

Section 6. Institutional Changes

6.1. The Situation in the Public Sector and Privatization

The main developments over the past year in the sphere under consideration were the launch of the second three-year privatization program for the years 2014–2016; the approval of the new government program *Federal Property Management until 2018*; the transfer, by a court ruling, of JSC *Bashneft* back to Russian Federation ownership; the continuation of the active process of creation of integrated structures in the defense industry and related sectors; absence of any significant deals completed on the corporate control market with the participation of state companies; and the expansion, at the level of approved model documents, of the set of available instruments to be applied in the management of entities belonging to the public sector of the national economy.

6.1.1. The Dynamics of the Public Sector in the Russian Economy

Last year, the RF government did not approve any new privatization program (which contrasted with its policy during the implementation of the first three-year privatization program for the period 2011–2013) because in mid-2013 it had approved the *Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016*. Meanwhile, it was the government privatization programs that provided us with statistics concerning the number of federal state unitary enterprises (FSUE) and joint-stock companies with RF stakes in their capital as of the beginning of each calendar year. Now, the specific information on the movement of each component of the public sector for the year 2014 can be derived from data released by the RF Ministry of Economic Development, the RF Federal Agency for State Property Management (*Rosimushchestvo*), and the Federal State Statistics Service (*Rosstat*).

According to the Federal Property Register, the movement, over the period 2013–2014, of the number of organizations registered as holders of ownership rights and economic societies with state stakes appears to be as follows (*Table 1*).

There is an obvious downward trend in the number of organizations involved (in any way) in the use of federal property.

Over the year-and-a-half period (from early 2013 to mid 2014), the number of JSCs with state stakes (including those where the State held the special right to participate in a company's management granted by 'golden share') shrank by 14% (or by 342 units), including 4.7% (or by 103 units) over the first half-year of 2014. The reduction scale (by 14.3%, including

2.2% over the first half-year of 2014) was approximately the same for federal state institutions (FSI), although the resulting number was much more impressive when taken in absolute terms (by 2921 units, including 393 units over the first half-year of 2014). The number of federal state unitary enterprises (FSUE) operated by right of economic jurisdiction shrank by 5.3% (including 1.3% over the first half-year of 2014), amounting in absolute terms to 96 units (including 23 units over the first half-year of 2014). The only (and smallest) group of holders of ownership right to federal property which increased in number (however slightly) over the period under consideration (by 5 units - to a total of 77 units) is represented by federal treasury enterprises (FTE) or federal state unitary enterprises endowed with the right of operative management. In general, the lion's share in the structure of federal property held by entities other than economic societies or partnerships belongs to FSIs (approximately 91%, or 17,537 units as of mid-2014). FSUEs, whose number over the entire year-and-a-half period was persistently lower than that of JSCs with state stakes, account for only 8.8% (or 1,704 units as of mid-2014).

Table 1

**The Number of Organizations - Users of Federal Property,
in 2010 and the Period 2013–2014**

Date	Number of joint-stock companies with federal stakes (including by special right), units	Number of holders of ownership rights to registered federal property entities other than economic societies or partnerships, units			
		total	including		
			FSUE	FTE	FSI
as of 1 January 2010 ^a	2,950	...	3,517 ^b	...	...
as of 1 January 2013	2,442/2,337 ^c	22,330	1,800/1,795 ^d	72	20,458
as of 1 April 2013	2,412	21,459	1,775	73	19,611
as of 1 October 2013	2,281	20,175	1,742	73	18,360
as of 1 January 2014	2,203 ^e	19,733	1,727/1,181 ^{f*}	76	17,930
as of 1 April 2014	2,142	19,603	1,789	78	17,736
as of 1 July 2014	2,100	19,318	1,704	77	17,537

^a – as stated in the first 3-year privatization program (for 2010–2013);

^b – the grounds for the inclusion of data for federal treasury enterprises (FTE) into this category are not quite clear;

^c – as stated in the current privatization program for 2013–2016; besides, according to the Federal Property Register as of 31 December 2012, in addition to shares in 2,442 JSCs, there were also data on shares in 19 limited liability companies (LLC), which makes a total of 2,461 units;

^d – as stated in the current privatization program for 2013–2016;

^e – as stated in the Annual Report on Alterations to the Federal Property Register Resulting from the Arising and Termination of Russian Federation Ownership Right to Immovable and Movable Property for 2013, this figure (2,203 units) includes those 17 LLCs and 90 JSCs where the RF holds the special right to participate in their management without holding any shares;

^f – according to the Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, by early 2014 the RF had been the owner of property of 1,181 FSUEs, which is nearly by 1/3 less than the figure reported in the Federal Property Register.

Source: Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2011–2013; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016; www.economy.gov.ru, 23 April 2013, 17 January 2014, 18 April 2014, 7 August 2014; 2013 Annual Report on Alterations to the Federal Property Register Resulting from the Arising and Termination of Russian Federation Ownership Right to Immovable and Movable Property; 2014 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, www.rosim.ru, 19 February 2015.

According to data released by *Rosimushchestvo*, by late 2013, information on shares (or stakes) in a total of 2,113 economic societies had been entered in the Federal Property Register.

ter, including 17 LLC (the rest being represented by joint-stock companies (JSC), excluding those 90 JSC where the RF holds the special right to participate in their management without holding any shares).

According to data released elsewhere by the same government department, as of 7 July 2014 the Federal Property Register contained information on a total of 2,096 JSCs with federal stakes.

However, *Rosimushchestvo* could not fully exercise its shareholder rights in a total of 1,147 JSCs (or less than 55% of JSCs belonging to that category).

The composition of the remaining group of 949 companies was as follows:

- societies with state stakes amounting to less than 2% of their charter capital, where, in accordance with Item 1 of Article 53 of Federal Law, of 26 December 12 1995, No 208-FZ 'On Joint-stock Companies' (hereinafter Federal Law No 208-FZ), no proposals put forth by shareholders can be entered on the agenda of a general shareholder meeting) (436 units,¹ or approximately 21% of all JSCs);
- economic societies where the ownership rights to state stakes are delegated to other federal bodies of executive authority (FBEA) and state corporations (for example, the RF Ministry of Defense, *Rostec* Corporation (formerly *Rostekhnologii*), *ROSATOM* Corporation), or JSC operated under a trust management agreement) (302 JSCs, or 14.4% of all JSCs);²
- economic societies undergoing a proceeding in bankruptcy (146 JSC, or 7% of all JSCs);
- economic societies undergoing a liquidation procedure (57 JSC, or 2.7% of all JSCs);
- economic societies currently with no stakes effectively in the ownership by the Russian Federation (for example if an entity has been privatized, or transferred as a contribution to the charter capital of a vertically integrated structure (hereinafter – VIS)) (8 JSCs, or 0.4% of all JSCs).

In this connection it should be noted that the number of JSCs, with regard to which *Rosimushchestvo* can exercise only a limited shareholder right, has declined on 2012 by 4% (or by nearly 40 units) - these being economic societies with state stakes amounting to less than 2% of their capital (by 29 units, or by 6.2%) and the societies shareholder right to which have been transferred to other subjects (by 14 units, or by 4.4%). The number of JSCs undergoing a proceeding in bankruptcy or a liquidation procedure has changed insignificantly (by 1-2 units).³ In principle, this is also true for the group of JSCs with no stakes effectively in the ownership by the Russian Federation (an increase by 5 units); however, in view of the fact that the process of keeping federal property records has become a major focus of attention,

¹ Including those 78 JSCs where the State held the special right to participate in a company's management granted by 'golden share'.

² It does not seem to be quite correct to place in one and the same group those JSCs where the ownership rights to state stakes are delegated to federal bodies of executive authority other than *Rosimushchestvo*, state corporations, and companies operated under a trust management agreement - because one of the basic features of a state corporation (SC) as a legal entity (defined by Russian legislation as a non-profit organization) is the right of ownership to its property, and, generally speaking, that right should also be exercised with regard to those state stakes that have been transferred to other entities as property contributions to their charter capital.

³ In this connection it should also be added that another 137 JSCs whose financial and economic operations have not been conducted on a stable and constant basis (because they are not engaged in a financial and economic activity or are entering the initial phase of bankruptcy procedures (have filed a petition in bankruptcy, undergoing the phase of supervision or external management)) belong to the category of JSC in regard to which *Rosimushchestvo* has been exercising an unrestricted shareholder right.

and that this process is now based on a hi-tech methodology, this modest result can certainly give rise to many questions.

From the point of view of the size of the stake held by the State in the charter capital of an economic society, this category of entities in early 2014 (*Table 2*) was dominated by companies in full state ownership (where the state stake amounted to 100% of their charter capital) and companies with minority state stakes (amounting to less than 25%). These accounted for 47.3% (1,000 units, including 1 LLC) and 37.6% of all economic societies (794 units, including 8 LLCs) respectively. The share of blocking stakes (amounting to between 25% and 50% of the charter capital) was 10.6% (224 units, including 1 LLC), and that of majority stakes (amounting to between 50% and 100%) – 4.5% (95 units, including 7 LLC).

Table 2

The Movement and Structure of the Group of Economic Societies with State Stakes (less those JSCs where the State Holds the Special Right Granted by 'Golden Share' without Holding Any Stake) in 2010–2014

Date	Economic societies (JSC and LLC) where RF is shareholder (or participant)									
	total, units	share, %	Of these, with RF stake in charter capital amounting to							
			100%		50–100%		25–50%		less than 25%	
			units	%	units	%	units	%	units	%
as of 1 January 2010	2,950 ^a	100.0	1,757	59.6	138	4.7	358	12.1	697	23.6
as of 1 January 2011	2,957	100.0	1,840	62.2	136	4.6	336	11.4	645	21.8
as of 28 December 2011	2,819	100.0	1,617	57.4	112	4.0	272	9.6	818	29.0
as of 1 January 2013	2,337 ^b	100.0	1,256	53.7	100	4.3	227	9.7	754	32.3
as of 31 December 2013	2,113	100.0	1,000	47.3	95	4.5	224	10.6	794	37.6
as of 7 July 2014 - JSCs where <i>Rosimushchestvo</i> is not restricted in its shareholder rights ^c	1147	100.0	709	61.8	66	5.8	171	14.9	201 ^d	17.5
- same JSCs, plus JSCs where state stake is less than 2% ^e	1,583 (1,147 + 436)	100.0	709	44.8	66	4.2	171	10.8	637 (201 + 436)	40.2
- JSCs included in forecast privatization plans for 2010 and 2013 ^f	842	100.0	596	70.8	36	4.3	113	13.4	97	11.5
- same JSCs, plus JSCs where where state stake is less than 2% ^g	1,278 (842 + 436)	100.0	596	46.65	36	2.8	113	8.85	533 (97 + 436)	41.7

^a – number of JSC according to the privatization program for 2011–2013;

^b – number of JSC according to the privatization program for 2014–2016;

^c – less the following entities: (1) JSCs with state stakes less than 2%; (2) JSCs where the shareholder rights on behalf of the RF are exercised by other subjects (other bodies of executive authority, state corporations, or subjects appointed under trust management agreements); (3) JSC undergoing bankruptcy procedures (in the phase of a bankruptcy proceeding); (4) JSCs undergoing a liquidation procedure, (5) JSCs with state stakes that are de facto not registered as federal property (previously privatized or transferred to the charter capital of a vertically integrated structure);

^d – only JSC with state stakes between 2% and 25%;

^e – on condition that, with regard to all JSCs with state stakes less than 2%, the relevant shareholder rights belong to Rosimushchestvo;

^f – only those JSCs where *Rosimushchestvo* is not restricted in its shareholder rights;

^g – on condition that all the JSCs with state stakes less than 2% are included in a privatization program.

Source: Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2011–2013; information based on data entered in the Federal Property Register, released by the RF Ministry of Economic Development Russia as of 17 February 2012; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016; 2013 Annual Report on Alterations to the Federal Property Register Resulting from the Arising and Termination of Russian Federation Ownership Right to Immovable and Movable Property; Year-end 2013 Report on the Management of Federal Stakes in OJSC and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share'); authors' calculations.

As follows from *Table 2*, the principal change in the structure of economic societies with state stakes observed after 2010 was the declining share of those companies in respect of which the State could exert a dominating influence due to participation in their capital. The upshot of this trend was that, in late 2013, the State enjoyed the right of corporate control at the level of a 100 percent stake or majority stake (or share) in approximately 52% of all companies vs. more than 61% by early 2012 and nearly 2/3 by early 2011.

Of course, the distribution of the bulk of JSCs where *Rosimushchestvo* as of mid-2014 was exercising its shareholder rights without any restrictions in accordance with this presentation appears to be more rational. Here, the aggregate share of companies where the State owned 100 percent stakes and majority stakes amounted to approximately 68%, which is roughly equal to the corresponding index for all companies with state stakes recorded in early 2011. At the same time, if we add here economic societies with state stakes in their charter capital amounting to less than 2% (436 units), the State will appear to exercise corporate control over less than half of all the companies.

The distribution of the JSCs included in the privatization program seems to be rather dubious because, among the 842 companies where *Rosimushchestvo* is not restricted in its shareholder rights, approximately 3/4 appear to be those fully owned by the State (70.8%) or those where the State holds a majority stake (4.3%). As follows from the Report on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC's Management ('Golden Share') prepared by *Rosimushchestvo*, the forecast privatization plan lists more than 84% of all 100% stakes, approximately 2/3 of all blocking stakes, approximately 55% of all controlling stakes, but only 48% of all minority stakes (between 2% and 5%) in those companies where *Rosimushchestvo* can exercise its shareholder rights on behalf of the State without any restrictions.

As a result of the inclusion of all state stakes amounting to less than 2% of a company's charter capital (436 units) (based on the assumption that all such companies are included in the privatization program), the structure of all the assets belonging to that category and earmarked for privatization becomes more similar to the picture that emerges when we add up all state stakes amounting to less than 2% and all those JSCs where *Rosimushchestvo* is not restricted in exercising its shareholder rights (1,147 units). However, even so, the number of minority state stake earmarked for privatization is smaller than the corresponding number of stakes enabling the State to exercise full corporate control over a company (100 percent stakes and majority stakes, even if the latter are not taken into consideration).

In addition to shares (or stakes) in economic societies owned by the RF, another major component of the public property complex is immovable and movable property held by various categories of right holders by right of economic jurisdiction (unitary enterprises), by right of operative management (state institutions and treasury enterprises), or entities that are part

of the RF treasury. In this connection, the total number of entities entered into the Federal Property Register in 2013 increased by 116,794 units (1,588,576 units as of 1 January 2014 vs. 1,471,782 units as of 1 January 2013), or by 7.9%. Over the first half-year of 2014, this index gained another 3.8%, the total number amounting to 1,648,404 units.¹

According to the public sector monitoring results released by *Rosstat*, the movement of economic subjects over the period from mid-2012 through mid-2014 appears to be as follows (*Table 3*).

Table 3

**The Number of Organizations in the Public Sector of the Economy
on the Records of Territorial Branches of *Rosimushchestvo* and the Bodies
Responsible for the Management of State Property Held by RF Subjects
in 2012-2014**

Date	Total*	FSUEs, including treasury enterprises	State institutions	Economic societies where shares (or stakes) amounting to more than 50% of charter capital are owned by	
				State	economic societies operating in public sector
as of 1 July 2012 ^a	69,251 ^b	5,282	58,049	3,593	2,327
as of 1 January 2013	67,003 ^{b*}	4,891	56,247	3,501	2,364
as of 1 July 2013	66,131 ^b	4,589	56,100	3,201	2,241
as of 1 January 2014	64,616 ^b	4,408	54,699	3,097	2,412
as of 1 July 2014	63,635 ^b	4,236	54,173	2,988	2,238

^a – federal property records are kept in accordance with Decree of the RF Governmenta of 16 July 2007, No 447 'On Improving Federal Property Record-keeping';

^b – including those organizations whose charter documents, after their State registration, do not specify property types, but less those joint-stock companies where more than of 50% shares (or stake) are in joint RF and foreign ownership.

Source: On the Development of the Public Sector of the Economy of the Russian Federation in the First Half-year of 2012 (pp. 7–11), in 2012 (pp. 7–11), in the First Half-year of 2013 (pp. 7–11), in 2013 (pp. 7–11), in the First Half-year of 2014 (pp. 7–11), M., *Rosstat*, 2012–2014.

As follows from *Table 3*, the total number of organizations belonging to the public sector dropped in the course of two years (between 1 July 2012 and 1 July 2014) by 8.1% (or by more than 5.6 thousand units), amounting as of 1 July 2014 to approximately 63.6 thousand units.

The most impressive decline was demonstrated by the number of unitary enterprises (by 19.8%, or by nearly 1,050 units). In per cent terms, the drop in the number of state institutions was far more modest (by 6.7%), but in absolute terms it was even more impressive (nearly by 3.9 thousand units). By 1 July 2014, the drop in the number of economic societies where the State held a stake amounting to more than 50% of their charter capital had been even more dramatic – by 16.8% (or approximately by 600 units). At the same time, the number of economic societies with stakes greater than 50% held by entities belonging to the public sector shrank by 3.8% (or by nearly 90 units). As a result, the number of economic subjects in this category as of mid-2013 exceeded 2.2 thousand units, thus roughly corresponding to the level recorded in mid-2010.

Meanwhile, over the next year from mid-2013 onwards, the total number of organizations operating in the public sector dropped by 3.8% (or approximately by 2.5 thousand units). The number of unitary enterprises shrank by 7.7% (or by 350 more than units). The corresponding

¹ RF Ministry of Economic Development. See www.economy.gov.ru, 23 April 2013, 17 January 2014, 18 April 2014, 7 August 2014.

index for the number of state institutions was significantly lower (by only 3.4%), although the corresponding value in absolute terms was much higher - in excess of 1,900 units. The number of economic societies where the State held a stake amounting to more than 50% of their charter capital shrank by 6.7% (or by more than 200 units). At the same time, the number of economic societies where stakes greater than 50% were held by entities belonging to the public sector remained practically unchanged, while in the second half-year of 2013 it began to grow (increasing by more than 170 units), growth once again giving way to decline in the first half-year of 2014.

Our analysis of the changes in the number of state unitary enterprises, state institutions, and economic societies operating in the public sector of the national economy is based on available data reported as of specific dates.¹ However, we have been able to identify only some more general trends. The available statistics does not allow us to trace the 'demographic developments' in each category of economic subjects, namely the specific data as to their creation, liquidation, reorganization into other organizational-legal forms - in short, the movement of that index that produces the specific figure as of a given date.

When speaking of the presence of the State in the economy in the capacity of a producer of goods (or work, or services), we can note as follows. The monitoring conducted by *Rosstat* has in part confirmed the assumption that the share of the public sector, as demonstrated by various indices of the scale of economic activity, is on the rise. However, as demonstrated by the majority of indices for 2013 and the first half-year of 2014, the relative share of the public sector over that period never exceeded 15-25%, the only exception being the investment and employment indices (*Table 4*).

Table 4

The Public Sector's Share, by Index, in 2011–2014, as %

	2011	2012	2013	1st half-year of 2014
Volume of delivered goods, work and services (produced by companies on their own):				
- extraction of mineral resources	16.5	16.5	21.6	22.4
- extraction of fuel and energy mineral resources	16.7	16.6	22.1	22.5
- processing industries	9.9	9.8	12.0	12.5
- production and distribution of electric energy, natural gas and water	24.0	25.7	25.0	19.2
Volume of construction work (performed by companies on their own)	4.0	3.8	3.9	3.7
Passenger turnover of transport organizations ^a	65.3	64.5	62.7	60.4
Commercial cargo transportation turnover (freight dispatch) of transport organizations (less pipeline transport turnover)	38.1 ^b	76.0	75.3	78.8
Commercial freight turnover of transport organizations (less pipeline transport turnover)	36.4 ^b	92.9	93.4	94.6
Communications services ^c	13.4	14.2	13.7	13.2
Internal expenditures on scientific research and development	73.8	75.4	74.1	70.8
Volume of commercial services delivered to population	18.8	18.9	19.1	17.0
Investment in fixed assets from all sources of funding ^d	28.8/ 21.3	28.8/ 20.9	30.3/ 21.0	25.6/ 19.2
Net proceeds from sales of goods, products, work, services (less VAT, excises and other mandatory payments)	11.6	12.6	12.7	13.2
Average number of employees	24.9	25.8	26.7	28.0

^a – less urban passenger electric transportation organizations;

^b – it may be assumed that the low figures reported for 2011 with regard to the share of the public sector in the total volume of cargo transportation and commercial freight turnover represent a statistical anomaly, because over the course of the previous year (2010) and several earlier years these indices had never been below 70% and 90%; the same is true with regard to the following period 2012–2014;

¹ Since 2003, the number of FSUEs and JSCs with federal stakes has been regularly reported in the framework of forecast plans (programs) of federal property privatization, but not the number of FSIs.

^c – net proceeds from sales of goods, products, work, or services (less VAT, excises and other mandatory payments);

^d – the denominator here does not include the number of small-sized entrepreneurs and the volume of investment - the indices that cannot be estimated directly on the basis of available statistical reports.

Source: On the Development of the Public Sector of the Economy of the Russian Federation in the First Half-year of 2011 (pp. 13, 35, 37–38, 39, 42, 50–51, 52, 56–57, 77), in 2012 (pp. 13, 35, 37–38, 39, 42, 50–51, 52, 56–57, 77), in 2013 (pp. 13, 35, 37–38, 39, 42, 50–51, 52, 56–57, 77), in the First Half-year of 2014 (pp. 13, 33, 35–36, 37, 40, 42–43, 44, 46–47, 67). M., *Rosstat*, 2012–2014.

Nevertheless, the official statistics did reflect a noticeable increase, in the period 2013–2014 on the period 2011–2012, in the public sector's share in the extraction of mineral resources (including fuel and energy mineral resources), the processing industries, and the employment rate.

The public sector's share increased most impressively in the extraction of mineral resources (including fuel and energy mineral resources) - to 21–22% vs. approximately 16.5% in 2011–2012, or by more than 5 percent points (pp.). In the processing industries the share of the public sector increased by more than 2 pp. - to 12%. A stable rate of growth (approximately by 1 pp. per annum) was displayed by the public sector's share in the structure of employment (derived on the basis of the average number of employees), amounting in the first half-year of 2014 to 28%.

As far as investment in fixed assets is concerned, the share of the public sector displayed growth (to more than 30%) only with regard to the year-end results of 2013, and only for the index that did not take into account the number of small-sized companies and the volume of investment (the indices that cannot be estimated directly on the basis of available statistical reports). If we look at the period-end results of the first half-year of 2014, the public sector's share will display an opposite trend - its index turned out to be the lowest by comparison with the three preceding years (2011–2013).

As for the corresponding indices with regard to production and distribution of electric energy, natural gas and water; passenger turnover of transport organizations; communications services; and internal expenditures on scientific research and development, these are more likely to point to shrinking shares of the public sector, especially if we look at the period-end results of the first half-year of 2014.¹

A more detailed study of the situation reveals that, judging by the year-end results of 2013 and the period-end results of the first half-year of 2014, the public sector prevailed only within a rather limited range of economic activities (cargo and passenger rail transportation; reforestation; internal expenditures on scientific research and development). In most of the other sectors its share was less than 20%, the only exception being oil extraction, including natural-gas condensate (where the share of the public sector over the first half-year of 2014 amounted to approximately 22%), as well as passenger turnover of air transport (transport aviation) and automobile transport (less the data reported by economic subjects belonging to the category of small-sized companies), and all the types of commercial services recorded in official statistics,² where the share of the public sector was still below 50%.

All these indices should probably be treated as minimum estimates, because it is very difficult to assess correctly the actual relative share of the public sector - first of all because in

¹ It should be noted that as far as these indices are concerned, this trend needs to be properly ascertained on the basis of the year-end results.

² In this context, the statistical reports subdivide services into the categories of transport, medical, health resort and education services.

many public companies the bulk of economic activity is concentrated at the lower levels of their hierarchical structures which are, most likely, overlooked by official statistics. Another obvious fact is that the privatization of unitary enterprises - which most often are reorganized into economic societies (as a rule, in the form of joint-stock companies), where initially (until their full or partial sale) all the shares (or stakes) belong to the State, as well as the transfer of shares to the charter capital of one or other holding company, by no means implies that the size of the public sector in the national economy taken as a whole will be diminished as a result.

6.1.2. Privatization Policy¹

The past year was the first year of the implementation of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, approved by Directive of the RF Government of 1 July 2013, No 1111-r. This is already the second 3-year privatization program developed with a view towards a longer planning period established for a forecast plan (or program) of federal property privatization (extended from one to three years) on the basis of the alterations introduced into the prevailing legislation on privatization in the spring of 2010. On the whole, that program was moderate, establishing that the State should retain its corporate control over many companies operating as components of natural monopolies and the existing infrastructure, involved in capital intensive activities or activities associated with long payback periods, or playing important roles in the implementation of government structural and industrial policies; besides, this rule was applied to those entities that had acted, over the acute-phase crisis period 2008–2009, as government agents responsible for the successful implementation of government anti-crisis measures.²

As it had been the case with the previous privatization program, numerous adjustments and alterations soon began to be introduced into the new document as well.

