course, Moscow (one third of visitors) and St. Petersburg (6%) are leading within Russia. However, a more detailed analysis shows that visitors from all Russian regions search for a special information on our website.

The following statistics are sufficient for the comparison of Gaidar Institute's web pages with other sources of economic information: we have continuously been ranked in the top-10 popular Russian 'Science' web resources and always in the top-3 most popular economic web resources. www.iet.ru is ranked in the top-3 most cited economic web resources in Runet and almost always in the top-10 when users search for Russian economic information through foreign search engines. We are cooperating with the leading economic resources such as AK&M Information Agency, student portals (AllBest.ru), and research institutes (Groupe Transition and Development). We are always open for any suggestions concerning joint development of economic web resources and would appreciate any comments and suggestions to this address **webmaster@iet.ru**.

2. **Editorial team**

Lots of research papers written by Gaidar Institute's specialists are posted on the official website, including three periodic publications, namely *Russian Economy,* an annual review, *Trends and Prospects* since 1991, *Russian Economy,* monthly reviews since 1993, semi-annual *Bulletin of the Institute for the Economy in Transition* since 1999. Ten to fifteen research papers written by Gaidar Institute's researchers are published annually as part of *Research Works* series. Printed publications are delivered to the Russian Government and Presidential Administration, State Duma, central libraries in Russia, as well as libraries of well-known economic institutes, above all, those who share the Gaidar Institute ideology. Recently, Gaidar Institute's managers have made a decision to reinforce its editorial-and-publishing division: an editorial office is to be established and extra personnel recruited in order to enhance the quality of publications in terms of contents and design. We plan to

increase circulation of published reports and disseminate them (the delivery list remains unchanged) through book stores (warehouses) in order to promote Gaidar Institute and its views on transformation reforms, as well as show its theoretical and practical contribution in the implementation of the economic policy. The design of publications is to be improved.

3. **Gaidar Institute Post-Graduate Division**

The Gaidar Institute Post-Graduate Division was established in 1998: **08 00 01 'Economic Theory'** specialization course and **08 00 05 'Economics and National Economy Management'** specialization course.

Post-graduation entry exams are held annually for persons with higher education. The Post-Graduate Division provides both full- and part-time education. Full-time and part-time education lasts 3 and 4 years respectively. Both full-time and part-time education are based on the same training program.

Gaidar Institute Post-Graduate Division advantages:

Post-Graduate Division offers a modern economic education based on the cutting-edge achievements in economics in the world.

PG students may be involved in the creative work of Gaidar Institute's team, studying theory and participating in solving topical issues of business environment.

Post-Graduate Division has highly-qualified professors and training staff. Furthermore, leading specialists of domestic and foreign partner-organizations, including leading professors from Universities in Europe and USA, are engaged to teach on a regular basis.

In addition to the macro- and microeconomics, each specialization course offers extra disciplines, namely econometrics and mathematics which are taught by top specialists.

Those who are not fluent in English may take English courses within four semesters (twice a week, teachers from the Department of English at Moscow State University (MSU));

A special program for advanced learners, including "Business English", is available for those who are fluent in English.

Leading professors of the Philosophy Department at MGIMO University teach philosophy.

Post-graduation entry exams for all disciplines take place at Gaidar Institute.

Post-Graduate Division's physical infrastructure is equipped with modern equipment, a PC room, library of modern economic literature.

At present, Post-Graduate Division has 29 PG students, of which 28 are full-time. One person is assigned as a candidate for post-graduation entry exams and PhD defense. One candidate passed his PhD defense at the Gaidar Institute Thesis Board.

First year: 16 PG full-time students. 080001 'Economic Theory' Specialization course – 6 PG students, 080005 'Economics and National Economy Management' specialization course – 10 PG students.

Second year: 8 PG full-time students. 080001 'Economic Theory' specialization course – 6 PG students, 080005 'Economics and National Economy Management' specialization course – 2 PG students.

Third year: 4 PG students. 080001 'Economic Theory' specialization course – 2 PG students, 080005 'Economics and National Economy Management' specialization course – 2 PG students.

Post-Graduate Division's Training Department.

Training department is designed for those who want to improve their skills and receive a modern postgraduate economic education, but don't intend to write a PhD thesis or qualify for PhD. Training Department can serve as preliminary training for post-graduation entry

exams. The training program and disciplines are the same as at Post-Graduate Division. Like PG students, trainees have to pass tests and exams and may be qualified for post-graduation entry exams based on the marks they score in the exams.

