

Accountability in Russia

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This policy brief summarizes two recent research papers that are related to obstacles to political accountability in modern Russia and potential ways to overcome these obstacles. The first paper provides a rigorous assessment of the extent of electoral fraud in Moscow city during the parliamentary elections held on December 4, 2011. Using random assignment of independent observers, we estimate the actual share of votes for the incumbent United Russia party to be at least 11 percentage points lower than the official count (35.6 percent instead of 46.5 percent). A less rigorous, but more realistic estimate is 21 percentage points. These results suggest that electoral accountability in Russia is limited. The second paper demonstrates that even in an environment with low electoral accountability and limited freedom of media, alternative accountability mechanisms may emerge. In particular, anti-corruption campaigns in social media may affect the valuation of state-controlled companies, so that market forces put a disciplining effect on the managers of SOEs. We study consequences of blog postings of a popular Russian anti-corruption blogger and shareholder activist Alexei Navalny on the stock prices of state-controlled companies. In an event-study analysis, we find a negative effect of company-related blog postings on both daily abnormal returns and within-day 5-minute returns. We use the incidence of distributed denial-of-services (DDoS) attacks to show that the effect is not driven by the endogenous timing of blog postings. We also show that there are long-term effects of certain types of posts on stock returns, trading volume, and volatility. Overall, our evidence implies that blog postings about corruption in state-controlled companies have a negative causal impact on stock performance of these companies.

To study the extent of electoral fraud we employ data from a large-scale field experiment that allows us to estimate the amount of electoral fraud in the city of Moscow during Russian parliamentary elections in December 2011. In particular, we exploit randomized assignment of independent observers to polling stations. Prior to the parliamentary elections the independent NGO *Citizen Observer (Grajdanin-nabludatel)* trained more than 500 volunteer observers in the city of Moscow. The observers were sent to 156 randomly selected polling stations. The polling stations were selected using a systematic sampling technique. In particular, polling stations were divided by electoral districts. Within each district, polling stations

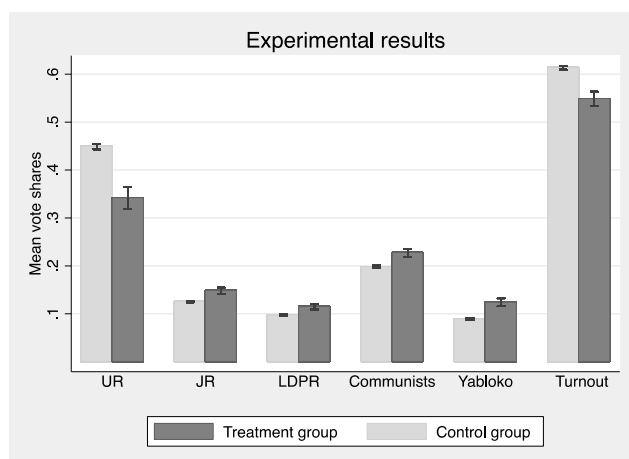
were sorted according to their official number assigned by Central Election Committee. Every 25th polling station within electoral district starting from the 1st was assigned for observation, resulting in a sample of 185 polling stations. The Citizen Observer's network recruited enough observers to cover 156 of the 185 polling stations, which corresponds to 4.9 percent of the 3,164 ordinary polling stations in Moscow.¹ To make

¹ The sample excludes 210 precincts that had a special status, as they were located in hospitals, military units, or pre-trial detention facilities. These polling stations were excluded from the analysis since sending observers there was not always possible, and it was not clear if these polling stations were sufficiently similar to each other to

sure that this procedure does not lead to a biased sample because of some hidden periodicities we check that in the previous parliamentary elections in 2007 polling stations selected using a similar procedure were not different from other polling stations.

Comparison of the share of votes received by different parties and the turnout between polling stations with independent observers from Citizen Observer (treatment group) and without observers (control group) is presented in Figure 1. The results indicate that the presence of observers led to a decrease in the share of votes for *United Russia* of 10.8 percentage points and the turnout at the polling stations with observers was lower by 6.5 percentage points.