Since the moment of approval of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016 and until early 2015, a total of 25 normative legal acts pertaining to these issues were adopted, three of which had been issued as early as December 2013. The most relevant alterations were introduced by the directives of the RF Government issued in March and August 2014. By the first directive, the privatization program was augmented by another 431 joint-stock companies that had not been privatized in the period 2011–2013; by the second one, 426 (mostly) immovable property entities in federal ownership (previously non-privatized) were also added to the list of entities earmarked for privatization.³

As a result, the list of assets earmarked for privatization in an ordinary procedure in the framework of the privatization program was noticeably increased by comparison with its initial version. Thus, the number of entities to be privatized in the category of ‘other property’

¹ For a more detailed discussion of the theoretical aspects and core problems of the privatization process in the present conditions, see Radygin A., Entov R. M. “Fundamental” Privatization Theorem: the Ideology, Evolution, Practice // *Economic Policy*, 2013, No 6, December, pp. 7–45.

² The specificities of the new phase of privatization in Russia evolving in conditions of economic recovery after the 2008–2009 crisis are dealt with in more detail in Radygin A. D., Simachev Yu. V., Entov R. M. State and Denationalization: Risks and Limitations of the ‘New Privatization Policy’ // *Voprosy Ekonomiki* [Issues of Economics], 2011, No 9, pp. 4–26.

³ www.economy.gov.ru, 31 March 2014, 21 August 2014.

held by the RF treasury increased from 94 units to 294 units (or more than tripled), that of economic societies with stakes earmarked for privatization – from 440 units to 981 units (or 2.2 times), while the number of federal state unitary enterprises (FSUEs) earmarked for privatization increased only slightly - from 514 units to 535 units (or by only 4%).

In view of the new economic and political background emerging in Q1 2014, from the very first days of January it became evident that the process of implementing the forecast privatization plan was very strongly influenced by the current macroeconomic situation (the probability of recession) and the situation in the stock market.

For obvious reasons, the deals that had been planned and thoroughly prepared back in the period 2012–2013 became the focus of attention. In January 2014, the RF Government made the relevant decisions concerning the sale of its stakes in OJSC *Inter RAO EES* (13.76% of shares) and OJSC in *Arkhangelsk Trawl Fleet* (ATF) (100% of shares) to the total value of more than Rb 21bn.

The buyer in the first deal (to the value of Rb 18.8bn) was OJSC *Rosneftegaz* which was allowed, in accordance with the norms stipulated in the previous and current privatization programs, to act until 2015 as an investor in those companies in the fuel and energy complex, whose blocks of shares have been earmarked for privatization, on condition that OJSC *Rosneftegaz* supplied a proper program for the financial backing of such transactions provided by dividends paid on the shares in commercial companies held by OJSC *Rosneftegaz*. Of course, it would be more correct to treat this one as a quasi-privatization deal, because it represents a direct transfer by the State, for a compensation, of its shareholder right to these assets to a state-controlled structure, which thus has achieved a diversification of its economic activity by acquiring a stake in the power engineering industry (as it had happened to *Gazprom* during the implementation of reform in that industry, and also after its completion).

The second deal, which was to be prepared and effectuated by OJSC *Gazprombank* (this task having been assigned to it in late 2011), may serve as the first example of a non-standard approach realized in the framework of the privatization process in its contemporary phase.

Its distinctive feature is the special format of interaction between the new owner (LLC *Virma*) and regional authorities on the basis of a shareholder agreement whereby a gratis transfer of 1 share in *Arkhangelsk Trawl Fleet* into the ownership of Arkhangelsk Oblast is envisaged. All key decisions, including the preservation of existing jobs, the OJSC's registration in the region's territory in order to maintain the inflow of tax-generated revenues into the regional budget, are to be coordinated with the Arkhangelsk Oblast's government, whose representative will be assigned a seat in the OJSC's board of directors. In addition to social liabilities and the preservation of existing jobs, the shareholder agreement also stipulates the development of seaport infrastructure in the region. To ensure that the new owners properly fulfill their obligations concerning employment and control over the assets, a big fine is envisaged for their failure to do so.

Although this deal is a unique example of the post-privatization control mechanism in operation, whereby it becomes possible, among other things, to ensure a proper balance of interests between the State represented by Arkhangelsk Oblast, on the one hand, and the new asset owner on the other, in the field of social liabilities and business promotion, this situation has inevitably given rise to questions as to the possible incompatibility of such instruments with the existing broader legal norms, in particular with corporate legislation (the role of the single share transferred to the oblast's government in comparison with the powers embodied in the special right to participate in a company's management granted by 'golden share'); or the suf-

efficiency of the existing agreement for avoiding possible conflicts in the future (after the expiry of the term of the agreement with regional authorities); or, for example, in the event of resale, by LLC *Virma*, of its stake in *Arkhangelsk Trawl Fleet*, in full or in part to a third party.

For the example of the deal with *Arkhangelsk Trawl Fleet* to be recommended as best practices to be implemented further across Russia's territories, the company's further progress should be monitored for a certain period of time.

The biggest deals concluded without the aid of investment consultants were the sales of stakes in OJSC *Opytno-proizvodstvennoe khoziaistvo plemennoi zavod 'Leninskii put'* [Experimental Horse Breeding Farm 'Lenin Way'] (Krasnodar Krai, 100%, to the value of Rb 1,563m), *Ufimskii teplovozoremontnyi zavod* [Ufa Diesel Locomotive Works] (100%, Rb 478m), Yenisei River Shipping Company (Krasnoyarsk, 25.5%, Rb 469m), *Turovskiy* (Moscow Oblast, 100%, Rb 445m), *Centrodorstroy* (Moscow, 25%, Rb 429m), *Tulamashzavod* (Tula, 74.8%, Rb 400.1m.), Electroshield Samara Group (Samara, 25.5%, Rb 281.5m.), *TEP-LOOBMENNIIK* JSC PDC (Nizhny Novgorod, 25%, Rb 276m), *SLOVO* Publishers (Saratov, 100%, Rb 256.5m), as well as a stake in LLC TM Baikal (Irkutsk Oblast, 51%, Rb 269.2m).

The latter represents a rather rare example of a deal where the priority right of a shareholder (or participant) in a close-end joint-stock company (CJSC) or limited liability company (LLC) is realized; as a result, the former state stake in LLC TM Baikal (51%) was transferred to Japanese company Tajima Lumber Co Ltd, which prior to the deal had been the sole holder of the remaining stake (49%).¹ Among the other deals, the sale at an auction, by *Rosimushchestvo*, of its 100% stake in OJSC *Opytno-proizvodstvennoe khoziaistvo plemennoi zavod 'Leninskii put'* [Experimental Horse Breeding Farm 'Lenin Way'] for Rb 1,563bn clearly stands out. This was the first deal in 2 years (2013–2014) completed by applying the traditional privatization instruments (without the aid of investment consultants) where the total value was above Rb 1bn, thus more than doubling the initial bidding price.² For reference: the 100% stake in *Ufimskii teplovozoremontnyi zavod* [Ufa Diesel Locomotive Works] was sold at a price that exceeded the initial bidding price by more than 67%.³

As for the activity of non-governmental sellers, OJSC 'Auction House of the Russian Federation' (OJSC *RAD*) continued its operations. Over the past year, this company sold 6 stakes to the total value of Rb 923.3m,⁴ which is less than half of the corresponding index for 2013 (15 sales to the total value of Rb 1.97bn). Among the big chunks of assets sold by OJSC *RAD* we may point to the sale at an auction, in Q1 2014, of a stake in OJSC *Centrodorstroy* (25% of shares, to the value of Rb 429m, the selling price exceeding the initial bidding price by approximately 16%) and Anapa International Airport (25.5% of the charter capital, to the value of Rb 153.6m the selling price being 2.2 times higher than the initial bidding price).⁵ However, these deals took place before the launch of sales in the framework of the forecast plan of privatization for 2014–2016, the first announcement of which being released by *Rosimushchestvo* only in early summer.⁶

In 2014, the stakes (or shares in charter capital) in a total of 108 economic societies were sold, while in respect of 33 federal state unitary enterprises (FSUE) the relevant decisions

¹ www.rosim.ru, 18 March 2014. In 2014, two such deals took place, and in 2013 – three deals.

² www.rosim.ru, 7 March 2014.

³ www.rosim.ru, 26 February 2014.

⁴ www.rosim.ru, 24 December 2014.

⁵ www.rosim.ru, 31 January 2014, 27 February 2014.

⁶ www.rosim.ru, 9 June 2014.

concerning the terms of their privatization were taken. Besides, *Rosimushchestvo* effectuated the registration of 16 joint-stock companies created as a result of privatization of those FSUEs in respect of which the relevant decisions had been taken over the previous years.

In this connection, when comparing these data with those obtained for the period shortly preceding the period under consideration, as well as with the data for the period of implementation of the first 3-year privatization program (*Table 5*), it can be noted that on the whole, the year-end results of 2014 follow the overall trend of recent years - the constant reduction in the number of sold stakes (or participatory shares) and the number of unitary enterprises subject to specially issued directives concerning the terms of their privatization. The value of the sold stakes (or participatory shares) is lower than the corresponding indices for all previous years, the one exception being the crisis year 2009 (52 units), while the number of privatized FSUEs exceeds only the corresponding index for 2013.¹

Table 5

**The Comparative Movement of the Number of Privatization Deals Involving
Federal State Unitary Enterprises and the Number of Sales
of Federal Stakes in 2009–2014**

Period	Number of privatized enterprises (entities) formerly in federal ownership (data released by <i>Rosimushchestvo</i>)	
	privatized FSUEs ^a , units	sold stakes in JSCs, units
2009	316+256 ^b	52 ^c
2010	62	134 ^c
2011	143	317 ^b /359 ^c
2012	47 ^d	265 ^e
2013	26	148 ^e
2014	33	108

^a – all preparatory work is completed, and the relevant decisions concerning the terms of privatization are issued;

^b – the number of FSUEs in respect of which the decisions concerning their reorganization into JSC were made by the RF Ministry of Defense in addition to those cases where a similar decision was made by *Rosimushchestvo*;

^c – including those stakes which were put up for sale in a previous year;

^d – estimated value based on data on the total number of FSUEs in respect of which directives concerning the terms of their privatization in the form of reorganization into OJSC (216 units) were issued, taken from *Rosimushchestvo*'s Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2011–2013, and the year-end results of 2011 and 2013;

^e – less sales of shares with the participation of investment consultants.

Source: Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2009, M., 2010; Report of the RF Ministry of Economic Development on the Results of Federal Property Privatization in 2010; Report of The RF Ministry of Economic Development on the Results of Federal Property Privatization in 2011; Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2011–2013; 2014 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016, www.rosim.ru, 19 February 2015.

In 2014, stakes (or shares in charter capital) in 252 economic societies were put up for sale, of which stakes (or shares in charter capital) in 108 economic societies were actually sold,²

¹ For the sake of objectivity it must be added that the number of FSUE privatized in 2014 is also higher than the corresponding indices for the early 2000s, while the number of sold stakes is comparable to the year-end result of 2002.

² Of these, 30 stakes to the value of Rb 326.6m were sold by *Rosimushchestvo*'s territorial agencies, to which the relevant rights had been delegated by the central apparatus of that government department. On the whole, for the purpose of successful implementation of the privatization program, 64 territorial agencies were assigned the task of selling a total of 200 state stakes. See www.rosim.ru, 26 February 2015.

which amounts to approximately 41% of the total number of economic societies whose shares were available to potential buyers in accordance with the relevant directives concerning the terms of their privatization (266 units). Shares in 110 economic societies were put up for sale repeatedly, of which shares in 23% economic societies were offered more than 2 times (in the form of repeat auctions, public offers and sale without declaring bidding price). The completion of sale deals involving another 47 economic societies was planned to take place in Q1 2015.

As before, by no means all the assets included in the forecast plan of federal property privatization could be actually put up for sale due to the fact that many economic societies and unitary enterprises were then undergoing bankruptcy, reorganization, or liquidation procedures, were not engaged in any economic activity, or for other reasons (preparations for making a contribution to the charter capital of an integrated structure; restrictions of the privatization procedure, or special privatization procedure; execution of the ownership rights to state stakes by bodies of executive authority other than *Rosimushchestvo*, etc.). In some cases, privatization did not take place due to lack of sufficient interest on the part of potential buyers.

Similar problems arose in connection with the sale of other property entities. Thus, in 2014, out of a total of 48 immovable property entities, less than 1/4 were actually sold – 11 units (in 2011 – 3 units; in 2012 – 40 units; in 2013 – 22 units). The results of sale of 17 property entities belonging to that category are to be put on records in Q1 2015. As for the sales of such property entities completed in 2014, a total of Rb 47.5m is earmarked for transfer to the federal budget.

In 2014, in the framework of execution of 17 presidential executive orders and 3 government decisions concerning the creation/expansion of vertically integrated structures (VIS), *Rosimushchestvo* implemented the relevant measures and established 16 VIS. This part of the privatization program includes 26 FSUEs and state stakes in 86 open-end joint-stock companies (OJSC). The relevant decisions concerning the terms of their privatization were formalized with regard to 11 FSUEs and state stakes in 47 OJSCs. Besides, last year, in the framework of creation of one of VIS, decisions were also issued with regard to the terms of privatization of state stakes in 2 OJSCs created on the basis of reorganized FSUEs included in the previous privatization program (for 2011–2013).

According to *Rosimushchestvo*'s estimates, last year saw an improvement in the quality of information backing for the privatization and sale procedures, so that these procedures could become open to the public, and a system of public control over their implementation could be formed.

Rosimushchestvo opened a special section on its official website www.rosim.ru titled 'Soon to Be Put up for Sale' where, prior to asset valuation and issuance of directives, the relevant information and documents concerning properties to be privatized will be posted, thus enabling the potential investors to assess on their own the value of assets and their investment opportunities.

When a relevant directive on the terms of privatization is issued, *Rosimushchestvo* will prepare and post to its official website, for potential investors, the relevant presentation materials with key information on the assets to be privatized, and simultaneously with an information release it will also post more detailed information on the properties earmarked for privatization.

The practice of targeted publication of information on planned biddings and properties to be privatized for the attention of sectoral and strategic investors, professional, sectoral and

entrepreneurial associations and groups, and the publication of relevant information on specialized websites is also becoming more widespread.

With the introduction of a mandatory procedure of posting the information on planned property sales to the official website of the Government of the Russian Federation (torgi.gov.ru) the bidding procedure became more transparent, and the information on assets offered for sale - more readily available. The creation of a single information space has boosted the interest of potential buyers in the state assets put up for sale.

In order to ensure proper regulation and unification of the privatization procedure, detailed methodological recommendations were elaborated and distributed among the territorial agencies changes with the task of sale of properties earmarked for privatization, complete with a set of standardized forms and model documents, so that the process of sale could be conducted in a uniform and transparent format.

The upshot of all the measures implemented by *Rosimushchestvo* and its territorial agencies in 2014, including the preparation for privatization of new property entities, improvement of the sale procedure, interaction with potential investors, provision of a more in-depth information backing, was the marked improvement in the quality of bids put up for sale, with all the relevant information being more readily available.

In spite of the already mentioned decline in the number of sold stakes (or shares in charter capital) in response to the worsening economic situation and plummeting investment activity, the more than usually careful preparation and marketing of assets earmarked for privatization still produced some additional privatization-generated revenue.

The total sum generated by the sale of stakes (or shares in charter capital) in economic societies amounted to Rb 8.05bn (including the revenue to be transferred in Q1 2015). Thus, the planned target has been exceeded 2.7 times (less the proceeds from biggest sales), if we base our estimate on the forecasted revenue target stipulated in the privatization program (Rb 3bn per annum over the period 2014–2016).

The Federal Law on the Federal Budget for 2015 and Planning Period 2016 and 2017 (No 384-FZ) adopted in early December 2014, similarly to the corresponding law approved a year earlier, contains no specific information as to the amount of revenue to be generated by privatization deals neither in the main body of the document, not in the annexes. Only in the explanatory note attached to the text of the draft law submitted to parliament it was stated that the revenue generated by privatization of federal properties was to be treated, alongside government borrowings, as an independent source of funding to cover federal budget deficit.

In this context is it further stated that, in accordance with the forecast plan (program) of federal property privatization for 2014–2016 (hereinafter – privatization program), approved by Directive of the Government of the Russian Federation of 1 July 2013, No 1111-r, it is planned to continue, over the course of the period 2015–2016, to privatize the stakes held by the State in some of the biggest companies that enjoy leading positions in their sectors. These deals will be concluded on the basis of special decisions issued by the RF President and the RF Government. The timelines of these deals and specific privatization methods to be applied to such companies will be determined by the RF Government with due regard for the current market situation, as well as the recommendations of eminent investment consultants.

The amount of federal budget revenue generated by privatization of federal property is forecasted to be, in 2015, at the level of Rb 158.5bn, and in 2016 – Rb 99.9bn, which corresponds to the values stipulated in the explanatory note attached to the text of the draft of the

previous law on the federal budget for the period 2014–2016,¹ submitted to parliament the autumn of 2013.

In this connection it is worthwhile to note the secondary role assigned to the revenue generated by privatization as a source of funding to cover federal budget deficit. Thus, in 2015, the expected privatization-generated revenue will amount to approximately 40% of the total sum of government borrowing, and in 2016 – to approximately 19%.

The target figure for 2017 is Rb 3.0bn, derived on the basis of assumption that, over that period, no decisions will be taken by the RF President or the RF Government concerning sales of the federal stakes in biggest companies, as well as a result of extrapolation of the target for federal budget revenue to be generated by federal property privatization, which is set in the current privatization program (less the value of stakes in biggest companies) at the level of Rb 3.0bn per annum. Of course, after the development of the new privatization program for 2017 and the next few years based on the results of the implementation of the current privatization program (which will happen no earlier than 2016 in accordance with the current wording of the 2001 law on privatization, which incorporates the alterations introduced in 2010, including the norms determining the timelines for a forecast plan (program) of federal property privatization), the privatization-generated revenue target may be significantly adjusted.

It is rather difficult to speak as yet of the revenue targets as real figures (meaning the exact amount of revenue to be generated by privatization deals for the federal budget), because it will actually depend both on the selection of assets earmarked for sale and on their value. The success of the implementation of the forecast plan of federal property privatization will strongly depend on the macroeconomic situation, which in its turn will determine the current situation in the stock market - and consequently, the estimated value of the assets offered for sale. The economic and political background in early 2014 (massive capital outflow, the introduction of various economic sanctions, the plummeting exchange rate of the ruble, the high probability of recession in the Russian economy) was an evident factor that pushed down the asset price.

The negative effect on the privatization program of the potential entry of the Russian economy into recession is obvious. As before, there exist a number of strong risks associated with lack of transparency in the approaches to privatization of big companies and failures to provide the public with proper substantiation of the motives behind one or other government decision, lack of proper analysis of the potential effects of privatization with due regard for its feasibility and the costs associated with alternative solutions, or an analysis of its potential influence on the development of different markets, sectors, regions, and the national economy as a whole.

Besides, it should also be borne in mind that no target has been set in the current privatization program for 2014–2016 for the amount of revenue to be generated by the privatization of state stakes in biggest companies with very high investment attractiveness effectuated by special decisions of the RF Government, whereas in the previous privatization program the target had been Rb 1 trillion for the period 2011–2013.

¹ The available text of Federal Law 'On the Federal Budget for 2014 and Planning Period 2015 and 2016' of 2 December 2013, No 349-FZ (with the alterations and additions introduced by Federal Law of 28 June 2014, No 201-FZ) contains no information as to the amount of proceeds generated by sales of shares and other forms of participation in capital constituting federal property, and it is not separated from the other sources of funding to cover deficit budget, either.

However, the mechanism currently applied in the budgetary process, when the approved text of a budget law contains no stipulations concerning the effect of privatization in the context of budget revenue, opens up unlimited opportunities for any decision-making with regard to privatized assets and the timelines and format for their sale.

Thus, in the current privatization program for 2014–2016, in the framework of privatization of biggest Russian companies, it is mentioned that, before 2016, the share of OJSC *Rosneftegaz* in the charter capital of *Rosneft* is to be reduced to 50% + 1 share.

In this connection, the materials submitted in the course of preparation of the government draft law on the federal budget contain no mention of the size of stake in OJSC *Oil Company Rosneft* that can be sold in 2015. However, the receipt of dividends on shares in OJSC *Rosneftegaz* resulting from the sale of the aforesaid stake in *Rosneft* (Rb 100bn) is stipulated as one of the sources of federal budget revenue - a rather surprising fact. It must be explained that in the materials attached to the draft of federal budget for 2014–2016 submitted last autumn to parliament a much higher (by 4.2 times) figure was to be generated in 2016 for the federal budget in the form of dividends on shares in OJSC *Rosneftegaz* resulting from the sale of a minority stake in *Rosneft* that was, nevertheless, sufficiently big (19.5% minus 1 share, or Rb 423.5bn).

Rosneft's CEOs, as early as last autumn, already spoke of the possibility of selling some of their company's securities at the price of \$ 8.1 per share, so that the resulting price of the entire stake would amount to \$ 16.8bn. At the same time, such estimates were noticeably higher than the current (for that period) market quotations of shares in *Rosneft*, which had been consistently declining on 2012, when some of its shares had been purchased by the UK oil company *BP* in the framework of a complex deal finally completed only as late as March 2013.¹ It should be reminded that *Rosneft* was taken over by *TNK-BP*, which was owned in equal shares by *BP* and AAR Consortium. One of the transactions in the course of that deal, in addition to the cash payment in the amount of \$ 16.65bn, was the transfer to *BP* of 12.84% of shares in *Rosneft* (entered on *Rosneft's* balance sheet) and the purchase, for \$ 4.87bn, of another 5.66% of its shares from *Rosneftegaz*, with the result that the British oil company acquired a nearly 20% stake in *Rosneft*.²

Another factor exerting a strong influence on the quotations of shares in *Rosneft* have been the plummeting world prices for oil and the worsening financial situation faced by Russian companies as a result of sanctions that restricted their access to foreign capital markets. *Rosneft's* claims to a big chunk of the National Welfare Fund (which the oil company said it needed for refinancing its debt and maintaining its usual oil extraction rate) resonated nationwide. According to the RF Minister of Economic Development, the preparations for the sale of a stake in *Rosneft* are nearly over, while the RF Minister of Finance spoke of an early sale of these assets.

By its Directive of 27 November 2014, No 2358-r the RF Government agreed to alienate its shares in OJSC *Oil Company Rosneft* at a price no lower than their market price determined on the basis of a report on their market valuation prepared by an independent expert, and no lower than the price of the first public offer of shares in *Rosneft* 2006.³

¹ Sechin estimated the price of the stake in *Rosneft* offered for privatization to be \$ 16.8bn. RBC, 23 October 2014.

² AAR Consortium's share in *TNK-BP* was bought for \$ 27.73bn.

³ The document stipulates the ceiling for the number of shares to be thus alienated, but not their relative share in the company's capital.

The preparatory work for the privatization deals involving the assets of the other biggest companies included in the current privatization program is currently underway, at different stages of completion, while the basic contours of most of these deals are not quite clear.

Among the 7 companies earmarked for a complete withdrawal of the State from their capital over the period 2014–2016, the entities to be responsible for the execution of the government order for the organization and effectuation, on behalf of the RF, of the alienation of shares in federal ownership have been contracted with regard for 4 companies.

For OJSC *Vnukovo Airport* (up to 74.74% of shares) and *Vnukovo International Airport* (up to 25% + 1 share), this will be *Renaissance Broker LLC* - appointed in late 2013; for OJSC *Rostelecom* (up to 43.07% of shares) – CJSC *Sberbank CIB* (appointed in February 2014); for OJSC *Sheremetyevo International Airport* (SIA) (up to 83.04% of shares) – Deutsche Bank LLC (appointed in mid-2014). In this connection, the plans for these three airports must take into account the decisions of the RF President and the Government concerning the strategic development of Moscow's airport system.

Meanwhile, according to information released to the mass media, it is planned to establish an asset manager for *Sheremetyevo International Airport* (SIA), which will be responsible, in addition to the stake in SIA (more than 83%) and some other related assets, also for the contribution made by one of Arkady Rotenberg's companies - *TPS Avia Holding Ltd*, which in the autumn of 2013 was been chosen as an investor in the construction of the new terminal in the northern zone and an underpass between the terminals, which will connect the northern and southern zones. The share of *TPS Avia* in the consolidated SIA may exceed 50% of ordinary shares, on condition that the company guarantees the fulfillment of its obligations relating to the construction of Terminal B, the underpass between the terminals, the cargo complex and the new aircraft fueling complex. The State will hold a stake of 25% - at least until all the obligations with the regard to the airport reconstruction are fulfilled. Possibly, private shareholders will have the option of buying out the state stake, but with a premium of 10–35%, which will be increased to 50% if they fail to fulfill any of their obligations.¹

The creation of a new legal entity has opened the way towards consolidating the airport assets of *Sheremetyevo International Airport*, with a potential for a joint shareholder agreement between the State and a private shareholder. In principle, the same scheme can be applied to both *Vnukovo* airports.