The training course lasts 1 to 3 years. Training Department graduates receive a certificate of training course completion at Gaidar Institute Post-Graduate Division.

V. Project organization

Gaidar Institute's staff provide general steering and management of the project. The Project Office is located at Gaidar Institute. Compliance procedures have been developing on an ongoing basis. Gaidar Institute's administration and accounting office have been developing the financial transparency system on an ongoing basis. RTF-Audit LLC performs audits at Gaidar Institute. The audits of 2004-2006 proved proper utilization of grant funds. The existing project manager system remains unchanged. The project is managed by members of Gaidar Institute's administration, a representative from USAID Moscow Office, and a foreign advisor. The Gaidar Institute Steering Council is represented by Doctor Vladimir Mau, Doctor Sergei Sinelnikov and Doctor Aleksandr Radygin. To implement the project, Gaidar Institute provides its staff members, experts in joint American-Russian research projects on economic policy. Sergei Tagor is the Project Manager.

Attachment 1

Gaidar Institute's research papers written and published as part of the Project for the Promotion and Development of Gaidar Institute for Economic Policy in the years 2000 thru 2011

№147P Синельников-Мурылев С.Г., Дробышевский С.М., Назаров В.С., Соколов И.А. **Эволюция бюджетной политики в России в 2000-х годах: в поисках финансовой устойчивости бюджетной системы страны. 2010** (No. 147R Sinelnikov-Murylev S. G., Drobyshevsky S. M., Nazarov V. S., Sokolov I. A.. **Fiscal policy evolution in Russia in the 2000s: searching for financial stability of the federal budget system.** 2010)

№145P Малинина Т. **Оценка налоговых льгот и освобождений: зарубежный опыт и российская практика**. 2010 (No. 145R Malinina T. **Assessment of tax allowances and exemptions: international and Russian practices**. 2010)

№145P Цухло С. **Методологические основы организации и аналитические возможности конъюнктурных опросов в российской промышленности.** 2010 (No. 145R Tsukhlo S. **Methodological framework of organization and analytical capacity of business surveys in the Russian industrial sector. 2010)**

№144P Трунин П., Князев Д., Кудюкина Е. **Анализ факторов динамики обменного курса рубля.** 2010 (No. 144R Trunin P., Knyazev D., Kudyukina E. **Analysis of ruble exchange rate behavior factors. 2010)**

№143P Кнобель А. Ю. **Закономерности формирования уровня тарифов в международной торговле.** 2010 (No. 143R Knobel A. Y. **Common determinants of tariffs in international trade. 2010)**

№142P Шагайда Н.И. **Оборот сельскохозяйственных земель в России: трансформация институтов и практика.** 2010 (No. 142R Shagaida N. I. **Sale and purchase of agricultural land in Russia: transformation of institutions and practice. 2010)**

№141P Стародубровская И.В., Миронова Н.Н. **Проблемы сельского развития в условиях муниципальной реформы в России**. 2010 (No. 141R Staroduboskaya I.V., Mironova N. N. **Agricultural development issues amidst municipal reform in Russia**. 2010)

№140P Бобылев Ю.Н., Турунцева М. Ю. **Налогообложение минерально-сырьевого сектора экономики.** 2010 (No. 140R Bobyliov Y. N., Turuntseva M.Y. **Taxation in mineral resources sector. 2010)**

№139P Дробышевский С.М., Худько Е.В., Великова Е.Е. **Перспективы создания международного финансового центра в Российской Федерации.** 2010 (No. 139R Drobyshevsky S. M., Khudko E.V., Velikova E.E. **Opportunities and challenges of the establishment of an international financial center in the Russian Federation. 2010)**

№138P Идрисов Г.И. **Факторы спроса на импортные товары инвестиционного назначения в России.** 2010 (No. 138R Idrisov G.I. **The determinants of demand for imported goods for investment purpose in Russia. 2010)**

№137P Идрисова В., Фрейнкман Л. **Анализ влияния федеральных трансфертов на фискальное поведение региональных властей.** 2010 (No. 137R Idrisova V., Freinkman L.. **Analysis of the effect of federal transfers on fiscal behavior of regional authorities. 2010)**

№136P Дробышевский С., Кузьмичева Г., Синельникова Е., Трунин П. Моделирование спроса на деньги в российской экономике в 1999–2008 гг. 2010

(No. 136R Drobyshevsky S., Kuzmitchova G., Sinelnikova E., Trunin P. **Money demand simulation in the Russian economy in 1999–2008. 2010**