Figure 1. Vote Shares in 2011



Notes: The figure is reproduced from Enikolopov, Ruben, Vasily Korovkin, Maria Petrova, Konstantin Sonin, and Alexei Zakharov (forthcoming) “*Electoral Fraud in Russian Parliamentary Elections in December 2011: Evidence from a Field Experiment.*” Proceedings of the National Academy of Sciences.

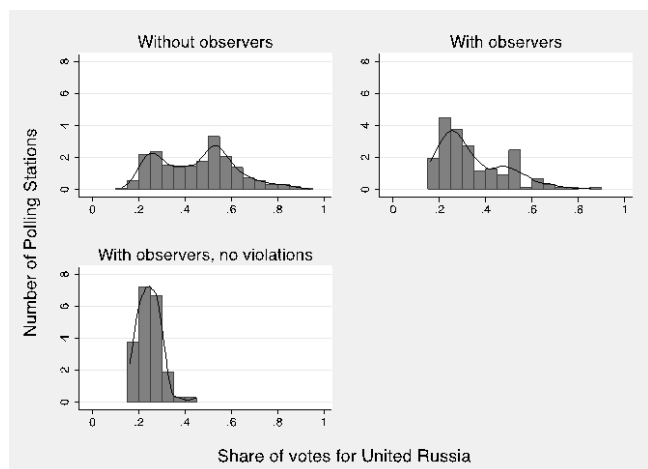
The above results are likely to provide a lower bound on the extent of the electoral fraud, since the presence of observers at the polling stations did not fully prevent fraud. To provide more information on the extent of the fraud,

use randomization. The number of votes cast at these polling stations, however, stood at only 1.8 percent of total votes in Moscow.

we divide all treatment stations into three groups: those in which observers reported no serious violations (75 polling stations), those in which serious violations were reported, but the observers received the final protocol (43 polling stations), and those in which all observers were not able to get the official protocol of the vote count (38 polling stations), which happened if the observers were dismissed from the polling station or the heads of electoral commissions illegally refused to give a signed copy of the protocol.

Figure 2 shows the distribution of vote shares for *United Russia* at polling stations from these three groups. For observations in the control group the distribution seems to be bimodal with two peaks – one around 25 percent of votes and another one around 55 percent of votes. The distribution for the precincts with observers also has two peaks, with the first one around 25 percent of votes. Note, however, that the second mode of this distribution, around 50 percent of votes, is noticeably smaller as compared with the control group. Moreover, for the polling stations in the treatment group in which observers reported no serious violations the distribution becomes unimodal with the peak around 25 percent of votes for *United Russia*. Thus, the results are consistent with the following hypothesis: the distribution of vote shares for *United Russia* in the control group is simply a mixture of two distributions that correspond to polling stations without large electoral fraud (for which the distribution is centered around 25 percent of votes) and polling stations with substantial electoral fraud (for which the distribution is centered around 55 percent of votes). Note also that a similar pattern is observed for the distribution of turnout across three groups of precincts, but not for the distribution of vote shares for other parties.

Figure 2. Distribution of Votes for United Russia



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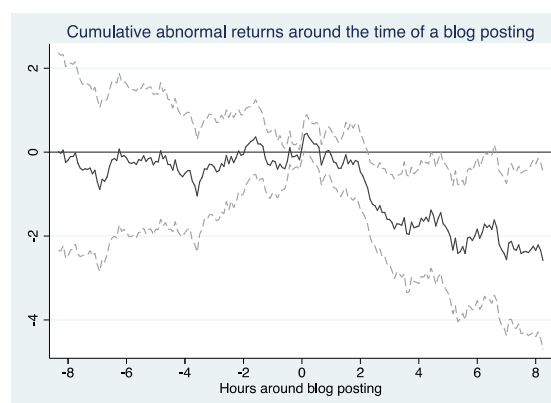
To assess the overall influence of the electoral fraud in Moscow on the outcome of Russian parliamentary elections, we also estimate the total number of votes that *United Russia* received due to electoral fraud. As both vote share of a ruling party and turnout were affected by electoral fraud, we look at the number of votes for each party as a share of registered voters in precincts with and without observers. Based on these numbers, our conservative estimate of the number of votes, which *United Russia* received at the ordinary precincts in Moscow due to electoral fraud, is equal to 635,000. This is a lower bound for the size of electoral fraud as it assumes that the presence of observers fully prevented any fraud, and at least anecdotal evidence suggests that it is not always the case. If we use results from the polling stations in which observers report no serious violations as an alternative estimate, the number of stolen votes increases up to 1,090,000.