As for OJSC *Rostelecom*, the issues as to the structure and methods of alienation of its shares currently in federal ownership can be resolved after the completion of the phase of creation of an integrated communications network project.

As for OJSC *Sovkomflot* [Modern Commercial Fleet], where the state can be reduced to 25% minus 1 share, this company in collaboration with Deutsche Bank LLC, which had been appointed in 2012 for the organization of the relevant deal and alienation of the shares currently in federal ownership, is carrying out the preparatory work and determining the best timelines for the placement of these shares, with due regard for the current situation in the market.

The situation around the state stake in OJSC *Novorossiysk Commercial Sea Port* (NCSP) (20%) is also rather complicated. The task of organizing the deal was assigned, also in 2012, to UBS Bank LLC. In the autumn of 2014, *Transneft* (which then had under its control 10.5% of shares in *Novorossiysk Commercial Sea Port* and had become manager of the stake held by

¹ Kommersant: *Gosudarstvo khochet sokhranit' 25% v budushchei UK 'Sheremetievo'* [The State Wants to Retain a Stake of 25% in the Future Asset Manager Company Sheremetyevo]. 28 October 2014, RIA Novosti.

Russian Railways (5.3%)), came forth with the initiative that it should also take over the management of the state stake. Meanwhile, the controlling stake (50.1%) is held by *Transneft* jointly on a parity basis with «СyMMA» Group.¹

After the successful placement on the stock exchange market of 16% shares in *Alrosa* (two stakes, 7% each, in federal and republican ownership, and 2% of quasi-treasury shares controlled by *Alrosa* itself) and the conclusion of a shareholder corporation agreement between the Russian Federation and the Republic of Sakha (Yakutia), the next step in the evolution of the company's corporate management, in the autumn of 2013, was the signing of a special agreement on the consolidated sale with the participation of an independent seller, in the second half-year of 2015, of the stakes in OJSC Diamond World held by the Russian Federation (52.4%) and *Alrosa* (47.4%). Meanwhile, the company replaced its CEOs, and under their management the company considerably increased its proceeds, net profit, and dividends paid to the federal budget.²

In view of the experience already accumulated in the course of implementing the privatization program and the ongoing activity aimed at devising new approaches to the system of asset sales, this year we can expect an even greater effect of the involvement in this activity of private sellers and organizers of federal property sale deals.

In 2014, *Rosimushchestvo* signed an agency agreement with OJSC 'Auction House of the Russian Federation' (OJSC *RAD*), which had already participated in federal property privatization deals in the framework of the forecast plan (program) of federal property privatization for 2011–2013, and with Limited Liability Company Investment Company of Vnesheconombank (VEB Capital). To these two companies, the right to effectuate the sale of a total of approximately 200 stakes was transferred, and they began the preparation of the relevant assets for sale.

The privatization process should be boosted by the alterations introduced last year into Russia's legislation on privatization.

First, by the alterations introduced in the 2001 Law on privatization, the list of property categories to which that law was not applicable was expanded (to 18 categories).

The following property categories were added to the list: (1) movable property (except shares in charter (or share) capital of economic societies and partnerships) transferred into state ownership in accordance with RF legislation or in the inheritance procedure, and (2) federal property in the event of its exchange for Olympic facilities of federal importance in private ownership, to be determined in accordance with Federal Law 'On Amendments to Certain Legislative Acts of the Russian Federation in connection with Organizing and Holding the 22nd Winter Olympic Games and 11th Winter Paralympic Games in 2014 in Sochi and the Development of the City of Sochi as an Alpine Resort', or for property entities created under the agreements on the construction of Olympic facilities of federal importance concluded with the State Corporation for Constructing Olympic Facilities and Developing the City of Sochi as an Alpine Resort. Besides, a more detailed definition of the category of property used for promoting housing construction projects in the framework of the specially created federal fund – the Russian Housing Development Foundation (RHDF).

¹*Transneft prosil Putina otdat' ei v upravlenie gospaket NMTP* [*Transneft Asks Putin to Let it Manage the State Stake in NCSP*]. RIA Novosti, 15 October 2014.

² www.rosim.ru, 14 October 2014, 22 September 2014.

Secondly, the 2001 Law on privatization was augmented by a new article (Article 30.2), whereby the procedure for privatization of property entities under concession agreements is regulated.

In accordance with the general norms, the privatization of property that is part of a property entity subject to a concession agreement is effectuated after the expiry of such an agreement in the procedure and by methods envisaged by the RF Law on Privatization.

However, if a property entity listed as is part of property subject to a concession agreement is included in the privatization program in all the tiers of public authority for the period corresponding to the period of the concession agreement's expiry, the concessioner enjoys a priority right to buy out the said property entity.

If the concessioner consents to take advantage of that opportunity, the purchase and sale contract concerning the said property entity would be concluded no later than within 60 calendar days from the date of receipt of the proposal that such a contract should be concluded, and (or) a draft of the purchase and sale contract; or no later than within 30 calendar days after the expiry of the said concession agreement, depending on which date occurs later. Prior to that, the concessioner should receive copies of the decision concerning the terms of privatization of the said property entity, the proposal concerning the conclusion of the purchase and sale contract, and the draft of the contract.

The value of a property entity is to be understood as its market value determined in accordance with prevailing RF legislation on property valuation procedures; no transfer of the priority right to purchase a property entity in this instance is allowed.

Thirdly, the privatization mechanism to be applied to cultural heritage properties (CHP) is now described in detail. The specific features of this type of deals are stipulated in Article 29 of the Law on privatization, which has now been approved in a new wording.

The cultural heritage properties (CHP), listed in the Single State Register of Cultural Heritage Properties (Historic and Cultural Monuments) of the Peoples of the Russian Federation, have now been added to the category of assets that can be privatized in the framework of a tender (previously these could only be shares (or stakes) amounting to more than half of an OJSC's (or LLC's) capital).

In addition to the tender procedure, CHPs may be privatized as part of a property complex held by a unitary enterprise reorganized into an OJSC or LLC, or by way of transfer of a CHP as a contribution to the charter capital of an OJSC, on condition of an encumbrance on its title, whereby its upkeep and use should be subject to regulations applied to all listed cultural heritage properties, so that they be properly preserved, and also accessible to the public. In the previous wording of the law it had been stipulated that any methods could be applied in the course of privatization of such assets.

The decision concerning privatization of a CHP listed in the register of cultural heritage properties must contain information concerning its status as a listed CHP.

To the document formalizing that decision, the following documents must be attached: a copy of the deed for preservation of historic property for the CHP approved in the procedure established by Article 47.6 of the Federal Law of 25 June 2002, No 73-FZ 'On Cultural Heritage Property Entities (Historic and Cultural Monuments) of the Peoples of the Russian Federation', and the passport of a cultural heritage property entity as envisaged in Article 21 of the Federal Law; and until the approval of the deed for preservation of historic property (Item 8

of Article 48) – a copy of another protection document,¹ as well as the passport of a cultural heritage property entity (if applicable).

In the agreement concerning the alienation, during a privatization procedure, of a CHP listed in the register of cultural heritage properties it must be stipulated, as an important encumbrance, that the new holder of the title to the entity being privatized must comply with the requirements stipulated in the relevant deed for preservation of historic property, and in absence of such a deed – to comply with the requirements stipulated in another protection document, as envisaged in the Federal Law ‘On Cultural Heritage Property Entities...’.

If the aforesaid agreement does not contain any such stipulations, the privatization deal involving a CHP listed in the register of cultural heritage properties is to be deemed to be null and void.

In the event of privatization of a CHP by way of sale in the framework of a tender, the conditions of that tender must envisage the buyer’s obligation to preserve the property entity in accordance with a relevant deed for preservation of historic property, and in absence of such a deed – in accordance with another protection document, as envisaged in the Federal Law ‘On Cultural Heritage Property Entities...’.

As for those property entities listed in the register of cultural heritage properties that have been recognized to be in an unsatisfactory condition in accordance with the Federal Law ‘On Cultural Heritage Property Entities...’, which are being privatized by way of sale in the framework of a tender by an empowered body of state authority, the related parties must submit to the relevant property management body the business blueprints for the cultural heritage property entity preservation project, approved in accordance with the aforesaid Federal Law (at the stage of blueprints for restoration work on the site); these blueprints are included into the tender documentation package.

In the event of only one application being submitted in response to the tender offer for the acquisition of a cultural heritage property entity in an unsatisfactory condition, the purchase and sale contract may be concluded with that bidder.

The initial (minimum) selling price of a cultural heritage property entity in an unsatisfactory condition is to be established in the amount of Rb 1, and the transfer of that property entity to the tender bid winner and the formalization of the title thereto are to be effectuated in the procedure established by prevailing RF legislation and the relevant purchase and sale contract, after the tender bid winner has complied with the terms of the tender.

That contract, in addition to the requirement that the terms stipulated in the relevant historic preservation deed or another historic preservation should be complied with, must also stipulate the following important conditions: (1) the responsibility of the new owner of the CHP in an unsatisfactory condition to fulfill, in full and in due time, the terms of the tender and (2) the annulment of the purchase and sale contract in the event of violation, by the new owner of the CHP, of the relevant terms stipulated in the contract.

In the latter case, the CHP must be returned to the public entity that had initiated its sale without reimbursing its value to the said owner, including the cost of inalienable improvements made to it, and without any compensation for the costs associated with the execution of the purchase and sale contract.

The period of fulfilling the terms of a tender should not be longer than seven years.

¹ These can be: a preservation lease agreement; a preservation agreement or preservation deed for a historic or cultural monument; a preservation deed signed by the holder of title to a cultural heritage property entity or a preservation deed signed by the user of such an entity.

Given the fact that these alterations to legislation focus on sale of a CHP in the framework of a tender, the mechanism envisaged for this method of privatization has been adjusted as follows: the provision concerning the instances when only one bidder applies for participation in a tender has been introduced (the general norm stipulates that in such an instance the tender should be canceled), the timelines for the transfer of title to property to the tender bid winner have been changed (the general norm stipulates that this should be done no later than within 30 days), as well as the timelines for fulfilling with the terms of the tender (the general norm stipulates that this period should not exceed 1 year). All these instances are now subject to the stipulation ‘unless otherwise stipulated by law.’

The list of conditions applicable to such a tender has been extended and now includes the accomplishment of work associated with the preservation of a CHP listed in the register of cultural heritage properties, in the procedure established by the Federal Law of 25 June 2002, No 73-FZ ‘On Cultural Heritage Property Entities (Historic and Cultural Monuments) of the Peoples of the Russian Federation’. The definition of the terms of a tender for the implementation of projects designed to involving property entities for social and cultural use and housing-and-utilities property entities: these no longer include any mention of restoration projects or cultural heritage properties.

It is evident that these adjustments are oriented to lifting the existing restrictions on privatization. However, their potential consequences appear to be dubious.

On the one hand, the privatization procedure to be applied to cultural heritage properties (CHP) is defined in sufficient detail. For the first time, privatization legislation has been augmented by a norm whereby a sale ‘for Rb 1’ is envisaged – which is usually applied to sale of assets with low liquidity. In this case, this is the initial (or minimum) selling price of a CHP deemed to be in an unsatisfactory condition. In principle, such cases could be observed in recent years in actual practice - for example, in Moscow and Moscow Oblast, but that was the lease of premises at as symbolic rate (Rb 1 per m² of floor area) after the completion of a certain amount of repair and restoration work.

On the other hand, the basic norms of privatization legislation applicable to such assets have been significantly revised in the part relating to the terms of a tender (the possibility of a tender with the participation if only one bidder, the transfer of property to the tender bid winner prior to the fulfillment of the relevant conditions, and manifold extension of the period established for the fulfillment of these conditions). We find the following innovations to be rather alarming: the presence of numerous reference norms (reference to the stipulations in the Federal Law ‘On Cultural Heritage Property Entities...’); the criteria for estimating the current condition of a CHP; the less detailed description (by comparison with the norms determining the instance of sale in the framework of a tender) of the requirements to be presented in an event of CHP being privatized as part of a property complex held by a unitary enterprise being reorganized into an OJSC (LLC), or a CHP being transferred as a contribution to the charter capital of an OJSC; and the absence of any direct norms concerning historic preservation deeds (which had been stipulated in the previously applied wording of the Law).

At present, *Rosimushchestvo* is accomplishing the registration of RF titles to cultural heritage properties (CHP) transferred to federal ownership as a result of delineation of the rights to CHPs representing historic and cultural monuments of national (nationwide and republican) importance as of 27 December 1991.

This rather intricate and time consuming task was carried out by *Rosimushchestvo* in cooperation with regional and municipal authorities over the period from 2007 through 2014. On

the basis of applications submitted by 169 RF subjects and municipal formations, *Rosimushchestvo* drew up the lists of those entities that were to remain federal property, and the lists of properties to be transferred to other level of public ownership, which were then approved by the RF Government. In April 2014, the delineation of ownership rights was completed, as a result of which 1,123 CHPs were transferred to regional and municipal ownership, while 619 CHPs remained in federal ownership; of these, 330 CHPs had been registered by the end of 2013. The process of registration of RF titles to the aforesaid properties is to be completed by 2018.¹

In 2014, *Rosimushchestvo* also completed the inventory records of CHPs consolidated by right of operative management to a budget-funded federal state institution, *The Agency for the Management and Use of Historic and Cultural Monuments* (AUPIK), which is subordinated to the RF Ministry of Culture. On the basis of their revision, after their total number (2,100 units) has been determined, as well as their current condition and degree of involvement in economic turnover, a single register of historic and cultural monuments will be compiled, which will contain all the necessary information on each of the registered CHP. The newly identified properties held by the RF treasury will be transferred to the AUPIK.²

As for privatization of property entities under a concession agreement, the suggested mechanism is in many ways similar to that applied with regard to the execution of the priority right of shareholders (or participants) in economic societies to acquire additional shares (or stakes), and it does not give rise to serious objections. In actual practice, some grounds for a collision may arise in an event of participation of several concessioners in one project.

Any further alterations to privatization legislation may occur as a result of the approval, by parliament, of the recently submitted draft law, which was elaborated in cooperation with the RF Investigative Committee to reflect the declared official course towards de-offshorization of the Russian economy.

This draft law envisages a ban on participation in privatization for the citizens of countries situated in offshore zones, for the organizations registered there, and for Russian legal entities controlled by these entities, in order to ensure a transparent privatization process and eliminate any possibilities for concealing the beneficiaries of privatized properties. Besides, the new draft law is designed to introduce criminal responsibility for unlawful control exercised by a foreign investor over a Russian enterprise, if the latter is of strategic importance for this country.³

For its part, the RF Ministry of Economic Development has voiced some concerns as to the possibility of narrowing the range of potential participants in the privatization process and thus limiting the opportunities for competition. There also exists the risk of subsequent resale of the assets thus purchased to an offshore entity. In this connection it should be noted the draft law lacks the previously proposed norms concerning criminal responsibility of property valuers for issuing property value reports based on falsified data, or criminal responsibility for issuing false expert's estimations of such reports, or criminal responsibility for conspiracy of the organizers of bidding. However, there is still one new norm whereby law enforcement

¹ www.rosim.ru, 6 May 2014.

² www.rosim.ru, 31 July 2014, 5 March 2015.

³ *Prichiny i sledstvie. Interv'iu s predsedatelem SK RF A. Bastrykinym* [Causes and effect. An Interview with Chairman of the RF Investigative Committee A. Bastrykin]. // *Rossiiskaia gazeta* [The Russian Newspaper], 15 January 2015, No 4 (6575), pp. 1, 6.

agencies are to be endowed with additional powers to exercise control over the process of privatization during its preparatory phase.¹

6.1.3. The Presence of the State in the Economy and Structural Policy²

Last year's major development in this sphere probably was the court ruling that the major stake in JSC *Bashneft* (71.6%), previously held by SSA *SISTEMA* JSFC, should be transferred back to Russian Federation ownership. According to the most widespread view of the situation around *Bashneft*, this happened because of malpractice and the violations of the law committed in the course of its privatization.³

The known circumstances of this case are as follows: (1) lack of any violations from the point of view of tax legislation, (2) the use as relevant arguments, in addition to the accusation that this in fact had been legalization of property obtained by applying criminal methods, the rather vague stipulations as to the delineation of ownership rights between the federal center and RF subjects in the initial phase of perform in the ownership system and the resulting division of powers, (3) the transfer of the stake in *Bashneft* directly to the State (represented by *Rosimushchestvo*), (4) there is a chance that the losses incurred by the party believed to be an honest buyer will be compensated.

Some of the Russian government officials (for example, the RF Minister of Energy) have already voiced an opinion that *Bashneft* can be included in the privatization program (while the State will retain a controlling stake). This would effectively mean re-privatization, which fits into the formula 'renationalization and subsequent privatization by a transparent method'. Some experience in this direction has been accumulated in Russia's domestic practice over the past one-and-a-half decade in connection with the revision and cancellation of several privatization deals - as a rule, due to failure, on the part of the new property owners to properly fulfill their investment liabilities and other assumed responsibilities. One such example can be the stake in OJSC *Apatit*, Russia's biggest producer of chemical raw materials (20% of charter capital), which in 2008 was transferred back to the State. In 2012, that asset was purchased by PHOSAGRO for Rb 11.1bn.

At the same time, it is still too early to speculate about the future prospects of *Bashneft*, which over the entire period of its functioning has remained an oil company of regional importance, in view of the not-too-bright prospects of the national fuel and energy complex and Russia's economy as a whole. Besides, the State has only recently assumed the role of the principal shareholder in joint-stock companies. A distant echo of the transfer of ownership rights to the major stake in *Bashneft* was the suit filed by *SISTEMA* against OJSC *Ural Invest*, from which that stake had been bought in 2009. The first instance court ruled that *Ural Invest*

¹ *FSB khotiat nadelit' pravom proveriat' uchastnikov privatizatsii* [They Want to Endow the FSS with the Right to Verify the Participants in Privatization], RBC.Daily, 11 November 2014.

² The issue of the place and role of state entrepreneurship in the framework of different approaches to regulation and development of the economy at the macro and micro levels is dealt with in Radygin A. D., Entov R. M. Government Failures: Theory and Policy // *Voprosy Ekonomiki* [Issues of Economics], 2012, No 12, pp. 4–30; Radygin A. D., Simachev Yu. V., Entov R. M. State-owned Company: Who Is to Blame When It Fails - the State or the Market? // *Voprosy Ekonomiki* [Issues of Economics], 2015, No 1, pp. 45–79.

³ The example of Bashkortostan was already used to study at length the legal issues arising in connection with privatization deals about a decade ago. See Migranov S.D. *Nedeistvitelnost sdelok privatizatsii gosudarstvennogo i munitsipalnogo imushchestva* [Annulment of Privatization Deals Involving State and Municipal Property. – M.: Logos, 2005. – 240 p.

must pay the enormous sum of Rb 70.7bn, although it is very likely that the court proceedings will be continued.¹

Some changes in the past year were also demonstrated by the list of strategic enterprises and joint-stock companies.

In 2014, this list was augmented by one unitary enterprise (International Information agency *Russia Today*) and one open-end joint-stock company (*United Aerospace Corporation* (UAC)), the latter representing a big vertically integrated structure (VIS) (that had been put together since the previous year), similar to the nationwide holding companies in the aircraft industry (UAC) and the shipbuilding industry (*United Shipbuilding Corporation*). Meanwhile, 4 FSUEs (including *Moscow Canal* and *GOZNAK*) and 4 OJSCs were struck off the list of strategic organizations.

The latter are those big, previously established VIS which are transferred into 100% ownership of State Corporation (SC) *Rostechologies* [Russian Technologies] (in late July 2014 renamed *Rostec* Corporation) as the Russian Federation's property contribution alongside with Kaliningrad Amber Combine (reorganized into OJSC Kaliningrad Amber Company) and one research institute, the latter, after its reorganization and subsequent transfer to *Rostec* Corporation, is earmarked for transfer, as a 100% stake, to the charter capital of OJSC *Sistemy upravleniia* [Management Systems]² as payment for the placement of additional shares by that joint-stock company by way of increasing its charter capital.

Besides, *Rostec* Corporation transfers stakes in another 65 OJSCs, of which 53 stakes are to become contributions to the charter capital of 4 VISs, which have been struck off the list of strategic organizations, as a form of payment for the placement of additional shares by those joint-stock companies by way of increasing their charter capital. Most of the state stakes being transferred to *Rostec* Corporation can be described as minority stakes: only in 17 out of these 65 OJSCs the State held stakes amounting to between 25% and 50%, and only in 3 companies the state stakes amounted to more than half of their charter capital.

Since the decision concerning the establishment of State Corporation *Rostechologies* in mid-2008, it received shares in 225 JSCs (out of a total of 227 JSCs earmarked for such transfers) and in another 155 JSCs created as a result of reorganization of unitary enterprises (from among those JSCs that had been created by way of privatizing 181 FSUEs).³

One more alteration to the list of strategic organizations consists in the permission issued to *Aeroflot* that it may increase its charter capital by placing an additional issue of shares on condition that the stake held by the Russian Federation remains no less than 50% of votes plus one voting share. However, no big shifts will occur in the capital structure of Russia's national airline because previously the amount of the state stake was determined to be 51.17%. At present, OJSC *Aeroflot - Russian Airlines*, in cooperation with specially selected investment banks, is implementing preparatory measures before placing its shares on the MICEX - with due regard, among other things, for the current situation on the stock market and the best time for such a placement.

¹ By this court ruling, the sellers of *Bashneft* were to pay Rb 70m to *SISTEMA*, see www.m.lenta.ru, 16 February 2015.

² OJSC *Sistemy upravleniia* [Management Systems] is one of the 4 vertically integrated structures to be transferred to *Rostec* Corporation after having struck off the list of strategic organizations.

³ 2014 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, www.rosim.ru, 19 February 2015.

It should be reminded that this denationalization scheme is based on the norms introduced into the law on privatization in the summer of 2006, and it has already been applied to a number of companies. Thus, in 2013, permission was granted to OJSC *ROSSETI*, or Russian Grids, to apply a similar method - although with a higher government corporate control threshold (61.7%).

Another company allowed to reduce the state stake in its charter capital by means of an additional issue of shares will be OJSC Roskartografia (Russian Federal Service of Geodesy and Cartography).¹ *Rosimushchestvo* suggests that strategic investors should acquire up to 49% of shares in that VIS by purchasing shares of the new issue, which will be placed, by closed subscription, with the possibility of using the proceeds for investing in the company's development.

In 2014, in the framework of creation of vertically integrated structures (VIS), the measures mapped in four Presidential Executive Orders concerning 4 VIS were fully implemented (OJSC Concern *Granit-Electron*, *Rosgeo* [Russian Geology], Tactical Missiles Corporation JSK, and *Rosatom State Nuclear Energy Corporation*). Besides, another 13 Presidential Executive Orders and 3 directives of the RF Government were implemented in the same field.

In many of these cases this was the implementation of relevant corporate governance decisions made not in 2014, but in earlier periods. This is true for the *United Shipbuilding Corporation* (USC) (2010), OJSC *Rosspirtprom* and *Russian Hippodromes* JSC (2011), *TsSKB Progress* [State Research and Production Space Centre 'Progress'], *OPK Oboronprom*, FSUE Moscow Institute of Thermal Technology and *Russian Railways* (2012), RSK MiG (Russian Aircraft Corporation MiG), JSC Research and Production Corporation *UralVagon-Zavod*, *United Aerospace Corporation* (2013).²

As demonstrated by these examples, the creation of a VIS is by no means a one-time event, the length of the process depending first of all on the volume of assets to be pooled.

One vivid illustration is the prompt implementation of Presidential Executive Order of 21 February 2014, No 103 on the transfer of 100% stake minus 1 share in JSC *Zarubezhgeologia* to *Rosgeo*'s charter capital, the result of which was the emergence of a holding company comprising 38 enterprises, and the example of *Rosatom State Nuclear Energy Corporation*; in the latter case, the previous year's decision on the reorganization of one FSUE into an OJSC with the subsequent transfer of the entire 100% stake was implemented simultaneously with the similar decisions adopted in 2013 concerning 4 other enterprises.³

As for the decisions made in 2014 with regard to development of other integrated structure, in this connection it should be noted that, in addition to the expansion of *Rostec* Corporation described above, some complicated property integration schemes were suggested for OJSC Concern *VKO Almaz-Antey* and the *United Shipbuilding Corporation* (USC).

¹ *Roskartografia* is a vertically integrated structure which unites 32 affiliated OJSCs and holds stakes of 100% minus 1 share each in their charter capital, thus ensuring its presence on all the markets for geodesic and cartographic products across Russia.