№135P Турунцева М., Киблицкая Т. **Качественные свойства различных подходов к прогнозированию социально-экономических показателей РФ**. 2010 (No. 135R Turuntseva M., Kiblitskaya T. **Qualitative characteristics of different approaches towards forecasting socio-economic indicators in the Russian Federation**. 2010)

№134P Казакова М.В., Кнобель А. Ю., Соколов И. **Качество администрирования НДС в странах ОЭСР и России. Реформирование российской системы взимания налога.** 2010 (No. 134R Kazakova M. V., Knobel A. Y., Sokolov I. **The quality of VAT administration in OECD countries and Russia. Tax reform in Russia. 2010)**

№133P Трунин П.В., Князев Д.А., Сатдаров А. М. **Анализ независимости центральных банков РФ, стран СНГ и Восточной Европы.** 2010 (No. 133R Trunin P. V., Knyazev D. A., Satdarov A. M. **Analysis of independence of central banks in Russia, CIS member countries and Eastern Europe. 2010)**

№132P Стародубровская И.В., Миронова Н.Н. **Муниципальная реформа в республиках Южного федерального округа.** 2010 (No. 132R Staroduboskaya I.V., Mironova N. N. **Municipal reform in the republics of the South Federal District. 2010)**

№131P Золотарева А.Б., Киреева А.В., Шаталов С.С. **Правовое регулирование международных сделок с интеллектуальной собственностью.** 2010 (No. 131R Zolotariova A. B., Kireyeva A. B., Shatalov S. S. **Legal regulation of international intellectual property transactions. 2010)**

№130P Дробышевский С.М., Луговой О.В., Астафьева Е.В., Буркова Н.Ю. **Моделирование временной структуры процентных ставок по российским государственным облигациям в 2000–2008 гг.** 2009 (No. 130R Drobyshevsky S. M., Lugovoi O. V., Astafyeva E. V., Burkova N. Y. **Simulation of the term structure of interest rates on Russian government bonds in 2000–2008. 2009)**

№129P Казакова М.В., Синельников-Мурылев С.Г., Кадочников П.А. **Анализ структурной и конъюнктурной составляющих налоговой нагрузки в российской экономике.** 2009 (No. 129R Kazakova M. V., Sinelnikov-Murylev S. G., Kadochnikov P. A. **Analysis of structural and business components of the tax load in the Russian economy. 2009)**

№128P Дробышевский С.М., Наркевич С.С., Пикулина Е.С., Полевой Д.И. **Анализ возможности возникновения «пузыря» на российском рынке недвижимости.** 2009 (No. 128R Drobyshevsky S. M., Narkevich S. S., Pikulina E. S., Polevoi D. I. **Analysis возможности возникновения a 'bubble' in the Russian real estate market. 2009)**

№127P Дробышевский С.М., Трунин П.В., Каменских М.В. **Анализ правил денежно-кредитной политики Банка России в 1999–2007 гг.** 2009 (No. 127R Drobyshevsky S. M., Trunin P. V., Kamenskikh M. V.. **Analysis of the rules of Bank of Russia's monetary policy in 1999–2007. 2009)**

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№ 39P Э. Ватолкин, Е. Любошиц, Е. Хрусталев, В. Цымбал. **Реформа системы комплектования военной организации России рядовым и младшим командным составом.** Под редакцией Е. Гайдара и В. Цымбала. 2002 (No. 39R Vatolkin E., Luyboshits E., Khrustaleva E., Tsymbal V.. **Military recruitment reform of the enlisted military personnel in Russia.** Под редакцией Е. Гайдара и В. Tsymbala. 2002).

№ 38P **Инвестиционная привлекательность регионов: причины различий и экономическая политика государства.** Сборник статей под редакцией В. А. Мау, О. В. Кузнецовой. 2002 (No. 38R **Regions' investment potential: causes of differences and the national economic policy.** Collected works published under the editorship of Mau V. A., Kuznetshova O. V.. 2002).

№ 37P Н. Карлова, И. Кобута, М. Прокопьев, Е. Серова, И. Храмова, О. Шик. **Агропродовольственная политика и международная торговля: российский аспект.** 2001 (No. 37R Karlova N., Kobuta I., Prokopyev M., Serova E., Khramova I., Shik O.. **Agri-food policy and international trade: Russian aspect. 2001)**.

№ 36P А. Д. Радыгин, Р. М. Энтов. **Корпоративное управление и защита прав собственности: эмпирический анализ и актуальные направления реформ.** 2001 (No. 36R Radygin A. D., Entov R. M. **Corporate governance and protection of property rights: empirical analysis and reform guidelines. 2001)**.