The results presented above indicate that because of electoral fraud, voting does not constitute an efficient mechanism to replace those in power, and, therefore, electoral accountability in Russia does not work to

discipline politicians in the office. Other means to hold politicians and public officials accountable are also limited, since traditional media is often censored and politics is generally not competitive. We ask the question whether in such environment there is any alternative ways to hold public officials accountable, and, in particular, if new media, such as blogs, can make a difference. Specifically, we study whether blog postings of a popular Russian blogger, shareholder activist, and, subsequently, one of the leaders of emerging opposition to President Putin’s regime, Alexei Navalny, have had an impact on stock performance of the companies whose wrongdoings he uncovered and made public.

First, we show that daily abnormal returns of the companies Navalny wrote about were significantly lower after Navalny’s posts about them. The results hold if we control for mentions of these companies in other types of media (business newspapers, online newspapers, and blogs) and for company-year and year-month fixed effects. In addition to looking at daily abnormal returns, we show similar results for 5-minute abnormal returns even controlling for trading-day fixed effects (see Figure 3). The magnitude of this effect is quite sizable with a daily decline of 0.5 p.p. after an average blog posting, and a daily decline of 0.9 p.p. after an important blog posting.

Figure 3. 5-minute Abnormal Returns and Navalny’s Blog Postings, Non-Trading Time (Evenings and Weekends) Excluded



We also provide evidence that the impact of blogging on stock performance is causal. Although the results described above are consistent with the negative impact of blogging, they could be explained, e.g., by selective exposure. To identify the causal effect of blog postings we use an external variable, distributed denial-of-service (DDoS) attack on a blog service, as a source of exogenous variation. During the period under study (between January 2008 and August 2011), these DDoS attacks, allegedly, were not specifically targeting the Navalny's blog, but they affected the accessibility of the whole blog platform, and the Navalny's blog was also affected. As a result, DDoS attacks either prevented Navalny from writing a post or prevented his readers from reading his blog, but there was no obvious reason why they might influence fundamental determinants of stock prices of the companies Navalny wrote about.

In a reduced form model, we find significant positive effect of DDoS attacks on daily abnormal returns of the companies Navalny wrote about. This effect is stronger for the companies Navalny was more focused on (the latter result holds even with DDoS attack fixed effects). Quantitatively, the effect of DDoS attack is similar to the absence of the post or to the presence of the post with no information about the company in question. We also show that though DDoS effect is increasing in Navalny's attention to the companies he was writing about, it is not increasing in the amount of general news attention to these companies.

Finally, in addition to the short-term effects we just described, we look at the longer-term one-month effects of blog postings. We find that although there were no long-term effects of the ordinary postings, there were negative and significant long-term effects of the most important postings, as proxied by at least 5 mentions of a company in the post. In addition, during the month after a blog posting, there was a larger volatility of stock returns and a larger trading volume. It appears that the

number of transactions, controlling for trading volume, was significantly larger in both the short-term and longer-term perspective. Smaller average transactions are consistent with more individual, in contrast to institutional trading, which suggest that short-run effects of blog posting are driven by attention effects, rather than provision of new information. Overall, all our results are consistent with a negative causal impact of blog postings on stock performance of state-controlled companies, and imply that potentially there is a disciplining effect on the behavior of public officials who manage these companies. Thus, our results suggest that posting in online social networks can affect the stock performance of state-controlled companies, and, as a result, can become an unusual alternative mechanism to putting additional checks on the behavior of government officials even if political competition remains limited, and traditional media remain controlled.

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References

The report is based on two papers: Enikolopov, Ruben, Vasily Korovkin, Maria Petrova, Konstantin Sonin, and Alexei Zakharov (2012) "[Electoral Fraud in Russian Parliamentary Elections in December 2011: Evidence from a Field Experiment](#)." *Proceedings of the National Academy of Sciences*, 109 (52); Enikolopov, Ruben, with Maria Petrova and Konstantin Sonin "Do Bloggers Have any Real Influence? Event Study of Blog Postings by a Russian Activist Shareholder and Blog Service DDoS Attacks," *CEPR Working Paper*.

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