² For a more detailed discussion of issues involved in the creation of *United Aerospace Corporation*, see Malginov G., Radygin A. Public sector and privatization (Section 6) // *Russian Economy in 2013. Trends and Outlooks* (Issue 35). Moscow, IEP. 2014, pp. 404–408, pp. 385–417.

³ Since the moment of its creation, *Rosatom State Nuclear Energy Corporation*'s capital has many times been augmented by various assets. Thus, last year the procedure of transfer to *Rosatom*, by way of property contributions, of the stakes in JSCs created as a result of reorganization of 6 FSUEs was completed, the actual decision concerning these transfers having been made as early as 2012.

The state stakes in 15 OJSCs (of which two are blocking stakes, and the remaining ones are minority stakes) will be transferred to the charter capital of OJSC Concern *VKO Almaz–Antey*. In addition, 1 share of each of 30 OJSCs will be transferred to the charter capital of OJSC *Zavod Navigator*, while one its own shares will go to the charter capital of the Russian Institute of Radionavigation and Time (RIRT).

The plan of transferring to the charter capital of OJSC Concern *VKO Almaz–Antey* of the 100% stakes in OJSC *Zavod Navigator* and the Russian Institute of Radionavigation and Time was abolished after the issuance of Executive Order of the RF President of 5 February 2015, No 56 to the effect that OJSC Concern *VKO Almaz–Antey*, where all 100% of shares are in federal ownership, should be renamed as Aerospace Defense Concern *Almaz–Antey*.

In this connection, to its charter capital a 100% stake minus one share in OJSC Space Special-Purpose Systems Corporation *Kometa* will be transferred to the charter capital of Aerospace Defense Concern *Almaz–Antey*, while the charter capital of *Kometa*, in its turn, will be augmented by a 100% stake minus one share in the JSC created after the reorganization into a joint-stock company of one FSUE - research institute; by a blocking stake in one OJSC; and by one share in another OJSC.

Another asset transferred to *Almaz–Antey* (in its new format) will be 74.5% of shares in OJSC *Zavod Navigator*, whose charter capital will include one share in *Kometa* and 1 share in the aforesaid JSC to be created as a result of reorganization of the FSUE - research institute. The shares in OJSC Russian Institute of Radionavigation and Time, similarly to shares in OJSC *Zavod Navigator*, are earmarked for transfer to the charter capital of *Almaz–Antey* after the completion of the procedures described above.

In order to promote of the shipbuilding industry in the Far East and boost the development of the continental shelf of the Russian Federation in the Far East and the Arctic region, the RF Government has undertaken the sale of a majority stake (75% minus two shares) in OJSC Far Eastern Shipbuilding and Ship Repair Center (Vladivostok) and the 100% stake minus one share in OJSC *30 sudoremontnyi zavod* [Ship Repair Works No 30] (Primorsky Krai) (previously transferred to the charter capital of the *United Shipbuilding Corporation* (USC)). These assets are to be sold to CJSC *Sovremennye tekhnologii sudostroeniia* [Modern Shipbuilding Technologies] (Moscow) at a price no lower than their market price determined on the basis of a report prepared by an independent valuator, while the USC will keep a blocking stake (25% plus one share) in OJSC Far Eastern Shipbuilding and Ship Repair Center. At the same time, the USC's charter capital, by way of payment for the additional shares placed by that OJSC by way of increasing its charter capital, will be augmented by big stakes in OJSC *Dal'nevostochnyi zavod Zverda* (*Zverda* Shipyard) (Primorsky Krai, 53.5%) and Khabarovsk Shipbuilding Plant Company» (approximately 43%).

6.1.4. The Issues of Management of Economic Subjects Operating in the Public Sector of the National Economy

Unitary Enterprises

These economic subjects are regulated by the norm (introduced in late 2012) applied to JSCs with state stakes, whereby their profits should be transferred to the state.

By Decree of the RF Government of 17 April 2014, No 351 alterations were introduced into the current Rules for the development and approval of economic activity programs and for determining the part of profits generated by federal state unitary enterprises (FSUE) that

should be earmarked for transfer to the federal budget (approved by RF Government Decree of 10 April 2002, No 228).

The previous definition of the procedure of determining the amount of profit generated by a FSUE and earmarked for transfer to the federal budget, as well as the amount of profit to remain at the disposal of the enterprise after the deduction of taxes and other mandatory payments (reduced by the amount needed to cover the costs associated with the implementation of measures designed to ensure the enterprise's development and approved as part of its economic activity program for a current financial year (which are funded by net profits), was augmented by the stipulation that this amount should be no less than 25% of the amount of profits to remain at the disposal of the enterprise after it has paid taxes and other mandatory payments, if not otherwise specified by acts issued by the RF Government. The corresponding alterations were also made to the wording of Decree of the RF Government of 3 December 2004, No 739, whereby the powers of federal bodies of executive authority with regard to their ownership rights to property held by FSUEs are regulated.

Some alterations were also made to Articles 113 and 114 of the RF Civil Code (which regulate unitary enterprises) without altering the basic features of that organizational legal form of an enterprise.

These alterations can mostly be boiled down to the introduction, into the RF Civil Code, of direct references to the special Federal Law On State and Municipal Unitary Enterprises of 14 November 2002, No 161-FZ, designed to regulate the grounds for and procedure of their creation and reorganization, their rights to property consolidated to them, their charter, and their legal status. With regard to the procedure of creating a unitary enterprise, the new stipulation appeared to the effect that this should be done on behalf of a public legal entity. At the same time, the RF Civil Code now does not contain any mention of the absence of responsibility, in a general case, of the owner of property held by a unitary enterprise by right of economic jurisdiction for the liabilities assumed by that enterprise; and Article 115 regulating unitary enterprises operating by right of operative management was altogether abolished from 1 September 2014.

Economic Societies with State Participation

When speaking of the issues involved in the management of economic societies with state stakes, we can point to the following main trends.

As demonstrated by the outcome of the annual general shareholder meeting 'campaign' of the corporate year 2014, by the end of summer the compliance discipline had been at a high level, the rate of meetings actually conducted amounting to 94.33%, including 92.16% among the total number of JSCs entered in the Special List approved by directive of the Government of the Russian Federation of 23 January 2003, No 91-r (where the standpoint of the State as a shareholder on a number of the most important issues is to be determined at the government level), 98.34% among the JSCs off the Special List (where the RF is the sole shareholder), and 93.75% among those JSC that are not included in the Special List and with state stakes amounting to more than 2% but less than 100% of their charter capital.

Judging by the results of the general shareholder meetings, they dealt with the issue of establishing the managerial bodies of companies with state participation. In this connection it should be reminded that, according to the existing corporate management tradition in joint-stock companies with state stakes, all the members of a board of directors elected by votes based on stakes held by the State by shareholder right can be divided into several groups:

(1) representatives of the interests of the State, who are civil servants obliged to vote in accordance with the stakeholder's directives, (2) representatives of the interests of the State, who are not civil servants (professional attorneys), act on the basis of a contract and are obliged to vote in accordance with the stakeholder's directives only on a limited range of issues, voting as they themselves see fit on all the other issues, (3) independent directors voting on the basis of their own professional experience and judgment, who have been appointed by applying the established personnel selection criteria. For the sake of simplicity all the persons belonging to the second and third groups are called 'professional directors'.

In accordance with the decisions of the RF Government issued with regard to general shareholder meeting, in the course of the corporate year 2014 a total of 391 candidates to the boards of directors (supervisory boards) of JSCs entered in the Special List were approved, including 197 professional attorneys (out of a total of 206 persons recommended by the special Commission (attached to *Rosimushchestvo*) assigned the task of selection of independent directors, representatives of the shareholder interests of the RF, and independent experts to be elected to the managerial and control bodies of joint-stock companies), 90 independent directors (out of a total of 93 recommended persons) and 104 civil servants (although only 101 persons had been recommended by the Commission).¹

Over the last 5 years, the structure of state participation in the managerial bodies of JSCs entered in the Special List has undergone noticeable changes (*Table 6*).

Table 6

**The Movement and Structure of State Representatives
in the Managerial and Control Bodies of JSCs Entered in the Special List,
in 2010–2014**

Year	JSC, units	State representatives in boards of directors (supervisory boards)								In audit commissions: inde- pendent experts, number
		total		Civil servants		Professional attorneys		Independent directors		
		number	%	number	%	number	%	number	%	
2010	49	386	100.0	193	50.0	117	30.3	76	19.7	...
2011	51	416	100.0	181	43.5	150	36.1	85	20.4	...
2012	57	434	100.0	141	32.5	205	47.2	88	20.3	15
2013 ^a	63	452	100.0	127	28.1	228	50.4	97	21.5	27
2014 ^b	51	391	100.0	104	26.6	197	50.4	90	23.0	45

^a – including OJSC *Novorossiysk Commercial Sea Port*, where only civil servants were elected to the board of directors and audit commissions;

^b – less those 4 JSCs entered in the Special List, for which no relevant decisions had yet been approved by the RF Government.

Source: Year-end 2013 Report on the Management of Federal Stakes in OJSC and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share'); authors' calculations .

While in 2010 civil servants constituted half of the total number of state representatives in boards of directors, in the corporate year 2014 their share was only about 27%. Their place had been taken by professional attorneys, whose share in 2013–2014 was above 50% (vs. 30% in 2010), while in absolute terms their number increased 1.7–1.9 times. The growth of the share of independent directors was more modest: from less than 20% in 2010 to 23% in 2014, while in absolute terms their number increased 1.2–1.3 times. On the whole, over the

¹ The final decisions concerning the appointment of candidates to the managerial and control bodies of JSCs entered in the Special List are approved by the RF Government. By the end of summer, no such decisions had yet been approved for 4 companies.

period 2010–2014, the group of JSCs included in the Special List demonstrated stable growth in the number of professional directors, as a result of which their number per company increased from 3.94 to 5.63, while the number of civil servants dropped from 3.94 to 2.04. In the structure of audit boards in 2014 civil servants prevailed, amounting to approximately 3/4 (or 133 vs. 45 independent experts). However, the total number of the latter over the past 3 years tripled, while their number per company increased from 0.26 in 2012 to 0.9 in 2014.

As for the structure of the managerial bodies of companies not included in the Special List, it should be said that in 842 JSC, where the possession of right to a controlling or blocking stake ensured that state representatives took up a total of 3,920 positions in the boards of directors (or supervisory boards) of JSCs,¹ more than half of them were professional directors (2,094 or 53.4%), while the share of civil servants (1,826) was 46.6%. However, in another 219 JSC with the RF stakes in their charter capital amounting to less than 25%, 100% of the representatives of government interests in the boards of directors (or supervisory boards) were civil servants (approximately 300 positions). Thus, the total number of civil servants participating in the boards of directors (or supervisory boards) of the JSC off the Special List was 2,126 (vs. 3,045 in 2013), which is somewhat higher than the number of professional directors but is indicative shrinkage (by more than 30%) of the share of civil servants.

Table 7

**The Movement and Structure of State Representatives
in the Managerial and Control Bodies of JSCs off the Special List,
in 2010–2014**

Year	JSC, units	State representatives in boards of directors (supervisory boards) (other than civil servants)						In audit commissions: independent experts, number
		total		Professional attorneys		Independent directors		
		number	%	number	%	number	%	
2010	389	707	100.0	493	69.7	214	30.3	...
2011	512	1,109	100.0	830	74.8	279	25.2	...
2012	822	1,860 ^a	100.0	1350	72.6	510	27.4	...
2013	637	1,715	100.0	1092	63.7	623	36.3	335
2014	683 ^b	2,094	100.0	1382	66.0	712	34.0	498

^a – data are also available on the election of 1,869 professional directors;

^b – in addition to those 683 JSC where professional directors were elected to the managerial bodies, there were another 159 JSCs with a controlling or blocking stake held by the State, where decisions concerning their approval had not been passed for various objective reasons.

Source: Year-end 2013 Report on the Management of Federal Stakes in OJSC and the Use of the Russian Federation's Special Right to Participate in an OJSC 's Management ('Golden Share'); authors' calculations

As follows from data presented in *Table 7*, the changes in the structure of professional directors were moderate. The relative share of independent directors increased from 30% in 2010 to 34–36% in 2013–2014, while the share of professional attorneys, on the contrary, slightly declined in spite of the increase in their number by 2.8 times. The number of professional directors sitting on boards of directors (supervisory boards) per company increased from 1.82 to 3.07, while the number per company of independent experts in audit commissions – from 0.53 to 0.73 (over the period 2013–2014).

Thus, these data provide ample proof of the fact that the course (announced back in 2008) towards increasing the participation of professional directors (including independent directors) in the managerial bodies of JSC with state stakes, so that they would gradually replace

¹ Including those 159 JSC where the State holds a controlling or blocking stake, but the decisions concerning their approval had not been passed for various objective reasons.

civil servants, has been implemented rather successfully. At the same time, the emergence of crisis phenomena in the economy resulted in the government's declaration that civil servants would be temporarily returned to the managerial bodies of state companies in order to ensure stricter and more rigorous control (while the scale and timelines for such measures were not specified).¹

In 2014, *Rosimushchestvo* developed a program for the interaction with the communities of professional directors and independent expert elected as representatives of government interests to the managerial and control bodies of joint-stock companies with federal stakes, which were not included in the Special List. In the framework of implementation of that program, the text of *Rosimushchestvo's* Order of 11 October 2013, No 316 'On Approving the Goals and Tasks Associated with Involving Professional Directors and Independent Experts Elected to the Managerial and Control Bodies of Joint-stock Companies with Shares in Federal Ownership, Which Are not Included in the Special List, Approved by Directive of the Government of the Russian Federation of 23 January 2003, No 91-r, in the capacity of Representatives of the Interests of the Russian Federation' was distributed among organizations belonging to the professional business community.

Another innovation introduced into the management of JSC with state participation has been the outsourcing of functions of single executive bodies in a company to asset managers (AM). Four asset managers are now providing these services to 29 joint-stock companies. In order to toughen control over the activity of AM, the Methodological Recommendations for quarterly monitoring of the activity of asset managers, to which the functions of single executive bodies of joint-stock companies with shares in federal ownership (off the Special List) have been delegated, were elaborated and approved in late 2014 by *Rosimushchestvo's* order.

On the whole it can be said that the past year saw some serious progress in the development of model documents designed to standardize the management procedures applied by state-owned companies.

Among the documents approved by *Rosimushchestvo* and applicable to JSC with state participation, we should mention the Methodology for Corporate Governance Quality Self-assessment in Companies with State Participation; the Methodology for Individual Performance Assessment for Members of Boards of Directors; the Methodological Recommendations for Organizing the Work of Corporate Secretary of a Joint-stock Company with State Participation; the Methodological Recommendations for Organizing the Work of Committees for Auditing the Boards of Directors of Joint-stock Companies with the Russian Federation's Participation; the Methodological Recommendations for Drawing up the Provision on Rewards and Compensations for the Members of Audit Commissions; the Methodological Recommendations for Drawing up the Provision on an Audit Commission; the Methodological Recommendations for the Organizing Internal Audits; and the Methodological Recommendations for Determining the Functions of Internal Audit in Holding Companies with the Russian Federation's Participation.

The investment attractiveness and performance of the organizations operating in the public sector of Russia's economy should be boosted by the introduction of the Methodological Recommendations for applying the key performance indicators (KPI) for state corporations, state companies, state unitary enterprises, as well as economic societies with the aggregate state stakes, including the regional level, in excess of 50% of their charter capital; the Methodolog-

¹ *V tochke krizisa, no bez strakha* [In the Center of Crisis, but without Fear] // *Rossiiskaia gazeta* [The Russian Newspaper], 15 January 2015, No 4 (6575), pp. 1, 4.

ical Recommendations for the development of Long-term Strategic Development Programs of OJSC and FSUE, as well as OJSC with the Russian Federation's stakes in excess of 50% of their charter capital; Model Standards for Audits of the Implementation of Long-term Development Programs of OJSC entered on the Special List, with a sample technical assignment for the conduct of such an audit. The Methodological Guidelines for determining the specific categories of assets owned by state-owned companies depending on their core types of activity were introduced in a new wording.

At the very end of the year 2014, the Methodological Recommendations for the procedure of alienation of assets unrelated to the core types of activity of federal treasury enterprises and federal state institutions; the Model Provision on the procedures of purchases for the needs of JSCs with state participation; and the Methodological Recommendations for the development of dividend policy in such companies were approved.

The following draft documents have been prepared: the Methodological Recommendations for assessing the personal performance levels of internal auditors; and the model charter of a joint-stock company with a single 100% stake held by the Russian Federation, whose shares are to be alienated from federal ownership in the framework of a forecast plan (program) of federal property privatization. The latter is designed to restrict the powers of the managerial bodies of those JSCs to dispose of corporate property and to increase the responsibility of their single executive bodies during the pre-privatization period, including the issues of disclosure of information that must be published in a mandatory procedure in sources freely accessible to the public, and the submission, in response to *Rosimushchestvo's* requests, of documents and information necessary for valuating the assets held by a JSC and their pre-sale preparation.

An analysis of the year-end results of 2013, which was the first significantly long period for the renewed dividend policy mechanism being applied by companies with state participation (after the introduction of the norm stipulating that no less than 25% of net profit was to be earmarked for the payment of dividends), revealed an improvement in the 'dividend discipline'.

The total volume of federal budget revenue administered by *Rosimushchestvo*, in the form of charged dividends on shares held by the State, with due regard for the decisions approved by annual general shareholder meetings as of the end of summer 2014, amounted to more than Rb 220bn.

In full compliance with the forecast of dividend receipts in the federal budget, the year end results of 2013 showed that approximately 2/3 of the total amount of dividends charged on the shares held by the RF was paid by JSC on the Special List. The group of 9 biggest payers of dividends to the federal budget (in amounts in excess of Rb 1bn) consists of OJSC *Gazprom*, *ROSNEFTEGAZ*, VTB Bank, JSC *Transneft*, OJSC *Alrosa*, OJSC *Rostelecom*, *Rusgidro*, JSC *Zarubezhneft*, and the Agency for Housing Mortgage Lending (AHML).

More than 2/3 companies on the Special List (or 34 JSCs) earmarked for the payment of dividends no less than 25% of their net profit, as determined on the basis of their year-end reports of 2013. The main reason for the downward deviation of the amount of dividends from the target norm established by RF Government Directive No 774-r of 29 May 2006, introduced in the wording approved as of the end of 2012, was the loss incurred by state-owned companies by the end of a reporting period. Out of the 12 JSCs on the Special List with regard to which the RF Government issued decisions that they were not to pay dividends on the basis of their year-end reports for 2013, 10 companies were allowed not to pay dividends due

to their losses. For another 8 JSCs, as of the end of summer of 2014 no decisions concerning their payment of dividends were issued.

As seen by the year-end results of 2013, for 5 JSCs on the Special List (*Aeroflot – Russian Airlines, Alrosa, Rusgidro, Rostelecom, Transneft*) the amount of dividends to be paid to the federal budget was charged on the basis of financial reports drawn up in accordance with the International Financial Reporting Standards (IFRS), while the aggregate amount of dividends charged by these companies for the year 2013 increased on the corresponding index for the same period of the previous year (calculated in accordance with the Russian Accounting System (RAS)) by more than 30%.¹

In this connection it should be noted that, judging by the materials attached to the new draft of the federal budget for the next 3-year period drawn up by the government, the dividends on federal stakes are treated as a very important source of revenue generated by the use of state property. Thus, the dividend target for the 2015 federal budget is Rb 251.5bn, for 2016 – Rb 162.5bn, and for 2017 – Rb 221.7bn.

These target figures vary so greatly due to the planned one-time transfer to the federal budget of revenue in the form of dividends on shares in OJSC *Rosneftegaz* as a result of sale of a stake in OJSC *Oil Company Rosneft* (Rb 100bn) planned for in 2015 (alongside the payment of dividends in the amount of Rb 29bn on the basis of the year-end results of 2014); so, the aggregate amount of dividends to be transferred to the budget in the next 2016 will be inevitably smaller. In 2017, the bulk of the amount of dividends on shares held by the State will be constituted by the increased dividends on shares in OJSC *Gazprom* (by Rb 48.1bn) resulting from the proposal put forth by that company that it would earmark as dividends a certain part of its net profits determined on the basis of a consolidated financial report. At the same time, the potential effect of applying that measure to other companies remains unspecified.

As for the other types of federal budget revenues from the use of state property in the form of tangible assets (lease payments for land and property, transfer of profits generated by unitary enterprises), these are only supplementary.

However, on the whole the amount of revenues from the use of state property, similarly to revenues generated by privatization, will be strongly influenced by the macroeconomic situation; this is especially true for the revenues generated by the government's activity in the capacity of an economic subject (dividends and transfer of profits received by unitary enterprises). Besides, we must point to the effects of the economic sanctions imposed against Russia, which could be felt first of all by state-owned companies; to the necessity to launch the big investment project in the fuel and energy complex (the development of new oil fields, the construction of the *Sila Sibiri* [The Strength of Siberia] gas pipeline, and re-formatting of the South Stream Pipeline Project); the possible effect of de-offshorization and implementation of measures necessary for the adaptation to the new economic situation and announced by this country's top political leadership (centralization of control over the settlements across big state-owned companies, which have an intricate network of affiliations and dependent entities; orientation to cost reduction; import substitution; attraction of small and medium-sized businesses as subcontractors).

An important goal for the managerial bodies of all the companies with state participation for the next few years will be the implementation of the norms stipulated in the new Corporate Governance Code.

¹ Year-end 2013 Report on the Management of Federal Stakes in OJSC and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share').

Its draft was on the whole approved by the Russian Government as of 13 February 2014, and then approved as of 21 March 2014 by the Board of Directors of the Bank of Russia, which performs the functions of a megaregulator of the Russian financial market. The Code is recommendatory, the RF Central Bank has suggested that its norms should be applied by those joint-stock companies whose securities are listed in an organized bidding or are being prepared for listing therein. The use of the norm stipulated in the Corporate Governance Code will make it possible for Russian JSCs, including state corporations and joint-stock companies with state participation, to get basic targets necessary for the implementation of state-of-the-art corporate governance standards adjusted to the specificities of Russian legislation and the Russian market practices of interaction between shareholders, members of boards of directors (or supervisory boards), executive bodies, employees and other related parties involved in the economic activity of joint-stock companies.

In spite of its recommendatory nature, the Corporate Governance Code is already applied by 13 biggest state-owned companies, while *Rosimushchestvo* is preparing a methodology for assessing the effect of its implementation.¹

Last year also saw a continuation of the theme of the so-called 'golden parachutes' for CEOs of state-owned companies.

When in 2013, by a court ruling, the decision of the board of directors of *Rostelecom* (the state stake in its capital amounting to approximately 47%) that its former CEO should receive, after the early termination of his contract, an employment termination payment amounting to more than Rb 200m was deemed to be null and void, the State Duma on the crest of a wave of negative response in society approved the government draft law whereby the amount of such compensations for CEOs was restricted.

The corresponding amendments to the RF Labor Code (LC) were introduced by Federal Law No 56-FZ of 2 April 2014. These restrictions are applied to heads of companies (directors), their deputies, head accountants and members of the collegial executive bodies (employed in the framework of labor contracts) of state corporations, state-owned companies, as well as economic societies with state or municipal stakes amounting to more than 50% of their charter capital; and to heads (directors), their deputies, head accountants of government off-budget funds, state or municipal institutions, and state or municipal unitary enterprises.

All these categories of CEOs are now granted the right to a compensation, to be paid in an event of transfer of the title to property formerly held by their employer, or in an event of termination of their labor contract on the initiative of the owner of property held by a given organization, in the absence of culpable actions (of failure to act), only in the amount of their 3-fold average monthly salary, although the compensation proposed in the initial version of the government draft law corresponded to the amount of their 6-fold average monthly salary.

However, in the autumn of 2014, the court of cassation recognized the decision of *Rostelecom's* board of directors concerning the employment termination payment to its former CEO Alexander Provotorov in the amount of Rb 200.88m to be lawful. The arbitration court of Moscow's North-Western District annulled the previously issued rulings of the two lower instances, and fully considered and formally rejected the plaintiffs' claims; whereas the court of first instance had agreed that *Rostelecom's* board of directors had calculated the said 'golden parachute' 'on the basis of the highest premium without proper substantiation,² and on the

¹ www.rosim.ru, 30 October 2014, 3 December 2014.