№ 35P Ю. Н. Бобылев. **Реформирование налогообложения минерально-сырьевого сектора.** 2001 (No. 35R Bobyliov Y. N.. **Tax reform in the mineral resources sector. 2001)**.

№ 34P **Эконометрический анализ динамических рядов основных макроэкономических показателей.** 2001 (No. 34R **Econometric analysis of times series of key macroeconomic indicators. 2001)**.

№ 33P С. Цухло. **Анализ факторов, определяющих реальное финансово-экономическое состояние российских промышленных предприятий.** 2001 (No. 33R Tsukhlo S. **Analysis determinants of real financial and economic situation in Russian industrial enterprises. 2001)**.

№ 32P С. Жаворонков, В. Мау, Д. Черный, К. Яновский. **Дерегулирование российской экономики.** 2001 (No. 32R Zhavoronkov S., Mau V., Chernyi D., Yanovsky K. **Russian economy deregulation. 2001)**.

№ 31P **Проблемы становления новой институциональной структуры в переходных странах.** Сборник статей. 2001 (No. 31R **Challenges of the devolvement of a new institutional framework in economies in transition.** Collected works. 2001).

№ 30P В. А. Бессонов. **Трансформационный спад и структурные изменения в российском промышленном производстве.** 2001 (No. 30R Bessonov B. A.. **Transformational decline and structural changes in the Russian industrial production. 2001)**.

№ 29P Е. Г. Потапчик, С. К. Салахутдинова, С. В. Шишкин. **Бюджетное финансирование федеральных учреждений здравоохранения.** 2001 (No. 29R Potapchik E. G., Salakhutdinova S. K., Shishkin S. V.. **Public financing of federal health care institutions. 2001)**.

№ 28P **Некоторые проблемы денежно-кредитной политики в переходной экономике.** Сборник статей. 2001 (No. 28R **Specific issues faced by monetary policy in economies in transition.** Collected works. 2001).

№ 27P С. Дробышевский, А. Золотарева, П. Кадочников, С. Синельников. **Перспективы создания Стабилизационного фонда в РФ.** 2001 (No. 27R Drobyshevsky S., Zolotariova A., Kadochnikov P., Sinelnikov S.. **Prospects of the establishment of a stabilization fund in the Russian Federation. 2001)**.

№ 26P **Посткоммунистическая Россия в контексте мирового социально-экономического развития. Материалы международной конференции.** 2001 (No. 26R **Post-communist Russia in the context of global socio-economic development. International conference materials. 2001)**.

Attachment 2

A list of letters of gratitude received in the years 2009 thru 2010.

1. January 20, 2009. Ural Public Administration Academy, a federal educational agency. Zyryanov S. G., Director of the Chelyabinsk Institute under the Ural Public Administration Academy
2. August 24, 2009. Baikal State University of Law and Economics. Director Fyodorova A. L.
3. October 28, 2009. Committee for Economic Policy and Entrepreneurship, State Duma of the Russian Federation. Committee Chairman Fyodorov E. A.
4. February 29, 2010. Baikal State University of Law and Economics. Director Vinokurov M. A.
5. 19.10.2010. Committee for Economic Policy and Entrepreneurship, State Duma of the Russian Federation. Committee Chairman Fyodorov E. A.

Attachment 3

A list of international conferences held as part of the Project for the Promotion and Development of Gaidar Institute for Economic Policy in the years 2000 thru 2010

Post-communist Russia in the context of global socio-economic development. Moscow, December 1 thru 2, 2000.

The role of technical support in economic reforms in Russia: first decade results. Moscow, 11 December 2002

Economic growth: in the post-communist era. Moscow, March 20 thru 21, 2002.

Modern economic growth and strategic prospects of socio-economic development in Russia. Moscow, February 26, 2003.

Socio-economic transformation in CIS member countries: achievements and issues. Moscow, September 13 thru 14, 2004.

Economies in transition in the postindustrial world: challenges of the decade. Moscow, March 20 thru 21, 2006.

Russia 2017: 100 years after the revolution and 25 years since liberal reforms. Moscow, June 15, 2006.

Energy and environment simulation. Moscow, September 13 thru 14 2007.

Socio-economic development in Russia: new frontiers. Moscow, October 26 thru 27, 2007.

Russia and the world: challenges of a new decade. Moscow, January 21 thru 23, 2010.

Gaidar Readings. Moscow, October 13 – December 10, 2010

Gaidar Forum. Russia and the world: searching for an innovation strategy, Moscow, March 16 thru 19, 2011.