² According to pure general logic, the payment of bonuses for future periods as part of a compensatory payment appears to be rather dubious, because the amount of a bonus depends on the company's future performance level.

basis of 'a fixed income unrelated to the previously paid salary'. By doing so, 'the board of directors significantly violated the rights of shareholders to governance and the receipt of dividends.'¹ Nevertheless, in the end the conflict was resolved, in early 2015, by the repayment of the money in question back to OJSC *Rostelecom*.²

To a certain extent, it can be believed that the authorities' response to these issues was Executive Order of the RF President of 12 December 2014, No 778, whereby alterations were introduced to the similar Executive Order as of 10 June 1994, No 1200. In particular, it abolished the list of mandatory terms to be stipulated in the labor contracts concluded with heads of federal state-owned enterprises (the period of contract; the minimum amount of reimbursement; the amount of share in a company's profits; the amount of compensation to be paid in an event of early termination of the labor contract on the initiative of their employer or resettlement in another locality; social guarantees to heads of companies and their families in an event of death or disability; the rights and responsibilities associated with corporate governance; reporting procedures; the procedure and conditions of early termination of the labor contract; the responsibility for violation of the terms stipulated in the labor contract and for the company's performance).

The other norms of the 20-year-old presidential Executive Order that should be deemed to be null and void are as follows: the requirements to government representatives in those JSCs whose shares are consolidated in federal ownership, in the part relating to the content of contracts envisaging that government interests are to be represented by persons other than civil servants; and the procedure of coordinating draft decisions and the voting procedure with the relevant bodies of authority.³

Early in 2015, the Provision on the terms of reimbursement of heads of state-owned enterprises established at the moment of concluding their labor contracts, which had been in force since 1994, was also made null and void.

By Decree of the RF Government of 2 January 2015, No 2 the new Provision on the amount of reimbursement of heads of FSUEs was approved. In accordance with this document, the reimbursement to be paid to heads of enterprises will consist of: (1) salary corresponding to their job description, (2) compensation payments, and (3) benefits (incentives).

The first component is to be determined by the company's founder represented by a federal body of executive authority or an organization performing its functions and executing its powers relating to the conclusion and termination of labor contract with the head of an enterprise, depending on the complexity of duties associated with the job, the scale of governance and the specificity of the enterprise's activity and its importance.

The second component is based on references to the norms stipulated in the RF Labor Code and other normative legal acts addressing labor law issues. As for the payments classified as perks, their amount and frequency are determined by the founder with due regard for the economic performance indices, achieved by a given enterprise and approved by the founder, over a relevant period as a result of personal efforts contributed by the head of enter-

¹ *Sud priznal zakonnyim 'zolotoi parashut' eks-glavy Rostelekoma Provotorova v 200 mln rub.* [The Court Recognized to Be Lawful the 'Golden Parachute' of *Rostelecom*'s Ex-head Provotorov in the Amount of Rb 200m]. 29 October 2014, ITAR-TASS.

² *Provotorov otstegnul parashut* [Provotorov Unlatched His Parachute], www.comnews.ru, 13 January 2015.

³ it may be assumed that these provisions are no longer relevant due to the emergence of a robust normative-legal base regulating corporate governance issues in companies with state participation, which was gradually evolving in the course of the 2000s, after the elaboration of the 1999 Concept of State Property Management and Privatization in the Russian Federation.

prise in order to achieve the main goals and perform the main functions as defined in the enterprise's charter.

However, the main innovation in the regulation of the procedure of reimbursement of heads of enterprise is probably the ceiling on the ratio of the average monthly salary of heads (directors), their deputies, and head accountants to the average monthly salary in a given enterprise (less the salaries paid to its head (director), deputy directors, and the head accountant), which is to be established by the founder in the interval between 1 and 8. This index may be different for the enterprises entered on the list approved by the RF Government and those subordinated to the Executive Office of the RF President.

6.1.5. State Property Management and the Program and Targets of the New Three-year Budget

Further prospects with regard to the management of the entire state property complex should be viewed through the prism of the new Government Program (GP) *Federal Property Management*, approved by Decree of the RF Government of 15 April 2014, No 327, which has replaced the previous GP with the same title that was applied as a guideline for a period of approximately 14 months.¹ The reasons for such a replacement are not quite clear. At the official level the adoption of the new document is explained by the latest alterations to Article 179 of the RF Budget Code and the need to bring the existing normative base in conformity with Decree of the RF Government of 17 October 2013, No 931, whereby numerous alterations were made to the Procedure for the Development, Implementation and Performance Assessment of the Government Programs of the Russian Federation, approved by the RF Government's Decree as early as the summer of 2010.

The numerical targets stipulated in the new Government Program (GP) *Federal Property Management*, to be in force until 2018, are generally compatible with the corresponding targets in the 2013 Program. It should be reminded that these are targets like, for example, the relative shares of federal property entities (by category) with their specifically determined target functions (unitary enterprises, economic societies with state stakes, state institutions, entities held by the RF Treasury); the rates of decline in the number of entities (by main category) (for enterprises and JSC – per cent per annum, for property entities and land plots held by the RF Treasury and not involved in economic turnover – per cent change on 2012 (with the exception of entities whose turnover is restricted, or entities withdrawn from turnover)); indicators of changes in the technological evolution of the processes of federal property management; and some other targets. At the same time, the newly adopted document, in contrast to the 2013 Program, lacks the targets achievable in the event of allocation of additional resources.

The new Government Program will be implemented under rather difficult conditions associated with budget constraints. In the new 2014 GP, the targets stipulated in the previously introduced federal budget for the period 2014–2016 are applied as a basis for estimating the volumes of budget allocations.

In the newly adopted Law on Federal Budget for the Period 2015–2017, budget expenditure, in addition the funding of all the other government programs, also includes budget allocations to the implementation of the Government Program *Federal Property Management*,

¹ For a more detailed discussion of the 2013 government program, see Malginov G., Radygin A. Public sector and privatization (Section 6) // Russian Economy in 2012. Trends and Outlooks (Issue 34). Moscow, IEP. 2013, pp. 433–475.

approved by Decree of the RF Government of 15 April 2014, No 327 in the amount of Rb 27.9 bn in 2015, Rb 25.4bn in 2016, and Rb 26.2bn in 2017. Approximately 80% of these monies is to be spent on the subprogram *Management of State-owned Material Reserve*.

The allocations to another subprogram titled *Improvement of Federal Property Management and Privatization Efficiency* amount to Rb 5,408.5m in 2015, Rb 5,124.1m in 2016, Rb 4,953.9m in 2017. Meanwhile, the Government Program offers the following expenditure targets: Rb 5,298.9m, Rb 5,138.9m, and Rb 5,158.6m respectively. Thus, the amount of budget allocations for 2015 as stipulated in the Law on Federal Budget is increased (by comparison with that stipulated in the GP's passport) by Rb 109.6m; however, for 2016 it is reduced by Rb 14.8m, and for 2017 – by Rb 204.7m.

As follows from the explanatory note attached to the Federal Law on Federal Budget for the Period 2015–2017, in 2015 the amount of budget allocations to the RF Federal Agency for State Property Management (*Rosimushchestvo*) earmarked for the subprogram *Improvement of Federal Property Management and Privatization Efficiency* is to be increased (by Rb 87.0m) in the main to cover the cost of legal services needed to protect the property interests of the Russian Federation in accordance with the decisions and recommendations of the Russo-Indian Intergovernmental Commission (IGC) on trade, economic, scientific, technical, and cultural cooperation.

The most substantial reduction in the amount of allocations is planned for 2017 when, as a result of the delegation to the Federal Alcohol Market Regulation Service, in accordance with Decree of the RF Government of 22 May 2013, No 430 'On Reprocessing or Destruction of Ethyl Alcohol, Alcoholic Beverages and Alcohol-containing Products Withdrawn from Unlawful Turnover, and on Destruction Thereof in the Event of Their Confiscation' of the functions of a state customer associated with the placement of government orders for services involving the transportation, storage, reprocessing and destruction of confiscated alcoholic beverages and alcohol-containing products, the amount of budget allocations to *Rosimushchestvo* planned for 2017 in the amount of Rb 50.0m will be redistributed in favor of the government program *Government Finance Management and Financial Market Regulation*.

In general, over the period after 2015, in the framework of the subprogram *Improvement of Federal Property Management and Privatization Efficiency*, gradual reduction in the amount of expenditure is planned in per annum terms, by 5.3% (Rb 284.4m) in 2016 and by 3.3% (Rb 170.2m) in 2017. However, it should be borne in mind that the overall situation in which the budget will be executed this year may necessitate some new adjustments to the volume of budget allocations to the Government Program *Federal Property Management* as a whole.

In this connection it should be noted that the switchover, in the sphere of state property management, to budget expenditure planning based primarily on target programs has obviously resulted - rather paradoxically - in lower transparency of the procedures of budget allocation distribution.

The expenditure targets stipulated in Annexes 18 and 20 to the Federal Law on Federal Budget for the Period 2015–2017 (of 1 December 2014, No 384-FZ) for the Government Program *Federal Property Management* in the framework of the subprogram *Improvement of Federal Property Management and Privatization Efficiency* with regard to more general goals (expenditures on personnel reimbursement, purchased of goods, work and services for government needs, other budget allocations) make it impossible to accurately estimate the amounts allocated to specific directions of government property policies.

Meanwhile, in the Law on Execution of the Federal Budget in 2013, in the framework of by-department expenditure structure, *Rosimushchestvo* was allocated budget funding with regard to items like 'Provision for and Execution of Pre-sale Preparation and Sale of Federal Property, and Reorganization of FSUEs' (Rb 449.8m); 'Upkeep and Servicing of the RF Treasury' (Rb 233.9m); Valuation of Immovables, Recognition of Rights and Regulation of State Ownership Relations' (Rb 64.85m); and Management Federal Shares (or Stakes) in Economic Societies' (Rb 17.5m). However, no data is available with regard to the actual execution of the Government Program *Federal Property Management* for 2013.

6.1.6. The Budgetary Effect of Government Property Policy

In 2014, in contrast to the situation in 2013, the movement of budget revenues associated in one or other way with state property was bi-directional. The revenues generated by the use of state property (renewable sources) increased alongside the declining revenues from privatization and sale of property (non-renewable sources).

Below (in *Tables 8* and *9*) were present the data on revenues taken from the laws on federal budget execution for 2000–2014 (with the exception of last year's data) generated by the use and sale of state property belonging to specified categories of tangible property entities.¹

¹ We do not consider here the federal budget revenues generated by payments for the use of natural resources (including biological water resources, revenues from the use of forest fund, and the extraction of mineral resources); compensation of losses incurred by agricultural production sector; revenues from the confiscation of agricultural land; revenues generated by financial operations (revenues from placement of budget funds (revenues from federal budget residuals and their investment; from 2006 onwards these include the revenues from the management of the RF Stabilization Fund (from 2009 onwards – the Reserve Fund and the National Welfare Fund); revenues from investment of monies accumulated in the course of trading RF stocks in the auction market); interest on budget-funded domestic loans, interest on government loans (monies received from the governments of foreign countries and foreign legal entities as interest payments on RF government loans; money transfers from legal entities (enterprises and organizations), RF subjects, municipal formations received as interest and guarantee payments on loans received by the RF from foreign governments and international financial organizations)); revenues from paid services rendered to the population or monies received by way of compensation of government expenditures; transfers of the RF Central Bank's profits; certain categories of payments from state and municipal enterprises and organizations (patent duties and registration fees for official registration of software, databases, integral microcircuit topologies; and other revenues which until 2004 were part of mandatory payments of state organizations (except revenues generated by the operations of Joint Venture *Vietsovpetro* (from 2001) and transfers of part of profits generated by FSUEs (from 2002)); revenues from the implementation of product share agreements (PSA); revenues from the disposal of confiscated and other property earmarked as government revenue (including property transferred to state ownership in the procedure of inheritance or gift, or treasure trove appropriation); revenues generated by lotteries; other revenues from the use of property and rights in federal ownership (revenues from the execution of rights to the results of intellectual activity (R&D and technologies) intended for military, special or dual use; revenues generated by the execution of rights to the results of scientific and technological research held by the RF; revenues generated by the exploitation and use of property relating to motor roads, motor road levies imposed on transport vehicles registered in the territories of other states; execution of the Russian Federation's exclusive right to the results of intellectual activity in the field of geodesy and cartography; and other revenues from the use of property in the ownership of the Russian Federation); revenues generated by organizations from the permitted types of economic activity and earmarked for transfer to the federal budget; revenues from realization of government reserves of precious metals and precious stones.

Table 8

**Federal Budget Revenues Generated by Use of State Property (Renewable Sources)
in 2000–2014, Rb million**

Year	Total	Dividends on shares (2000–2014) and revenues generated by other forms of participation in capital (2005–2014)	Payment for lease of land in state ownership	Revenues generated by lease of property in state ownership	Revenues for transfer of part of net profits of FSUEs after taxes and other mandatory payments	Revenues generated by Joint Venture <i>Vietsovpetro</i>
2000	23,244.5	5,676.5	-	5,880.7	-	11,687.3 ^a
2001	29,241.9	6,478.0	3,916.7 ^b	5,015.7 ^c	209.6 ^d	13,621.9
2002	36,362.4	10,402.3	3,588.1	8,073.2	910.0	13,388.8
2003	41,261.1	12,395.8		10,276.8 ^e	2,387.6	16,200.9
2004	50,249.9	17,228.2	908.1 ^f	12,374.5 ^g	2,539.6	17,199.5
2005	56,103.2	19,291.9	1,769.2 ^h	14,521.2 ⁱ	2,445.9	18,075.0
2006	69,173.4	25,181.8	3,508.0 ^h	16,809.9 ⁱ	2,556.0	21,117.7
2007	80,331.85	43,542.7	4,841.4 ^h	18,195.2 ⁱ	3,231.7	10,520.85
2008	76,266.7	53,155.9	6,042.8 ^h	14,587.7 ⁱ	2,480.3	-
2009	31,849.6	10,114.2	6,470.5 ^h	13,507.6 ⁱ	1,757.3	-
2010	69,728.8	45,163.8	7,451.7 ^h	12,349.2 ^j	4,764.1	-
2011	104,304.0	79,441.0	8,210.5 ^h	11,241.25 ^j	4,637.85	773.4
2012	228,964.5	212,571.5	7,660.7 ^k	3,730.3 ^l	5,002.0	-
2013	153,826.25	134,832.0	7,739.7 ^k	4,042.7 ^l +1,015.75 ^m	6,196.1	-
2014	241,169.45	220,204.8	7,838.7 ^k	3,961.65 ^l +1,348.5 ^m	7,815.8	-

^a – according to data released by the RF Ministry of Property Relations, in the Law of Federal Budget Execution in 2000 this item was not specified separately, instead the amount of payment received from state-owned enterprises was entered (Rb 9,887.1m) (without any components being specified);

^b – the amount of lease payments (i) for the use of agricultural land and (ii) for the use of land plots in the territories of towns and settlements;

^c – the amount of revenues from the lease of property consolidated to (i) scientific research organizations, (ii) educational establishments, (iii) healthcare institutions, (iiii) state museums, state cultural and arts institutions, (iiiii) archival institutions, (iiiii) the RF Ministry of Defense, (iiiii) organizations subordinated to the RF Ministry of Railways, (iiiii) organizations providing research-related services to the academies of sciences with the status of a state entity, and (iiiii) other revenues from the lease of property in state ownership;

^d – according to data released by the RF Ministry of Property Relations, in the Law of Federal Budget Execution in 2001 this item was not specified separately, this value turned out to be the same as the amount of other revenues received as part of payments transferred by state and municipal organizations;

^e – total amount of revenues generated by the lease of property entities in state ownership (without specifying the amount of lease payments for land);

^f – the amount of lease payments (i) for the use of land plots in the territories of towns and settlements (ii) for the use of land plots in federal ownership after the delineation of titles to land plots between different tiers of government;

^g – the amount of revenues from the lease of property consolidated to (i) scientific research organizations, (ii) educational establishments, (iii) healthcare institutions, (iiii) state cultural and arts institutions, (iiiii) state archival institutions, (iiiii) institutions of the federal postal service of the RF Ministry of Communications and Informatization, (iiiii) organizations providing research-related services to the academies of sciences with the status of a state entity, and (iiiii) other revenues generated by the lease of property in federal ownership;

^h – the amount of lease payments after the delineation of titles to land plots between different tiers of government and revenues generated by the sale of right to conclude lease agreements in respect of land plots in federal ownership (with the exception of land plots held by federal autonomous institutions (2008–2011) and budget-funded institutions (2011));

ⁱ – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them, and property held by right of economic jurisdiction by FSUEs: properties transferred for operative management to organizations with the status of a state entity (i) scientific research institutions, (ii) organizations providing research-related services to the Russian Academy of Sciences and to sectoral academies of sciences, (iii) educational establishments, (iiii) healthcare institutions,

(iiiiii) federal postal service institutions of the Federal Communications Agency (*Rossvyaz*), (iiiiiii) state cultural and arts institutions, (iiiiiiii) state archival institutions, and (iiiiiii) the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them, and property held by right of economic jurisdiction by FSUEs¹ (for the period 2006–2009 - less revenues from the permitted types of economic activity and revenues from the use of federal properties situated outside of RF territory, which are received abroad and were not listed as a separate item in the *в* previous years);

^j – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them ((with the exception federal autonomous institutions and budget-funded institutions): properties transferred for operative management to organizations with the status of a state entity (i) scientific research institutions, (ii) organizations providing research-related services to the Russian Academy of Sciences and to the ‘branch’ academies of sciences, e.g. the Russian Academy of Medical Sciences, etc., (iii) educational establishments, (iiii) healthcare institutions, (iiiiii) state cultural and arts institutions, (iiiiiii) state archival institutions, (iiiiiiii) properties held by right of operative management by the RF Ministry of Defense its subordinated institutions (2010), (iiiiiii) properties in federal ownership disposed of by the Executive Office of the RF President (2010), and (iiiiiii) revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (less revenues from the permitted types of economic activity and revenues from the use of federal properties situated outside of RF territory, which are received abroad);

^k – the amount of lease payments after the delineation of titles to land plots between different tiers of government and revenues generated by the sale of right to conclude lease agreements in respect of land plots in federal ownership (with the exception of land plots held by federal autonomous institutions and budget-funded institutions), and (i) lease payments received for the lease of land plots in federal ownership, situated in public motor road precincts of federal importance (2012–2013.), and (ii) payments for the execution of agreements on the establishment of servitude with regard to land plots situated within public motor road precincts of federal importance for the purposes of construction (or reconstruction), capital repairs and exploitation of road service entities, installation and exploitation of utility networks, installation and exploitation of elevated advertising structures (only for 2012 and 2014);

^l – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (with the exception of autonomous and budget-funded institutions): properties transferred for operative management to organizations with the status of a state entity (i) scientific research institutions, (ii) educational establishments, (iii) healthcare institutions, (iiii) state cultural and arts institutions, (iiiiii) state archival institutions, (iiiiiii) other revenues from the lease of property held by right of operative management by federal treasury institutions, (iiiiiii) federal bodies of state authority, the Bank of Russia, and the managerial bodies of government off-budget funds (less revenues from the use of federal properties situated outside of RF territory, which are received abroad);

^m the amount of revenues from the lease of RF treasury property (with the exception of land plots).

Source: Law of Federal Budget Execution for the period 2000–2013.; Report on Federal Budget Execution as of 1 January 2015 (monthly report), www.roskazna.ru; authors' calculations.

In 2014, the aggregate revenue generated by renewable sources increased on the previous year by nearly 57%.

In connection with our analysis of the preliminary data on the budgetary effects of government property policies in 2014, it should be noted that, first of all, there occurred a increase on 2013 (by more than 1.6 times) of the amount of dividend receipts in absolute terms (Rb 220.2bn), representing a record high for the entire period since the early 2000s, which is above the peak value of this index for 2012 (Rb 212.6bn). The index of the part of net profits transferred by unitary enterprises rose by more than 1/4 to a level above Rb 7.8bn.

¹ For the period 2008–2009, there is no mention of FSUEs as sources of revenues generated by the lease of property consolidated to them by right of economic jurisdiction, while the revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them does not include revenues generated by property held by autonomous institutions.

The amount of budget revenues generated by lease of land increased only slightly (by 1.3%), amounting to more than Rb 7.8bn.¹ Somewhat higher growth (by approximately 5%) was demonstrated by the aggregate revenues from lease of federal property (Rb 5.3bn). These results were achieved due to growth (by nearly 1/3) in the amount of revenues generated by lease of RF treasury property (with the exception of land plots) (approximately Rb 1.35bn), which began to be entered as a separate item into budget reports from 2013 onwards, whereas revenues from the lease of other property declined.

As a result, dividends accounted for the bulk of federal budget revenue received from renewable sources (more than 91% vs. less than 88% a year earlier). The relative shares of the other sources were almost negligible: lease of land – 3.3%; profits transferred by FSUEs – 3.2%; lease of property – 2.2%.

While proceeding to an analysis of federal budget revenues generated by privatization and sale of state property (*Table 9*), it should be noted that, from 1999 onwards, the revenues from sales of such assets (state stakes, and over the period 2003–2007 - also land plots²) have been treated as a source of funding to cover budget deficit.

Table 9

**Federal Budget Revenues Generated by Privatization and Sale of Property
(Non-renewable Sources) in 2000–2014, Rb million**

Year	Total	Sale of shares in federal ownership (2000–2014) and other forms of participation in capital (2005–2014) ^a	Sale of land plots	Sale of miscellaneous properties
2000	27,167.8	26,983.5	-	184.3 ^b
2001	10,307.9	9,583.9	119.6 ^c	217.5+ 386.5+0.4 (ITA) ^d
2002	10,448.9	8,255.9 ^e	1,967.0 ^f	226.0 ^g
2003	94,077.6	89,758.6	3,992.3 ^h	316.2+10.5 ⁱ
2004	70,548.1	65,726.9	3,259.3 ^j	197.3+1,364.6+0.04 (ITA) ^k
2005	41,254.2	34,987.6	5,285.7 ^l	980.9 ^m
2006	24,726.4	17,567.9	5,874.2 ⁿ	1,284.3 ^o
2007	25,429.4	19,274.3	959.6 ^p	5,195.5 ^q
2008	12,395.0	6,665.2+29.6	1,202.0 ^r	4,498.2+0.025 (ITA) ^f
2009	4,544.1	1,952.9	1,152.5 ^q	1,438.7 ^f
2010	18,677.6	14,914.4	1,376.2 ^q	2,387.0+0.039 (ITA) ^f
2011	136,660.1	126,207.5	2,425.2 ^q	8,027.4 ^f
2012	80,978.7	43,862.9	16,443.8 ^q	20,671.7+0.338 (ITA) ^f
2013	55,288.6	41,633.3	1,212.75	12,442.2+0.310 (ITA) ^f
2014	41,154.65	29,724.0	1,912.6	9,517.0+1.048(ITA) ^f

^a – treated as an internal source of funding to cover federal budget deficit, amount to Rb 29.6m for 2008 (as stated in the Report on Federal Budget Execution as of 1 January 2009); this is a federal budget revenue item, but it is absent in the Law of Federal Budget Execution in 2008;

^b – revenues generated by privatization of entities in state ownership and treated as an internal source of funding to cover federal budget deficit;

^c – revenues generated by sale of land plots and the right to lease land plots in state ownership (with special entry concerning those land plots in which privatized enterprises are situated), treated as federal budget revenues;

^d – the amount of revenues generated by (1) sale of property in federal ownership, treated as an internal source of funding to cover federal budget deficit, (2) revenues generated by (i) sale of apartments, (ii) sale of state produc-

¹ The amount of lease payments for land plots, just as a year earlier, includes lease payment received for the lease of land plots in federal ownership situated in public motor road precincts of federal importance, payments for the execution of agreements on the establishment of servitude with regard to land plots covered by the right-of-way for general-use motorways of federal importance for the purposes of construction (or reconstruction), capital repairs and exploitation of road service entities, installation and exploitation of utility networks, and installation and exploitation of elevated advertizing structures, which are not specified as a separate item in the budget reports for 2013.

² Data for the period 2003–2004 include revenues generated by sale of leasing rights.

tion and non-production assets, transport vehicles, other equipment and tangible assets, and (3) revenues generated by sale of intangible assets (ITA), treated as federal budget revenues;

^e – including Rb 6m generated by sale of shares held by RF subjects;

^f – revenues generated by sale of land and intangible assets, their amount not specified as a separate entry, treated as federal budget revenues;

^g – revenues generated by sale of property in state ownership (including Rb 1.5m generated by the sale of properties held by RF subjects), treated as an internal source of funding to cover federal budget deficit;

^h – this figure includes revenues generated by: (1) sale of land plots in which immovable property entities are situated, which prior to their alienation were federal property, the proceeds being transferred to the federal budget, (2) sale of other land plots, as well as sale of the right to conclude lease agreements in respect of those land plots, (3) sale of land plots after delineation of titles to land plots, as well as sale of the right to conclude lease agreements in respect of those land plots, the proceeds being transferred to the federal budget; these are treated as an internal source of funding to cover federal budget deficit;

ⁱ – the sum of (1) revenues generated by sale of properties in federal ownership, treated as an internal source of funding to cover federal budget deficit, and (2) revenues generated by sale of intangible assets, treated as federal budget revenues;

^j – this figure includes the revenues generated by: (1) sale of land plots after delineation of titles to land plots, in which immovable property entities are situated, which prior to their alienation were federal property, the proceeds being transferred to the federal budget, (2) sale of other land plots, as well as sale of the right to conclude lease agreements in respect of those land plots, (3) sale of land plots after delineation of titles to land plots, as well as sale of the right to conclude lease agreements in respect of those land plots, the proceeds being transferred to the federal budget; these are treated as an internal source of funding to cover federal budget deficit;

^k – the sum of (1) revenues generated by sale of properties in federal ownership, treated as an internal source of funding to cover federal budget deficit, (2) revenues generated by (i) sale of apartments, (ii) sale of equipment, transport vehicles and other tangible assets, the proceeds being transferred to the federal budget, (iii) sale of the products of ships recycling industry, (iiii) sale of property held by state unitary enterprises and state institutions, as well as sale of military property, (iiiii) sale of the products of recycled armaments, military technologies and ammunition, (3) revenues generated by sale of intangible assets (ITA); these are treated as federal budget revenues;

^l – this figure includes the revenues generated by: (1) sale of land plots after delineation of titles to land plots, in which immovable property entities are situated, which prior to their alienation were federal property, (2) sale of land plots after delineation of titles to land plots, the proceeds being transferred to the federal budget, (3) sale of other land plots, which prior to the delineation of titles to land plots between different tiers of government were state property, and which are not earmarked for housing construction (this subdivision is true only with regard to data for 2006), treated as sources of funding to cover federal budget deficit;

^m – revenues generated by sale of tangible and intangible assets (less federal budget revenues generated by disposal and sale of confiscated property and other property treated as government revenue), this figure includes revenues generated by (i) sale of apartments, (ii) sale of property held by FSUEs, (iii) sale of property held by right of operative management by federal institutions, (iiii) sale of military property, (iiiii) sale of the products of recycled armaments, military technologies and ammunition, (iiiii) sale of other properties in federal ownership, (iiiii) sale of intangible assets; these are treated as federal budget revenues;

ⁿ – revenues generated by sale of tangible and intangible assets (less revenues received as profit share in the framework of product share agreements (PSA) and federal budget revenue generated by the disposal and sale of heirless property, confiscated property, or other property earmarked as government revenue), this figure includes revenues generated by (i) sale of apartments, (ii) sale of property held by FSUEs, (iii) sale of property held by right of operative management by federal institutions, (iiii) sale of military property, (iiiii) sale of scrapped armaments, military equipment and ammunition, (iiiii) sale of other properties in federal ownership; these are treated as federal budget revenues;

^o – revenues generated by sale of land plots after delineation of titles to land plots formerly in federal ownership, treated as sources of funding to cover federal budget deficit;

^p – revenues generated by sale of tangible and intangible assets (less revenues received as profit share in the framework of product share agreements (PSA) and federal budget revenue generated by the disposal and sale of heirless property, confiscated property, or other property earmarked as government revenue, and revenues from sale of timber confiscated from timber poachers), this figure includes revenues generated by (i) sale of apartments, (ii) sale of property held by FSUEs, (iii) sale of property held by right of operative management by federal institutions, (iiii) sale of redundant movable and immovable military properties and other properties held by

federal bodies of executive authority that are equated to military service, (iiii) sale of military-purpose products from the stores of federal bodies of executive authority within the framework of cooperation in the field of military technologies, (iiiii) revenues generated by sale of other properties in federal ownership; these are treated as federal budget revenues;

^q – revenues generated by sale of land plots in federal ownership (less land plots held by federal autonomous and budget-funded institutions (data for 2011–2012)), treated as federal budget revenues;

^r – revenues generated by sale of tangible and intangible assets (less revenues received as profit share in the framework of product share agreements (PSA), and federal budget revenue generated by the disposal and sale of heirless property, confiscated property, or other property earmarked as government revenue, and revenues from sale of timber confiscated from timber poachers) (data for 2008–2011), revenues generated by the release of tangible assets from the state reserve of special raw materials and divisible materials (in the part of revenues generated by sale, temporary lending, and other uses); and with regard to data for 2012, 2013, and 2014 - also revenues generated by sale of timber produced as a result of measures designed to safeguard, protect, reproduce forests in the framework of government order for the implementation of such measures without sale of forest plantations for timber production, and timber produced as a result of use of forests situated in the lands belonging to the Forest Fund of the Russian Federation, in accordance with Articles 43–46 of the RF Forest Code; revenues generated by commodity intervention from the reserve stocks held in the federal intervention fund of agricultural products, raw materials and foodstuffs, revenues generated by the release of tangible assets from the state reserve, revenues generated by the involvement of convicts in reimbursable labor (in the part of sales of finished product), revenues generated by sale of products requiring special storage conditions), this figure includes revenues generated by (i) sale of apartments, (ii) sale of property held by right of operative management by federal institutions (with the exception of autonomous and budget-funded institutions (data for 2011–2014), (iii) sale of redundant movable and immovable military properties and other properties held by federal bodies of executive authority that are equated to military service, (iiii) sale of the products of recycled armaments, military equipment and ammunition, (iiiii) sale of products intended for military use on the list of properties held by federal bodies of executive authority in the framework of cooperation in the field of military technologies (data for 2008 and the period 2010–2014.), (iiiii) sale of scrapped armaments and other military hardware in the framework of Federal Target Program of Industrial Recycling of Armaments and Military Equipment (2005–2010), (iiiii) revenues generated by sale of immovable property held by budget-funded and autonomous institutions (2014), (iiiii) revenues generated by sale other properties in federal ownership and revenues generated by sale of intangible assets (ITA); these are treated as federal budget revenues.

Source: Laws on Federal Budget Execution for the period 2000–2013; Report on Federal Budget Execution as of 1 January 2015 (monthly report), www.roskazna.ru; authors' calculations.

When taken in absolute terms, the amount of property-generated federal budget revenue from non-renewable source in 2014 shrank by more than 1/4, thus roughly corresponding to its 2005 level.

The main cause of this decline was the shrinkage (by nearly 29%) of the revenues generated by sale of shares. Nevertheless, budget targets were exceeded by more than 14%. The amount of revenues from sale of miscellaneous properties dropped by 23.5%. At the same time, noticeable growth (by nearly 58%) was demonstrated by revenues generated by sale of land plots, which rose above Rb 1.9bn. vs. Rb 1.2bn a year earlier, which is higher than the corresponding indices for the period 2008–2010, but lower than the year-end index for 2011. In this connection it should be noted that, for the first time, the amount of revenues from sale of intangible assets entered in budget statistics rose above Rb 1m.

On the whole, the most prominent role was played by revenues generated by sales of shares (Rb 29.7bn) which, in spite of their decline, still accounted for more than 72% of the aggregate revenues from non-renewable sources (in 2013 – more than 3/4). The share of revenues from sale of land more than doubled (increasing from 2.2% to 4.6%), while the corresponding index for sale of different properties remained nearly at the same level (approximately 23%).

The aggregate federal budget revenue generated by privatization (or sale) and use of state property in 2013 (*Table 10*) increased on the previous year by 35%. Its amount in absolute terms (Rb 282.3bn) comes second after the record high achieved in 2012, rising 17% above the corresponding index for 2011.

Table 10

**The Structure of Property-Generated Federal Budget Revenues
from Miscellaneous Sources, 2000–2014**

Year	Aggregate revenue generated by privatization (or sale) and use of state property		Privatization-generated revenues (non-renewable sources)		Revenues generated by use of state property (renewable sources)	
	millions of rubles	% of total	millions of rubles	% of total	millions of rubles	% of total
2000	50,412.3	100.0	27,167.8	53.9	23,244.5	46.1
2001	39,549.8	100.0	10,307.9	26.1	29,241.9	73.9
2002	46,811.3	100.0	10,448.9	22.3	36,362.4	77.7
2003	135,338.7	100.0	94,077.6	69.5	41,261.1	30.5
2004	120,798.0	100.0	70,548.1	58.4	50,249.9	41.6
2005	97,357.4	100.0	41,254.2	42.4	56,103.2	57.6
2006	93,899.8	100.0	24,726.4	26.3	69,173.4	73.7
2007	105,761.25	100.0	25,429.4	24.0	80,331.85	76.0
2008	88,661.7	100.0	12,395.0	14.0	76,266.7	86.0
2009	36,393.7	100.0	4,544.1	12.5	31,849.6	87.5
2010	88,406.4	100.0	18,677.6	21.1	69,728.8	78.9
2011	240,964.1	100.0	136,660.1	56.7	104,304.0	43.3
2012	309,943.2/ 469,243.2*	100.0	80,978.7/ 240,278.7*	26.1/ 51.2*	228,964.5	73.9/ 48.8*
2013	209,114.85	100.0	55,288.6	26.4	153,826.25	73.6
2014	282,324.1	100.0	41,154.65	14.6	241,169.45	85.4

* – including the proceeds received by the RF Central Bank as a result of sale of a stake in *Sberbank* (Rb 159.3bn), which is probably an overestimation of the actual aggregate share of non-renewable sources, as the budget did not receive that sum in full but minus those sources' balance sheet value and the costs of the sale of that stake. Consequently, the share of renewable sources is, on the contrary, somewhat underestimated

Source: Laws on Federal Budget Execution for the period 2000–2013; Report on Federal Budget Execution as of 1 January 2015 (monthly report), www.roskazna.ru; authors' calculations.

The ratio between non-renewable and renewable sources in the structure of aggregate revenues generated by privatization (or sale) and use of state property in 2014 is roughly comparable with the corresponding indices for the crisis period 2008–2009, when the privatization process noticeably slowed down for objective reasons, and so no big privatization deals took place.

The share of non-renewable sources in the structure of aggregate revenues yielded by privatization (or sale) and use of state property in 2014 halved on 2013, to 14.6%. The share of revenues generated by the use of state property, on the contrary, increased from nearly 73.6% to 85.4% in 2014. In absolute terms this result represents a record high for the entire period since the early 2000s, while the amount of revenues from property privatization (or sale) turned out to be approximately by 1/4 lower than in 2013, which is still somewhat above the indices for the period 2006–2010.

So, the situation in the sphere of ownership relations in 2014 has revealed the following basic trends.

Judging by the number of legal entities operating in the public sector of the economy, we can come to the obvious conclusion that it will continue to shrink. At the same time, the downward movement of the number of state institutions, unitary enterprises and economic societies with state participation is by no means the same as shrinkage of the public sector's share in the national economy, first of all due to the creation of vertically integrated structures - an activity

that was also continued over the past year. Another contribution to the movement in this direction has been made by major one-time transactions like the reestablishment, by a court ruling, of government control over *Bashneft*.

The first phase of the implementation of the three-year privatization program for 2014–2016 was characterized by an unfavorable economic and political background. As seen by the year-end results of 2014, the number of privatized assets dropped on 2013 with regard to all property categories, the one exception being the number of unitary enterprises, which were subject to specifically issued directives concerning the terms of their privatization. As far as the two deals involving shares in biggest companies (completed early this year) are concerned, they had been planned and thoroughly prepared back in the period 2012–2013. Nevertheless, thanks to *Rosimushchestvo*'s efforts aimed at improving the system of sales and the information backing for privatization deals, the federal budget was augmented by revenues in an amount that exceeds manifold the forecasted revenue figure stipulated in the privatization program (less biggest sale deals), and also exceeds the overall budget target for revenue to be generated by sale of shares.

The structure of federal budget revenues generated by privatization (or sale) and use of state property, just as a year earlier, was dominated by revenues from renewable sources, and their share actually increased. Growth in absolute terms was demonstrated with regard to all types of renewable sources, the highest increase being noted in the amount of dividends transferred to the budget. As for non-renewable sources, growth was observed only with regard to revenues generated by sales of land plots.

The most important development that determined the horizon for ownership relations in the medium term was the approval of the new government program *Federal Property Management until 2018*.

Besides, the year 2014 saw a big step forward in organization and methodology, as an impressive body of applied normative legal acts was issued that address privatization policy issues, as well as issues of performance improvement in the public sector of the national economy. However, their true value can be ascertained only in the course of practical implementation of the new government program, which will inevitably be influenced by the effects of worsening economic situation, dwindling investment activity, and hard budget constraints.

6.2. Issues of RF State Treasury Property Management

Due to the radical character of market transformations that took place in the Russian economy in the 1990s, including reform of the ownership relations oriented to prompt privatization, for a long time there was no interest in the issues of public property management in Russia. Some progress in that sphere occurred after the crisis period of 1997–1998, when a certain shift in the government property policy priorities could be seen.¹

¹ For a more detailed discussion of these issues see Radygin A. D., Entov R. M., Malginov G. N. et al. Privatization in the Modern World: Theory, Empirical Research, "New Dimension" for Russia. In 2 vol. *Delo* Publishing House, 2014; Radygin A. D., Simachev Yu. V., Entov R. M. State and Denationalization: Risks and Limitations of the 'New Privatization Policy'. *Voprosy Ekonomiki* [Issues of Economics], 2011, No 9, p. 4–26; Radygin A. D., Entov R. M. Government Failures: Theory and Policy. *Voprosy Ekonomiki* [Issues of Economics], 2012, No 12, pp. 4–30; Radygin A., Entov R. M. "Fundamental" Privatization Theorem: the Ideology, Evolution, Practice. *Economic Policy*, 2013, No 6, December, pp. 7–45; Radygin A. D., Simachev Yu. V., Entov R. M. State-owned Company: Who Is to Blame When It Fails - the State or the Market? *Voprosy Ekonomiki* [Issues of Economics], 2015, No 1, pp. 45–79.

The onset of a new phase in the ownership relations reform in Russia was triggered by the approval, by Decree of the RF Government No 1024 of 9 September 1999, of the *Concept of State Property Management and Privatization in the Russian Federation* (hereinafter – Concept). It was probably a symbolic event, in that for the first time since 1992 the issues of state property management were given priority over formal alterations to ownership forms.

The Concept defined the main goals and principles of government policy with regard to public sector management, understood as the system of economic relations associated with the use of public property consolidated to federal state unitary enterprises by right of economic jurisdiction or by right of operative management (hereinafter – unitary enterprises, FSUE), state institutions (hereinafter – institutions) and property comprising the state treasury of the Russian Federation, as well as with the RF ownership rights arising as a result of RF participation in commercial organizations (with the exception of state property involved in the budget process in accordance with existing legislation). This definition does not apply to land, mineral resources, forests and other natural resources owned by the RF, intellectual property entities and the rights to those entities.

In spite of the use of the term 'public sector' in the text of that document, it was *de facto* more likely to be oriented to the management of the various types of property held by the State. Such a conclusion is inevitable if we look at the subdivision (into separate paragraphs) of distinctive government policy directions aimed at the following property entities: (1) unitary enterprises and institutions, (2) shares and stakes held by the Russian Federation in the charter capital of economic societies or partnerships, (3) federal immovable property.

However, among all these categories, the 1999 Concept (paradoxically) overlooked the issue of federal treasury property, which was mentioned only once in the very beginning in the context of the definition of the public sector of the national economy on the basis of the complex of economic relations associated with the use of public property. Meanwhile, by the moment of approval of the Concept, the notion itself of treasury property had existed in Russian legislation for more than 4 years.

Part One of the RF Civil Code (Article 214), which came into force in early 1995, defines federal property as property owned by the right of ownership by the Russian Federation. Property owned by the State (including federal property) is consolidated, for the purpose of possession, use and disposal of, in accordance with the RF Civil Code, to state-owned enterprises and institutions by right of economic jurisdiction (to federal state unitary enterprises (FSUEs)) or by right of operative management (to treasury enterprises and institutions). The funds of a relevant budget and other state property that is not consolidated to state-owned enterprises and institutions shall constitute the state treasury of the Russian Federation or the treasury of a RF subject' (Article 215 of the RF CC).

Thus, the following three main components can be distinguished within the structure of the RF treasury: (1) budget funds (for a reporting period or as of a given date); (2) stakes (shares or units) in economic societies (predominantly open-end joint-stock companies (OJSC)) in federal ownership; (3) all the other movable and immovable property, from which land plots are distinguished depending on the degree of inventory detailization. In this connection it should be noted that over nearly the entire period of market reform in Russia, the treasury-owned property complex, which is actually represented by the third component alone, has never been treated as an object in its own right within the framework of the state property management process.

When starting a discussion of the issues of treasury-owned property in a narrow sense (that is, less the budget, securities portfolio and land), it is necessary first to properly understand the basic principles of its formation.

The grounds for assigning property to the RF treasury can be divided into the following four groups:

- distribution of property in accordance with relevant legislation (Decree of the RF Supreme Court (RF SC) No 3020-1 (approved in 1991) and Federal Law No 122-FZ (approved in 2004), which regulate property redistribution issues that may arise in connection with the division of powers between different tiers of public authority, etc.);
- receipt of property that was not entered in the charter capital of newly created joint-stock companies during the corporatization of unitary enterprises (due in the main to the legal constraints on privatization);
- receipt of property by the State in the capacity of owner and investor (as a result of bankruptcy of federal state unitary enterprises (FSUEs); voluntary alienation by the holders of property of their the ownership right; confiscation of inefficiently used property from federal state institutions (FSIs); property received after the implementation of federal target programs (FTPs) and investment projects);
- receipt of property by the State for other reasons (on the basis of a court ruling, heirless property, and property received as a gift).

The grounds for alienating property from the RF treasury can also be divided into four groups:

- consolidation of property to various right holders (federal bodies of authority, as a rule, federal bodies of executive authority (FBEA, FSIs, FSUEs), while the property itself remains in federal ownership);
- privatization (entry in the charter capital of joint-stock companies and sale);
- other form of alienation from federal ownership (transfer of the ownership right to another tier of public authority and transfer into the ownership by religious organizations in accordance with Federal Law No 327-FZ (2010));
- ultimate disposal (by means of writing property off the State register).

6.2.1. The Place of Treasury-owned Property with Regard to the Structure of Federal Ownership in the 2000s

One obvious negative outcome of the loss of manageability of the national economy as a result of the rapid enforced privatization in the first half of the 1990s was the absence of reliable information as to the basic parameters of the property complex that remained in federal ownership. This fact in itself is by no means surprising, because the goal of compiling a complete federal property register was for the first time set only by the turn of the century. Systematic work in this direction was started after the approval of the Provision on Federal Property Record-keeping and the Federal Property Register by Decree of the RF Government of 3 July 1998, No 696, which was to replace the Temporary Provision on the Property Register of the Russian Federation, introduced by the RF State Committee for State Property Management (*Goskomimushchestvo*) back in 1992.

As the federal property inventory process progressed, the number of properties officially entered in the register was gradually increasing.

By early 2003, a body of detailed information had already become available on the bulk of immovable property in federal ownership. At that time, it consisted of more than 1,150.5

thousand entities, mostly consolidated to unitary enterprises (approximately 73%). The role of the treasury as the user of federal property entities was almost negligible (less than 5% of all entities). All the other property entities were consolidated to state institutions.

Let us take a closer look at the structure of federal property entities as it was at that time, by type of property user and type of property entity (*Tables 11 and 12*).

Table 11

**The Structure of Federal Immovable Property Based on Its Purpose
(or Use) As of 1 January 2003**

Property type	Properties consolidated to SUE		Properties consolidated to FSI		Properties held by treasury		Total, entered in Federal Property Register	
	units	%	units	%	units	%	units	%
Industrial and administrative property entities	98,501	73.22	35,300	26.25	723	0.53	134,524	100.0
Residential premises	67,919	47.9	54,503	38.5	19,246	13.6	141,668	100.0
Social, cultural and household services	46,643	75.0	14,205	22.8	1,373	2.2	62,221	100.0
Other	623,196	76.7	155,798	19.2	33,131	4.1	812,125	100.0
Total	836,259	72.7	259,806	22.6	54,473	4.7	1,150,538	100.0

Source: Braverman A.A. *O merakh po povysheniiu effektivnosti upravleniia federal'noi sobstvennost'iu i kriteriakh ee otsenki* [On Measures Designed to Increase the Effectiveness of Federal Property Management and on the Criteria for its Assessment] // *Vestnik Minimushchestva Rossii* [The Herald of Russia's Ministry of State Property], 2003, No 1, p. 19; authors' calculations.

As follows from data presented in *Table 11*, approximately 3/4 of all industrial and administrative entities, entities used to provide social, cultural and household services to the population, and other types of entities, and almost 48% of residential premises were consolidated to SUEs. Nevertheless, unitary enterprises comprised the majority of property users even in the latter category, their share being greater than that of state institutions.

Among all these categories, the share of the treasury was relatively significant only with regard to residential premises (13.6% vs. 2.2% of entities used to provide social, cultural and household services to the population, and approximately 0.5% of industrial and administrative entities).

Table 12

**The Structure of Federal Immovable Property, by User Category,
As of 1 January 2003**

User category	Industrial and administrative		Residential premises		Social, cultural and household services		Other		Total	
	units	%	units	%	units	%	units	%	units	%
FSUE	98,501	11.8	67,919	8.1	46,643	5.6	623,196	74.5	836,259	100.0
FSI	35,300	13.6	54,503	21.0	14,205	5.45	155,798	59.95	259,806	100.0
Treasury	723	1.33	19,246	35.33	1,373	2.52	33,131	60.82	54,473	100.0
Total	134,524	11.7	141,668	12.3	62,221	5.4	812,125	70.6	1,150,538	100.0

Source: Braverman A.A. *O merakh po povysheniiu effektivnosti upravleniia federal'noi sobstvennost'iu i kriteriakh ee otsenki* [On Measures Designed to Increase the Effectiveness of Federal Property Management and on the Criteria for its Assessment]. *Vestnik Minimushchestva Rossii* [The Herald of Russia's Ministry of State Property], 2003, No 1, pp. 19; authors' calculations.

If we look at the structure of federal property entities distributed by user category (*Table 12*), in all the user groups the dominant role belonged to entities of the category described as 'other', but their relative shares varied, amounting for both the treasury and state institutions to approximately 60%. Second came residential premises (35.3%), while the shares of entities with the targeted function of providing social, cultural and household services to the popula-

tion, and that of industrial and administrative entities were very small (2.5% and approximately 1.3% respectively).

More detailed information concerning the various targeted functions of federal immovable property entities held by the treasury became available only as late as 2005. The previously released data as of early 2003 were fragmentary, thus making a comparative analysis very difficult (*Table 13*).

Table 13

**The Structure of Federal Immovable Property Held by the Treasury,
by Its Targeted Function (or Use) As of Early 2003 and 2005**

Targeted function	as of 1 January 2003		as of 1 January 2005	
	units	%	units	%
Residential buildings	19,246	35.33	22,518 ^a	30.1
Social, cultural and household services	1,373	2.52	2,549	3.4
Civil defense facilities	1,110	2.05	2,190 ^b	2.9
Wharfs	480	0.9	...	...
Runways	54	0.1	...	...
Structures	...	...	10,258	13.7
Industrial buildings	... ^c	...	3,089	4.1
Warehouses	...	...	2,814	3.8
Auxiliary structures	...	...	2,710	3.6
Engineering structures	...	...	2,304	3.1
Administrative buildings	... ^c	...	1,704	2.3
Cultural and educational services	...	...	1,325	1.8
Garages	...	...	1,274	1.7
Agricultural buildings	...	...	450	0.6
Public healthcare entities	...	...	440	0.6
Public buildings	...	...	402	0.5
Industrial laboratory buildings	...	...	305	0.4
Public education entities	...	...	271	0.4
Science and technology	...	...	36	0.0
Building complexes	...	...	18	0.0
Other immovable property entities	32,210	59.1	20,065	26.9
Total	54,473	100.0	74,722	100.0

^a – residential buildings / premises;

^b – civil defense and protection facilities;

^c – the total number of industrial and administrative property entities as of 1 January 2003 was 723 units.

Source: Braverman A.A. O merakh po povysheniiu effektivnosti upravleniia federal'noi sobstvennost'iu i kriteriakh ee otsenki [On Measures Designed to Increase the Effectiveness of Federal Property Management and on the Criteria for its Assessment]. Vestnik Minimushchestva Rossii [The Herald of Russia's Ministry of State Property], 2003, No 1, p. 13; Materials for the RF Government's meeting on 17 March 2005 On Measures Designed to Increase the Effectiveness of Federal Property Management'; authors' calculations.

In early 2005, the by-type structure of federal immovable property entities held by the treasury was dominated by residential buildings (or residential premises) (approximately 22.5 thousand units, or more than 30% of the total number of property entities) and structures (more than 10 thousand units, or 13.7%). In 9 categories, the number of entities held by the treasury was in the interval between 1.2 and 3.1 thousand units (the share of each being between 1.7% and 4.1%), in another 7 categories it was less than 500 units (the share of each being less than 0.6%).

By comparison with the situation in early 2003, the total number of federal immovable property entities rose nearly 1.4 times (or by more than 20 thousand units). Among the categories of entities for which sufficient comparative data is available, we can note a significant growth in the number of entities used for civil defense purposes (which nearly doubled) and that of the entities used to provide social, cultural and household services to the population

(by 86%). The growth in the number of residential buildings (or residential premises) was less impressive (by 17%), although in absolute terms (more than 3 thousand units) it was higher than the number of entities used for civil defense purposes and that of entities used to provide social, cultural and household services to the population.

On the whole it took approximately 12 years to compile a state property register; the efforts in that direction continued throughout the 2000s. In March 2010, *Rosimushchestvo* announced that, for the first time since 1991, it could be stated that the register of state property had indeed been created. In this connection it should be noted that this activity, in its later phase, was subject to regulation by the Provision on Federal Property Record-keeping elaborated in accordance with Decree of the RF Government of 16 July 2007, No 447 'On Improving Federal Property Record-keeping', when the previously applied document (adopted in 1998) was declared to be null and void.

The revision of printed federal property records entered into the government federal property database as of the moment of enactment of RF Government Decree No 447 had been completed by the early summer of 2010. Over the period 2010–2011, practically the entire body of data in electronic form was entered into the Automated Federal Property Records System (ASUFI). In this connection it may also be noted that, in contrast to the data for 2003–2005 cited above, these records contained information not only on immovable property, but on movable property and land plots as well.

According to data presented in the Report of the Implementation of the Government Program *Federal Property Management* in 2013 released by the RF Ministry of Economic Development,¹ the structure of property types based on their functional use entered into the Federal Property Register as of 15 April 2014 was as follows:

- buildings, structures, unfinished construction entities (642,069 entities);
- movable property to the value of more than Rb 500,000 (491,494 entities);
- land plots (269,689 entities);
- residential, non-residential premises (183,892 entities);
- miscellaneous movable property to the value of less than Rb 500,000 (17,049 entities);
- aircraft, seagoing vessels, inland boats (9,962 entities);
- shares in ownership rights (1,850 entities);
- spacecraft (13 entities).

The main changes in the structure of entities entered into the Federal Property Register (according to data released by the Automated Federal Property Records System) can be followed on the basis of data presented in *Tables 14* and *15*.

The bulk of federal property entities as of mid-2014 (more than 69%) were consolidated to right holders by right of operative management (this right being executed in the main by state institutions), which is the same level as recorded in late 2009 and more than 11 pp. above the level of late 2008. The downward trend displayed by the number of unitary enterprises is also reflected by the structure of federal property, where the share of entities consolidated to right holders by right of economic jurisdiction was palpably shrinking (approximately 14% in mid-2014 vs. more than 24% at the end of 2008).

The relative share of entities belonging to the federal treasury has remained approximately at the same level since early 2013, amounting by mid-2014 to 16.6% (vs. 11–12% in 2009–

¹ Considered at the meeting of the Civic Council under the RF Ministry of Economic Development on 23 April 2014.

2010, although in 2008 that category accounted for 17.6% of all registered entities). Thus, in the period 2013–2014 the treasury became the second largest federal property right holder among all the categories thereof, getting slightly ahead of entities held by right of economic jurisdiction by enterprises.

Table 14

The Dynamics and Structure of Federal Property Entities Entered in the Federal Property Register, by Right Holder Category, in 2008–2014

Date	Total number of immovable and movable property entities, total		of these, by property right category					
			consolidated to right holders by right of economic jurisdiction		consolidated to right holders by right of operative management		part of RF state treasury ^a	
	units	%	units	%	units	%	units	%
31 December 2008	14,096	100.0	3,418	24.2	8202	58.2	2476	17.6
31 December 2009	1,193,201	100.0	226,818	19.0	827,234	69.3	139,149	11.7
31 December 2010	1,552,121	100.0	279,402	18.0	1,096,547	70.6	176,172	11.4
31 December 2011	1,367,975	100.0	245,060	17.9	921,252	67.35	201,663	14.75
1 January 2013	1,471,282	100.0	223,725	15.2	1,003,690	68.2	244,367	16.6
1 April 2013	1,495,784	100.0	223,459	14.95	1,020,384	68.2	251,941	16.85
1 July 2013	1,521,181	100.0	223,871	14.7	1,042,214	68.5	255,096	16.8
1 October 2013	1,555,788	100.0	225,315	14.5	1,068,688	68.7	261,785	16.8
1 January 2014	1,588,576	100.0	227,208	14.3	1,095,016	68.9	266,352	16.8
1 April 2014	1,609,067	100.0	229,576	14.3	1,110,800	69.0	268,691	16.7
1 July 2014	1,648,404/ 1,648,126 ^b	100.0	232967	14.1	1,142,103	69.3	273,056	16.6

^a – including land plots, but less blocks of shares (stakes, contributions) in economic societies;

^b – the value obtained by adding up the total number entities in all three categories (in the denominator) somewhat differs from the official data (in the numerator).

Source: information based on data entered in the Federal Property Register, released by the RF Ministry of Economic Development Russia as of 17 February 2012, and the corresponding data entered in the Federal Property Register as of 23 April 2013, 13 November 2013, 17 January 2014, 18 April 2014, 7 August 2014 (see www.economy.gov.ru); authors' calculations.

As for the structure of treasury-owned property (*Table 15*), the biggest share was taken up by land plots (more than 68%), while the share of immovable property entities was approximately 30%, and that of movable property – approximately 2%; in other words, the share of entities held by the treasury (less land plots), amounted to 5.3% of all entities entered into the Federal Property Register.

Throughout the course of 2013 and H1 2014, the aggregate number of entities comprising the treasury increased by 11.7%, or by 28.7 thousand units. The share of land plots in the overall structure of entities held by the treasury increased by more than 3.5 pp., while their number in absolute terms increased by 18.3% (or by 28.8 thousand units). This growth was the result of an accelerating process of delineation of state ownership rights to land between different tiers of public authority and State registration of the Russian Federation's ownership rights to land plots. The number of movable property entities rose by 26.7%, or to more than 1.2 thousand units in absolute terms, while that of other miscellaneous immovable property entities, on the contrary, dropped by 1.5% (or by nearly 1.3 thousand units).

Table 15

The Dynamics and Typological Structure of the Federal Property Entities Which Comprised the State Treasury of the Russian Federation in 2013 and 2014

Date	Aggregate number of property entities comprising RF state treasury, total		out of that number, by type					
			immovable property (less land plots)		land plots		movable property	
	units	%	units	%	units	%	units	%
1 January 2013	244,367	100.0	82,809	33.9	157,039	64.3	4,519	1.8
1 April 2013	251,941	100.0	83,724	33.25	163,351	64.8	4,866	1.95
1 October 2013	261,785	100.0	82,580	31.5	173,799	66.4	5,406	2.1
1 January 2014	266,352	100.0	81,918	30.8	178,709	67.1	5,725	2.1
1 April 2014	268,691	100.0	81,034	30.2	181,955	67.7	5,702	2.1
1 July 2014	273,056	100.0	81,536	29.9	185,792	68.0	5,728	2.1

Source: information based on data entered in the Federal Property Register, released by the RF Ministry of Economic Development Russia as of 23 April 2013, 17 January 2014, 7 August 2014 (see www.economy.gov.ru); authors' calculations.

As far as the size of the property complex comprising the treasury is concerned, there is no reason for viewing it as a serious burden imposed on the federal budget. This assumption is confirmed by the amount of budget allocations earmarked in the three-year federal budget for 2013–2015 for the upkeep and servicing of the RF treasury - approximately Rb 181.6m per annum.¹

At the same time, the specificity of some of the categories of property held by the RF treasury is fraught with the risk of manmade disaster, which may require the allocation of some additional budget expenditures to the liquidation of such emergency situations. A more general issue associated with treasury property management, which is common to all the components of the public property complex, is the shortage of funding needed for the upkeep and maintenance of these properties.

Of course, treasury property can also be treated as a source of revenue. In the year-end report on the execution of the federal budget in 2013, the revenues generated by the lease of property comprising the RF treasury (Rb 1,015.75m) were for the first time entered as a separate unit. According to preliminary data, in 2014 the amount of revenue received from that source rose by nearly 1/3 - to approximately Rb 1,348.5m, while the budget revenues generated by the lease of other property declined.² As a result, the relative share of the revenues generated by the lease of property comprising the RF treasury increased to more than 1/4 of the total amount of revenue generated by property lease (with the exception of land plots) vs. approximately 1/5 a year earlier.

¹ Federal Law of 3 December 2012, No 216-FZ 'On the Federal Budget for 2013 and Planning Period 2014 and 2015'.

² Law of Federal Budget Execution for the year 2013; Report on Federal Budget Execution as of 1 January 2015 (monthly report), www.roskazna.ru.

6.2.2. State Treasury Property in Privatization Programs ¹

The properties without targeted government functions held by the Treasury of the Russian Federation began to be mentioned as a separate category of entities that can be earmarked for privatization in annual privatization programs from the Forecast Plan of Federal Property Privatization for 2007 onwards.

Thus, in *Rosimushchestvo's* Report for 2008 it was stated that, in November – December 2008, a total of 58 directives concerning the terms of privatization of inland boats and seagoing vessels, and 58 announcements concerning their sale were issued, while the total number of seagoing vessels and inland boats entered in the privatization program for 2008 was 223 units. The deadline for summing up the results of sales of inland boats and seagoing vessels was set for 2009, but no further information was available as to the implementation of that part of the privatization program.

The initial forecast privatization plan for 2010 (approved in late November 2009) listed 56 miscellaneous property entities held by the Treasury of the Russian Federation, including immovable property entities, seagoing vessels and inland boats. In mid-March 2010 the privatization program was considerably expanded, due in the main to the drastically altered plans for privatization of unitary enterprises and state stakes in joint-stock companies, while the number of treasury-owned entities earmarked for planned privatization was increased to only 74 units. However, in the course of further alterations, the total number of entities to be privatized gradually rose to 291 units (mostly in the form of property earmarked as contribution to the charter capital of OJSC *Rosspirtprom*).

In 2010, the directives concerning the privatization of such assets (a total of 10 entities) and the announcements concerning their sale were issued only towards the year's end, while the results of bidding were reported in early 2011: out of a total of 8 entities, 6 entities were sold to the total value of Rb 196.91m. No directives concerning the terms of their privatization were issued with regard to 52 out of the 62 treasury-owned entities earmarked for sale in 2010. This happened due to failure to comply with the requirements stipulated in the Land Code of the Russian Federation, whereby it is forbidden to privatize industrial buildings and structures without a simultaneous privatization of the land plots in which these entities are situated, and also due to the lack of proper backing for the deals (availability of reliable databases and registers, including discrepancies between the name and location of a given property entity).²

The first three-year privatization program for 2011–2013, approved by Directive of the RF Government of 27 November 2010, No 2102-r, in its initial version had envisaged the privatization of 73 miscellaneous property entities held by the RF Treasury. However later on, with due regard to the subsequent adjustments and addition, it ended up to include 734 miscellaneous property entities, of which a total of 462 entities (or slightly less than 2/3) were to be transferred as contributions to the charter capital of integrated structures. Thus, for example, by Directive of the RF Government of 18 April 2013, No 627-r alterations were introduced into the privatization program for 2011–2013 whereby it was augmented by 149 miscellaneous treasury-owned immovable property entities (mostly land plots with the buildings and structures situated therein).

¹ This paragraph is based on data taken from *Rosimushchestvo's* Report for 2013; see www.rosim.ru.

² Report on federal property privatization in 2010.

The scale on which miscellaneous property entities were used as contributions to the charter capital of the already existing and newly created holding companies is impressive.

In the framework of creation of integrated structures over the period 2011–2013, the directives concerning the terms of their privatization were issued with regard to a total of 457 miscellaneous property entities (or 98.9% of the number of properties listed in this part of the privatization program). These were to be transferred as contributions to the charter capital of OJSC *Rosspirtprom*, *Russian Hippodromes JSC*, OJSC *Russian Railways*, JSC United Aircraft Corporation (UAC) and OAO *Federal Hydro-generating Company*. No decisions as to the terms of their privatization were made with regard to a total of 5 miscellaneous property entities, including 1 unfinished construction entity (OJSC *Russian Railways*), and 2 land plots (one of JSC UAC's affiliated companies) and 2 other property entities (*Russian Hippodromes JSC*).

The latter was the biggest recipient of miscellaneous property entities among all integrated structures.

In accordance with Executive Order of the President of the Russian Federation of 8 August 2011, No 1058 'On the Open-ended Joint-stock Company Uniting the Hippodromes of the Russian Federation', FSUE Central Moscow Hippodrome must be reorganized into an open-ended joint-stock company and comprise all the hippodromes in the Russian Federation, with the transfer into the newly created company's charter capital of the properties formerly held by the 27 now liquidated federal state institutions – *State Equine Stables (FSI GZK)*, by way of payment for the additional shares to be placed by the new OJSC in the framework of increasing its charter capital.

Rosimushchestvo issued its Directive of 13 April 2012, No 558-r 'On the Terms of Privatization of FSUE Central Moscow Hippodrome; effectuated the State registration of *Russian Hippodromes JSC*; and handled the issuance of its shares. Over the period 2011–2013, the relevant directives were issued with regard to a total of 441 property entities formerly held by FSI GZK, which were to be transferred into the charter capital of *Russian Hippodromes JSC*; as well as the directives concerning the terms of privatization of another 434 miscellaneous property entities, which accounts for 95% of all the property entities subject to relevant decisions concerning their transfer into the charter capital of integrated structures.

Against this background the attempted launch of massive sales of other miscellaneous property entities comprising the RF state treasury over the period 2011–2013 evidently resulted in a failure. Out of the 272 property entities earmarked for sale in accordance with the privatization program for 2011–2013, only 65 units were actually privatized: in 2011 – 3 units; in 2012 – 40 units; in 2013 – 22 units. Thus, as far as this part of it is concerned, only less than one-fourth of the privatization program was implemented.

However, the final year of the privatization program produced somewhat better results in other planned directions, in spite of the reduction in the number of sold properties nearly by half. Thus, out of a total of 99 property entities offered for sale in 2013, 22 units were sold, while no bidding actually took place with regard to another 8 entities (and for 69 property entities the results of sales were to be reported in Q1 2014). For reference: in 2011, the results of sales were reported only with regard to 16 property entities, of which only 3 entities were sold for the symbolic sum of Rb 5.0m, and 13 entities were never put up for bidding. So, the privatization prospects of miscellaneous property entities belonging to 'other' category radically improved, as nearly 3/4 of those property entities that were offered for sale over the course of

the relevant calendar year eventually found their buyers, whereas in 2011 this had happened to less than 1/5 of such properties.

The financial outcome of this shift in attitudes was the transfer, to the federal budget, of Rb 166.8m (or more than half of the aggregate proceeds reported for the three-year period (Rb 327.3m), as shown by the year-end privatization results of 2013.

As far as the current privatization program is concerned, we may note that Section Two of the *Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016*, approved by Directive of the RF Government of 1 July 2013, No 1111-r, where the assets earmarked for privatization in an ordinary procedure are listed, had initially contained, alongside SUEs and JSC, also 94 miscellaneous property entities held by the RF treasury. However, as it had also been the case with the previous privatization program, by early autumn of 2014 their number tripled, thus amounting to 294 units

The relevant powers to carry out the privatization procedures involving nearly 3/4 of those miscellaneous property entities (or a total of 219 units), in accordance with *Rosimushchestvo's* Order of 2 October 2014, No 382 'On Organizing the Activity of Territorial Administrations of the RF Federal Agency for State Property Management (*Rosimushchestvo*) Relating to Privatization of Other Property Included in the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016', were delegated to its 37 territorial agencies.

According to preliminary data, in 2014, out of the total number of 48 immovable property entities offered for sale, 11 units were actually sold (with the transfer of proceeds to the budget in the amount of Rb 47.46m); and for another 17 property entities the results of sales were to be reported in Q1 2015.¹

In February 2015, *Rosimushchestvo* released the information that, early in 2015, 6 property entities to the total value of Rb 19m were sold, and another 22 sales were announced at the initial price of Rb 35.61m.

The transfer, by *Rosimushchestvo*, of its powers to privatize (or alienate) federal property to its territorial agencies has made it possible to simplify the relevant procedures and to shorten the pre-sale preparation period, as well as to tighten the responsibility for the quality of these procedures. The transfer of privatization procedures to the exact locality where the relevant properties are situated can conduce to greater interest in property bidding on the part of regional investors, including small businesses and individual entrepreneurs.²

6.2.3. Treasury-owned Property in the Framework of the Government Program *Federal Property Management*³

The landmark development, which was to influence the entire system of ownership relations in this country, was the approval of the Government Program (GP) *Federal Property Management* by Directive of the RF Government of 16 February 2013, No 191-r.

The document's core theme was the definition of and consolidation to each federal property entity federal property its targeted function - the task that expected to be accomplished in 2018 also with regard to 30% of treasury-owned entities alongside other types of assets (or to

¹ 2014 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, www.rosim.ru, 19 February 2015.

² www.rosim.ru, 26 February 2015.

³ This paragraph is based on data taken from *Rosimushchestvo's* Report for 2013; see www.rosim.ru.

90% of such entities on condition that relevant additional resources should be made available). This goal was further supported by the plans for annual reduction, on 2012, of the total number of other miscellaneous property entities (beside land plots) comprising the treasury (less those entities that were to be received by the Treasury of the Russian Federation as a result of privatization of FSUEs over the period 2013–2018). So, by 2018, the number of treasury-owned property entities (with the exception of land plots) must shrink by 90%, while the total area of land plots held by the RF treasury and not involved in economic turnover – by 35% (on condition that additional resources be allocated, as well as financial backing provided for their subdivision and entry in the cadastre, in accordance with the expenditure items earmarked for covering the activity of the Federal Service for State Registration, Cadastre and Cartography (*Rosreestr*)).

One of the key goals outlined in the Government Program is the execution of ownership powers over property comprising the state treasury of the Russian Federation. Its targeted function will be that of efficient management over the period while it will be held by the treasury, as well as minimization of the number of treasury-owned property entities, so that in the end the treasury will retain only the property assigned to it by normative documents issued by the RF Government and deemed to be necessary for federal bodies of state authority to perform their essential functions and to protect the strategic interests of the Russian Federation.

The key targets involved in the achievement of this goal are as follows:

- categorization of treasury-owned property entities depending on their targeted function;
- disposal of current assets;
- use of efficient mechanisms for involving relevant properties in economic turnover;
- allocation of sufficient funding for the upkeep of properties during the period while it will be held by the treasury;
- greater transparency of treasury property management.

The Government Program envisages the following key measures designed to ensure the achievement of its declared goal:

- development of an action plan for optimizing the list of properties to comprise the RF treasury; and ensuring interaction between the parties involved in the process through a government (interdepartmental) portal;
- development and approval of the drafts of necessary normative legal acts and the corresponding alterations to existing legislation whereby the procedures of transfer of properties from the treasury of the Russian Federation into the public ownership of RF subjects, municipal ownership, and the procedures designed to simplify the involvement of property comprising the RF treasury in economic turnover are to be regulated;
- conduct of general building repairs and formalization of the necessary technical documentation required for the transfer of property entities to another tier of public ownership;
- recycling of treasury-owned property entities.

In 2013, in the course of implementation of these plans, the following measures were carried out:

- categorization of treasury-owned property entities;
- development of roadmaps for each category;
- on the basis of available information on the number of entities in each category, technical assignments were prepared and approved for each territorial administration to minimize

- the number of treasury-owned property entities in accordance with their targeted functions;
- elaboration of the Treasury Information System (IS) on the basis of the a government (interdepartmental) portal, which will pool all information on the composition of the RF treasury;
 - a proposal was submitted to the RF Ministry of Finance as to the allocation of additional funding to the treasury for the period 2014–2016.

The Government Program also envisages the development of a treasury property classification, which will be broken up into 13 categories, and each relevant property entity will be assigned to a certain category depending on its targeted function. After the launch of the Treasury Information System all the property entities entered into the Federal Property Register will be automatically assigned to one of the categories, thus making much easier the interaction of the related parties via the interdepartmental portal. This software is now undergoing its final phase of development.

For each category, the main channels of property withdrawal and receipt are established.

In 2013, the number of property entities comprising the treasury was reduced as a result of the following acts:

- privatization (including free-of-charge privatization of apartments by RF citizens);
- transfer of property to another tier of public ownership;
- consolidation of property to enterprises and institutions;
- recycling of treasury-owned property entities.

Thus, as a result of all these developments, the total number of immovable property entities held by the treasury (less movable property) declined for the first time. It became less by a total of 2,136 units (or by 2.54%). It should be noted that the index of movable property entities is prone to considerable fluctuations, so it inevitably has a strong influence on the general picture emerging as a result of efforts aimed at minimizing the property complex belonging to the treasury. With due regard for changes in this category, the total number of treasury-owned property entities in the RF over the course of 2013 declined by 0.8% (or by more than 700 units).

Among the reasons why the volume of property comprising the RF treasury could not be reduced at a faster rate, we should note the following ones:

- shortage of funding needed for recycling, repairs, upkeep and protection of property entities, and for formalization of relevant technical documentation;
- lengthy and complicated procedures involved in the alienation of property entities from the treasury;
- refusal of bodies of federal authority, RF subjects, or municipal formations to receive property entities from the treasury;
- imperfections of the existing normative legal base;
- concentration of all the relevant powers at the level of *Rosimushchestvo*'s central apparatus;¹
- valuation of the immovable property entities being alienated without taking into account the value of relevant land plots.

¹ The alterations to the Model Provision on a Territorial Agency of *Rosimushchestvo*, whereby the powers of its territorial administrations are to be expanded, came into force only as late as February 2014.

In order to increase transparency and improve the quality of treasury property management, comprehensive efforts have been made to elaborate the relevant strategies and approve the program aimed at reducing the volume of property held by the treasury. In particular, methodological recommendations (roadmaps) for the following key directions were developed:

- transfer of federal property comprising the state treasury of the Russian Federation, to be used on a gratis basis;
- consolidation, by assigning a relevant type of right, of property comprising the state treasury of the Russian Federation to federal bodies of authority or their subordinated federal state institutions and enterprises;
- preparation of relevant decisions concerning gratis transfer of property into federal ownership, of transfer of federal property into the public ownership of subjects of the Russian Federation and municipal ownership;
- the procedure for recycling federal property comprising the state treasury of the Russian Federation.

In this connection it should be noted that writing-off as a methods for disposing of property has almost never been used with regard to properties comprising the RF treasury. *Rosimushchestvo* considered 38 applications submitted by its territorial administrations concerning the possibility of writing-off certain property entities, and issued the corresponding assignments for their recycling only in response to 3 applications, all the other applications having been rejected. The reason for a rejection in the majority of cases was the applicants' failure to provide the necessary documents, including properly formalized rights to the land plots in which the relevant buildings were situated, which could result in a loss of the rights of the Russian Federation to those land plots.

By way of improving the normative legal regulation in the sphere of treasury property management, *Rosimushchestvo's* territorial administrations were delegated the relevant powers to carry out the privatization of property entities comprising the housing fund, as well as their transfer to another tier of public ownership.

In this connection, it is necessary to make a special mention of the enactment of Federal Law of 28 December 2013, No 408-FZ, whereby Article 22 of the Law of the Russian Federation of 21 February 1992, No 2395-1 'On Mineral Resources' was augmented by Paragraph 8.1, in accordance with which the users of mineral resources should be responsible for ensuring safety of the mining shafts, oil and gas wells and other facilities associated with the use of mineral resources and situated within the boundaries of the relevant land plots assigned to them.

The introduction of these alterations into Russian legislation will make the users of mineral resources for the conservation and liquidation of the oil and gas wells situated in relevant land plots, thus creating the necessary prerequisites for reducing the number of property entities associated with mineral resources extraction and comprising the state treasury of the Russian Federation, which is now one of the most problematic property categories. By way of example, we may point to the situation that arose in connection with the condensate wells situated within the boundaries of Astrakhan Gas Condensate Oilfield. In 2010, *Rosimushchestvo's* territorial administration for Astrakhan Oblast was required, by a court ruling, to organize the liquidation of the oil and gas wells in question, an activity associated with high costs and availability of the necessary resources. According to approximate estimations, the cost of dismantling one well was Rb 1.5bn.

Further improvements of the normative legal regulation procedures will be made along the following lines:

- preparation of the RF Government's Decree 'On the Management of Federal Property Entities Comprising the Treasury of the Russian Federation', designed to lay down the basic principles of regulating the management of this type of public assets (proposal submitted by *Rosimushchestvo* that the relevant draft document be developed);
- preparation of alterations to Federal Law No 122-FZ (2004) and the RF Government's Decree No 374 (2006) designed to simplify the procedures for transfer of certain property categories to another tier of public ownership (the relevant proposals were submitted by *Rosimushchestvo* to the RF Ministry of Economic Development);
- preparation of the RF Government's Decree 'On Measures Designed to Ensure the Upkeep and Safety of Potentially Hazardous Property Entities Comprising the Treasury of the Russian Federation', whereby the procedures for their proper upkeep, safety and liquidation are to be envisaged (the draft has been coordinated and submitted to the RF Ministry of Economic Development);
- preparation of relevant normative legal acts designed to optimize the list of comprising the RF treasury, including simplification of the procedures for its involvement in economic turnover (public-private partnership, sale).

As noted earlier, efficient treasury property management implies the allocation of sufficient funding to its upkeep and proper use. Meanwhile, the total allocations earmarked in 2013 for *Rosimushchestvo*, to be used for the upkeep and servicing of the RF treasury-owned property in accordance with the Law on Federal Budget for 2013 and Planning Period 2014 and 2015, amount to a total of Rb 181.6m, while *Rosimushchestvo*'s territorial agencies had submitted requests for funding in the amount of more than Rb 1.2bn (or 6.7 times higher than the amount actually allocated).

In accordance with the law on federal budget execution for 2013, the amount of budget expenditure broken up by government department, and in particular that allocated to *Rosimushchestvo* (Item 'Upkeep and Servicing of RF Treasury') was Rb 233.9m (increased by the RF Ministry of Finance to Rb 242.5m as of the end of the year 2013).¹ This is actually higher than the amount of allocations to the other items in the framework of government property policy (e.g. 'Valuation of Immovable Property, Recognition of Rights and Regulation of Public Ownership Relations' (Rb 64.85m)) and 'Management of Federal Stakes (or Shares) in Economic Societies' (Rb 17.5m)), but much lower than the amount of expenditure allocated to 'Provision for and Conduct of Pre-sale Preparation and Sale of Federal Property, and reorganization of FSUEs (Rb 449.8m).

The top priority areas of spending in the framework of the budget expenditures on the upkeep and servicing of property entities comprising the RF treasury are as follows: their protection; utilities; repair of entities in unsatisfactory condition; and drawing-up of technical passports for property entities comprising the RF treasury, because this will improve the quality of property management and facilitate its involvement in economic turnover.

The allocated monies were distributed between *Rosimushchestvo*'s territorial administrations and spent on their most urgent needs, e.g. the introduction of safety measures in respect

¹ The increase (on the initial budget targets) of the amount of allocations to the upkeep and servicing of property entities comprising the RF treasury was made possible by the approval, by the RF Ministry of Finance, of the allocations to cover the costs associated with writs of execution (issued in the main in the framework of claims for recovery of unjust enrichment resulting from the storage of seagoing vessels).

of hazard-prone entities (Altai Krai), the drawing-up of technical passports for hydro-technical facilities (Krasnodar Krai), recycling of explosives (the Republic of Sakha (Yakutia)).

Evidently, the amount of current allocations to the upkeep and servicing of property entities comprising the RF treasury is insufficient. According to the RF Ministry of Finance's estimations based on the results of lengthy studies, in 2014 as total of Rb 615m was needed for this type of activity, which is 2.5 times higher than the amount of corresponding allocations for 2013.

Active measures are being implemented with regard to formalization of the ownership rights of the Russian Federation and the necessary documentations for the immovable property entities comprising the RF treasury. In 2013, technical passports were drawn up for a total of 1.503 treasury-owned entities. The allocations for 2014 to the drawing-up of technical passports for property entities comprising the RF treasury amount to approximately Rb 400m, which is expected to yield much better indices of ownership right formalization, and so to facilitate the involvement of these property entities in economic turnover.

By way of getting back to the discussion of the targets set in the Government Program *Federal Property Management* with regard to treasury-owned property entities, we can comment as follows.

As the methodology for determining the targeted function of federal property entities belonging to this category is still being developed,¹ the only real index for 2013 is that describing the reduction in the number of treasury property entities (less land plots) in comparison with 2012. It can be noted that the actually reported resulting figure of 0.8%, when set against the planned target of 1%, reveals a slight deviation by 0.2 pp. However, this value is far less than the deviation displayed by the downward movement of the indexes describing the number of FSUEs and the total area of land plots held by the treasury and not involved in economic turnover.

6.2.4. Changes in the Treasury-owned Property Complex of the Russian Federation Since the Beginning of the State Program's Implementation

As seen from *Rosimushchestvo*'s report on its activity in 2013, the structure of RF treasury-owned property (less land plots) appeared to be as follows (*Table 16*).

As of 1 February 2013, out of the total amount of property entities belonging to the RF treasury (88,250 units) and grouped into 13 categories, nearly 2/3 was taken up by the following 4 categories: administrative buildings and structures (20.9%), civil defense and protection facilities (approximately 20.5%), housing fund entities (13.6%), and housing and utilities entities (approximately 10.7%). The relative shares of mineral resources extraction facilities, transport infrastructure and communications facilities, and cultural facilities amounted to approximately 7–8% each.

These were followed by movable property entities (4.8%), social sphere facilities (3.1%), production entities (2%), and air and water transport facilities (approximately 1.3%). The smallest shares (less than 1% in each category) in the structure of treasury property belonged to hydro-technical facilities and unfinished construction entities.

¹ According to the State Program, in 2013, the targeted function should have been defined for 5% of property entities owned by the treasury.

Table 16

The Structure of RF Treasury Property

Categories of treasury-owned property	Number of units, their share			
	By early 2013		By early 2014	
	units	%	units	%
Administrative buildings and structures	18,464	20.9	16,990	19.4
Civil defense and protection facilities	18,045	20.45	16,978	19.4
Housing fund	12,015	13.6	10,511	12.0
Housing and utilities	9,391	10.65	7,903	9.0
Mineral resources extraction facilities	6,962	7.9	6,993	8.0
Transport infrastructure and communications facilities	6,324	7.2	5,862	6.7
Cultural, ritual and religious facilities	6,130	6.95	7,030	8.0
Social sphere facilities	2,755	3.1	2,343	2.7
Production entities	1,758	2.0	4,598	5.25
Air and water transport facilities	1,102	1.25	1,122	1.3
Hydro-technical facilities	739	0.8	1,215	1.4
Unfinished construction entities	369	0.4	373	0.4
Movable property entities	4,196	4.8	5,624	6.45
Total	88,250	100.0	87,542	100.0

A year later, in early 2014, there were the same top 4 categories, but their aggregate share had shrunk to approximately 60% due to the shrinkage of the shares of each of these groups: administrative buildings and structures – from 20.9% to 19.4%, civil defense and protection facilities – approximately from 20.5% to 19.4%, housing fund entities – from 13.6% to 12%, housing and utilities entities – approximately from 10.7% to 9%. A similar trend could be observed in regard of transport infrastructure and communications facilities (decline from 7.2% to 6.7%), and social sphere facilities (decline from 3.1% to 2.7%).

Meanwhile, the relative share of production entities more than doubled (increasing from 2% to approximately 5.3%); the relative share of movable property entities increased by more than 1 percent point (from 4.8% to approximately 6.5%), the same was of true of cultural, ritual and religious facilities (which increased approximately from 7% to 8%); the growth of the share of hydro-technical facilities was slightly less (from 0.8% to 1.4%). At the same time, the shares of mineral resources extraction facilities, air and water transport facilities, and unfinished construction entities remained approximately at the same level.

Thus, over the course of 2013, the total number of treasury-owned property entities in the Russian Federation declined by 0.8% (or by more than 700 units).

The leaders in the downward trend group were housing and utilities entities (shrinkage by almost 16%), housing fund entities (by 12.5%), administrative buildings and structures (by 8%), and civil defense and protection facilities (by nearly 6%) (see Table 17).

Table 17

Categories of Property Owned by the RF Treasury, with Major Changes Occurring in 2013

Downward trend			Upward trend		
Property category	units	%	Property category	units	%
Housing fund	1,504	12.5	Production entities	2,840	2.6 times
Housing and utilities	1,488	15.8	Movable property	1,428	34.0
Administrative building and structures	1,474	8.0	Cultural, ritual and religious facilities	900	14.7
Civil defense and protection facilities	1,067	5.9	Hydro-technical facilities	476	64.4

In absolute terms, the most impressive decline was demonstrated by housing fund entities, whose number was reduced by more than 1.5 thousand units. Slightly less was the decline in the number of housing and utilities entities, and that of administrative buildings and struc-

tures. The number of civil defense and protection facilities dwindled by more than 1 thousand units.

The decline in the number of housing fund entities occurred due to the ongoing privatization process (according to data released by *Rosimushchestvo*'s territorial agencies, in 2013 a total of 187 apartments were privatized) and to the transfer of these property entities from federal ownership to another public ownership tier (ownership by RF subjects and municipal formations). The last factor was in the main responsible also for the shrinkage of housing and utilities entities and social sphere facilities held by the treasury.

The number of administrative buildings and structures declined as a result of privatization (transfer into the ownership by third parties), and consolidation of buildings to institutions and enterprises; while that of civil defense and protection facilities declined as a result of inventory revision, which involved altering the status of some of the relevant facilities.¹

The shrinkage of the number of transport infrastructure and communications facilities was achieved as a result of their sale, consolidation to other organizations, or transfer to another public ownership tier.

As seen by these results, in 2013 a total of 1,587 immovable property entities comprising the RF treasury were transferred to another tier of public ownership; an overwhelming majority of these (1,137 units) were transferred into municipal ownership.

The other pole was represented by production entities, whose number increased by 2,840 units (or more than 2.6 times), and movable property entities (increased by nearly 1,430 units, or more than by 1/3). The same trend was displayed by cultural, ritual and religious facilities (growth by 900 units, or by nearly 15%) and hydro-technical facilities (growth by nearly 480 units, or by slightly less than 2/3).

The increase in the number of property entities in these categories occurred as a result of privatization (mainly in the form of corporatization of FSUEs) and bankruptcy of federal organizations, because the outcome of such procedures – due to their targeted use and the constraints imposed on their turnover – is their transfer to the RF treasury. First of all, this is true of those property entities that cannot be privatized. Besides, cultural, ritual and religious facilities can be transferred to the treasury in the framework of judicial division of property rights.

As for religious facilities, it is necessary to note that, judging by the results of the selection, analysis and verification of such entities among the properties comprising the RF treasury (accomplished in 2013, by way of preparing them for 'an open offer' to representatives of various religious confessions), it has become evident that, among the selected 2,499 entities which are not consolidated to federal bodies of authority or organizations, 1,536 entities (or 61%) have already been transferred to religious organizations to be used on a gratis basis; 347 entities (or 14%) are being used *de facto* (that is, without proper formalization of their status); while 616 entities (or 25%) are 'free' (or currently unused). The religious organizations, for their part, clearly prefer to conclude user agreements on a gratis basis instead of assuming ownership rights to the relevant properties, because thus they can avoid the associated considerable expenditures.

¹ By the year-end of 2014, according to data released by the RF Ministry of Emergency Situations, the investigation of the state of civil defense and protection facilities (CDPF) has been completed. *Rosimushchestvo* is waiting for the Civil Defense and Population Protection Department of the RF Ministry of Emergency Situations to release the relevant information concerning the needs of regions in such facilities, after which it will coordinate with the FR subjects the specific lists of CDPF. See www.rosim.ru, 29 December 2014.

6.2.5. Possible Approaches to Implementing the Government Policy on Treasury-owned Property Entities

The government policy designed to optimize the structure of treasury-owned property could be successful in the medium term perspective if the following principles are observed.

The possible benefits and costs should be brought into a proper balance: the federal budget expenditures under the article ‘Maintenance and Support of the RF Treasury’ should never be considered a serious financial reserve of the budget system, because even if all these costs are reduced to zero, the total amount of the resulting savings will be incomparable with the amount of financing necessary for resolving some or other socio-economic issues.

Moreover, the current state of many property entities owned by the treasury necessitates a considerable increase in their financing, because they represent a potential source of manmade risks and hazards.

Adequate costs to potential ratio: The optimization of the list of property entities comprising the RF treasury was necessitated by the awareness of the fact that the federal budget represents the most robust link in the entire budgetary system in Russia. The limited potential of the budgets of RF subjects and municipalities coupled with their dependence on transfers from the upper tiers of the budgetary system imposes significant constraints on this process, making it not worthwhile to redistribute treasury-owned property in favor of regions and municipalities.

Another aspect of the principle of costs being adequate to the existing potential is the necessity to preliminarily discuss the feasibility of transfer of public property comprising the RF treasury to institutions and enterprises in federal ownership, with due regard for issues like its proper upkeep, targeted use, and the resulting changes in the burden on the budget нагрузка.

Multi-sector approach: the miscellaneous nature of treasury-owned property entities belonging to different categories is an objective factor that determines the necessity of differentiated approaches to their management.

Pragmatic and gradual approach: due to the scale of the property complex currently comprising the RF treasury and its specific features, a simple quantitative reduction in the number of such property entities can hardly be regarded as a successful solution. It can be reduced, and its management quality improved, only after the implementation of comprehensive preparatory measures.

The strategic core model: the theoretic approaches based on the principle of social welfare being generated by the public sector of the national economy, the existence of legal certain constraints on privatization and the evident specificity of Russia's economy in transition are considered to be weighty arguments in favor of keeping a substantial number of properties in public ownership, namely property comprising the RF treasury which can be regarded, to a certain extent, as an analogue of the public land reserves and public material reserves, thus necessitating a certain turnover of the entities comprising those reserves.

So, with due regard for the currently existing normative legal base, we may speak of a state treasury in the broad and narrow sense.

The notion of a state treasury in the broad sense essentially means the management of a large part of the entire public property complex (less property consolidated to unitary enterprises and state institutions) and implies the existence of at least four components: 1) management of the budget process (with the sovereign funds); 2) management of the securities portfolio directly held by the State, including stakes in the capital of economic societies (treasury-owned stocks); 3) management of the land resources in public ownership (treasury-

owned land); 4) management of all the other movable and immovable property (treasury-owned property).

If we refer to the property comprising the RF treasury in the narrow sense, that is less budget funds, securities and land resources, the fact the bulk of it is represented by properties other than those contributed to the charter capital of JSC created as a result of corporatization of unitary enterprises (mainly due to ban on privatization) restricts the spectrum of available managerial solutions.

The main type of activity involving such property will be the transfer of relevant property entities to the corresponding bodies of authority, with their subsequent consolidation to institutions and enterprises subordinated to those bodies of authority.

In this connection, the following measures are suggested:

(1) reliance on the principle of targeted transfer of property entities to those bodies of authority that previously supervised the enterprises reorganized into JSC, as a result of which the relevant property entity was transferred to the treasury in the first place;

(2) establishment, by a special normative legal act, issued at the level of the RF President or RF Government, of the continuity of the activity of the currently existing bodies of authority with regard to that of the previously existing ones (bearing in mind their continual reorganization since the early 1990s); the existence of such a document will make it possible to avoid a long chain of unnecessary coordination between multiple government departments;

(3) the receipt, by relevant bodies of authority, of a small amount of budget funding previously allocated to *Rosimushchestvo* under specific items should not be used as the grounds for denying them any further budget allocations, if the necessary substantiation for such funding is provided (for example, if they are involved in the implementation of a federal target program aimed at hazard-prone production entities, including classified entities).

The transfer of property to another tier of public authority represents a special case, when it is necessary to improve the existing normative regulation (to alter the list of documents required for the transfer to another tier of public authority of administrative buildings and structures, social sphere facilities, or unfinished construction entities), implement some preparatory measures (develop a simplified procedure for the transfer to regions and municipalities of housing and utilities property entities). The first steps in this direction (as far as entities comprising the RF housing fund are concerned) have already been taken.

As for the other types of property comprising the RF treasury and available for privatization, it will be necessary to consider the feasibility of their alienation, select the methods of alienation, and set the timelines for its effectuation.

Among the proposals aimed at minimizing the volume of property comprising the RF state treasury (by category), *Rosimushchestvo* is currently considering:

- the legislative initiative designed to simplify the procedures of sale of administrative buildings and structures, housing and utilities entities, social sphere facilities, unfinished construction entities, air and water transport facilities, and movable property entities (for the last two categories - without including them in the forecast plan (or program) of federal property privatization, on the basis of a single procedure synchronized with the sale of property transferred into public ownership);
- the proposal concerning the possibility of outsourcing the function of selecting properties suitable for sale in the category of administrative buildings and structures, social sphere facilities, unfinished construction entities, air and water transport facilities, and movable

- property (for the last two categories - for the purpose of electronic bidding), as well as the function of drawing up a complete inventory of civil defense and protection facilities);
- the proposal concerning the allocation of sufficient funding to cover the costs involved in housing fund repairs, with the subsequent transfer of the relevant entities to another tier of public ownership; recycling of oil and gas wells; the upkeep of hazard-prone production entities; the upkeep and storage of arrested vessels; the repair of cultural, ritual and religious facilities for their subsequent transfer to religious organizations; hydro-technical facilities (for the last category – with the drawing-up of their technical passports) for their subsequent transfer to another tier of public ownership;
 - the proposal concerning the allocation of funding to the formalization of documents for the subsequent sale of social sphere facilities; the drawing-up of technical passports for cultural heritage properties (CHP) for the subsequent registration of RF ownership rights to them and their involvement into economic turnover; and the drawing-up of technical passports and registration of RF ownership rights to property entities and land plots belonging to the category of unfinished construction entities (for the last category, also a recycling procedure funded by monies attracted in the course of transfer, on preferential terms, of the land plots in which the entities to be recycled are situated is envisaged);
 - the proposal concerning the attraction of off-budget investment in the framework of public-private partnerships (PPP) (concession agreements, investment contracts) involving transport infrastructure and communications entities, and unfinished construction entities;
 - the transfer of movable property entities together with immovable property being transferred, or as a property complex (furniture, equipment).

As is evident from the suggested list of measures, the implementation of most of them implies the necessity of adjusting the existing normative regulation of the privatization procedures and providing an adequate financial backing, these two issues being largely interdependent. In principle, the availability of budget allocations can well enable *Rosimushchestvo* to implement all these measures.

At the same time, it is necessary to point to the costs associated with the repeated valuations of treasury-owned entities, as the relevant documents are acceptable only within six months from the moment of the last valuation; the lengthy procedures involved in the inclusion of a property entity into a forecast plan (or program) of federal property privatization; and the lengthy procedure of its sale.

The potential for improving the normative legal base in this direction may be aimed at simplifying the procedures of sale for some property categories without including them in the privatization program and extending the periods during which the property valuation reports will remain valid. However, it is obvious that these innovations will by no means be applicable to all the property entities comprising the RF treasury; so, it will be necessary to determine the set of their qualitative and quantitative features.

Besides, it may be possible to reestablish the institution of normative prices, which were stipulated in privatization legislation over the period 2001–2010.¹ The use of a normative price instead of the mechanism stipulated in the law on property valuation will have the following advantages: (1) the possibility to save the money that would otherwise be spent on the valuation procedure, (2) the possibility to apply the available estimates based on a property

¹ The normative price was defined in the law on privatization (Article 12) as the minimum price determined in the procedure established by the government, at which the alienation of a given property entity can be possible.

entity's residual or near-zero value as the initial price in the framework of an auction or tender procedure. The indispensable condition for the reintroduction of normative price, beside the entry of the relevant stipulation into existing legislation, must be the delineation of the sphere of its application and its testing in a pilot mode, especially if this service is to be outsourced.

A more general approach to resolving these issues may be the performance of the multiple procedures involved in the preparation of the necessary documentation, the drawing-up of technical passports for property entities earmarked for privatization and their involvement in economic turnover, the gratis involvement of other FBEAs (first of all, the Federal Registration Service (*Rosregistratsia*) through the imposition of these responsibilities on them by the adoption of special normative legal acts and administrative regulations in the framework of currently allocated budget funding. In a certain sense, this will mean the launch of a national project aimed at drawing up a comprehensive public property inventory, similar to a census conducted by the statistics service.

As for the PPP mechanisms, the actual potential for their more widespread use will probably depend on the country's general business environment and investment climate. The high degree of wear and tear of many of the property entities comprising the RF treasury will only make the situation all the more difficult. All these circumstances will have to be taken into consideration also in the context of possible improvement of privatization mechanisms, especially if low-liquidity properties are to be realized, which will require some non-standard privatization methods like tenders and sale in the framework of trust management.

However, if the issues of treasury-owned property management are to be looked at outside of the context of privatization, it will be necessary to carefully consider all the specific features of the miscellaneous properties comprising the public property complex.

In this connection, we may point to the specificities involved in the optimization of some of the categories of property entities comprising the RF treasury.

Thus, the orientation towards minimizing the number of mineral resources extraction facilities, transport infrastructure and communications facilities, hazard-prone production entities, and hydro-technical facilities appears to be disputable. If such property entities are transferred to new user, be it another tier of public authority or an institution or enterprise in federal ownership, the issues of their safety and targeted use will still remain important, including also the issue of the potential use of such properties by their new owners as a security, including the possibility of their transfer as a contribution to the charter capital of an economic society.

For example, the consolidation to the enterprises subordinated to branch FBEAs of transport infrastructure facilities (railway tracks, airfields, runways, helipads, harborages, wharfs, motor roads, bus stands) can make them subject to creditor claims presented to the organizations in charge of these facilities, which is fraught with the risk of disruption of transport routes. This is also true for some other categories of property comprising the RF treasury, such as civil defense and protection facilities, mineral resources extraction facilities, production entities, air and water transport facilities, hydro-technical facilities.

Besides, in this connection it will be worthwhile to initially adopt the relevant legal norms oriented to the treatment of such property entities as especially valuable assets that cannot be used as a pledge to secure the liabilities assumed by their holders (similar to autonomous institutions).

In addition, it will be necessary to compare the aggregate burden on the budget with the tax regime applied in connection with the transfer of property entities comprising the RF treasury

(on which no tax is levied) to institutions and enterprises in federal ownership, and to take into consideration the evident scarcity of the revenue base available to RF subjects and municipalities, which are dependent on transfers from the upper tiers of the budgetary system.

Thus, in view of the allocation of special funding to cover the cost of drawing-up technical passports and preparation of the normative documentation for hydro-technical facilities necessary for their subsequent transfer to another tier of public ownership, it is unlikely that these facilities can be maintained in proper condition after their transfer to regional or municipal ownership. Meanwhile, hydro-technical facilities are fraught with high manmade risks. In this connection, it appears more appropriate to consolidate them to specialized organizations subordinated to branch FBEAs, with due regard for the experiences of the recent large-scale natural and manmade disasters (floods in Krasnodar Krai (in 2012) and in the Russian Far East (in 2013)).

6.2.6. Property Comprising the RF Treasury and the New Government Program *Federal Property Management*

The year 2013 was marked by the launch of the Government Program (GP) *Federal Property Management*, approved by Directive of the RF Government of 16 February 2013, No 191-r. We have already discussed its results relative to property comprising the RF treasury. However, 14 months later, a new Government Program with the same title was approved by the RF Government Decree of 15 April 2014, No 327.

In this document, among the key goals in the sphere of federal property management, the minimization of the number of entities comprising the RF state treasury is pointed out, to be achieved by applying the following methods:

- to ensure sufficient funding for the upkeep of federal property comprising the treasury and to implement the rule whereby funding should follow a given property entity in the event of its transfer to a federal organization or alienation for the benefit of another public legal entity, including transfer or alienation for the purpose of ensuring its targeted use;
- to involve the properties comprising the RF treasury, including unfinished construction entities, in economic turnover by means of their transfer into public ownership of RF subjects or municipal ownership in order to create an economic foundation for their activity, or to sell properties in the framework of a bidding.

Similarly to the previously adopted document, the new Government Program sets the task of determining for each federal property entity its targeted function, which must also be done with regard to entities held by the treasury (alongside other types of assets) in the volume of 30% in 2018.¹ The numerical targets for reducing the volume of property comprising the RF treasury in 2012 are as follows: for land plots uninvolved in economic turnover – by 30% (in terms of area, less the land plots withdrawn from economic turnover and restricted in their turnover); for property entities (less land plots) – by 11% (less property entities restricted in their turnover). The intermediate targets for the implementation of the government program for the period until 2018 are the same as the corresponding targets set in the 2013 government program. The creation of a legal backing for the implementation of the government program in the part relating to property held by the treasury will involve the introduction of amendments to various existing legislative and normative acts with the purpose of creating adequate

¹ In this connection in the text of the program for 2018 it is stated that management goals must be determined with regard to each of the property entities comprising the state treasury of the Russian Federation.

conditions for more proficient sale of the watercraft that have been confiscated or alienated after being intercepted with illegal catch of biological resources.

The financial backing for the new government program for 2014 will entirely depend on the actual potential of the federal budget, because no other sources of funding are stipulated in its passport. The budget allocation targets set in the federal budget for 2014–2016 are somewhat higher than those set in the previous (for 2013) government program's passport, with the exception of the targets for 2016.

In the approved law on the federal budget for 2015–2017 (of 1 December 2014, No 384-FZ) a slight increase in the volume of budget allocations on the targets set in the government program's passport is envisaged only for the year 2015, whereas over the next two years these indices will decline, and especially impressively in 2016 alongside the decline, in absolute terms, of the per annum expenditure volume. However, the budget allocation targets cited in the annexes to the budget law with regard to the Government Program *Federal Property Management* (in the framework of the subprogram 'Improving the Efficiency of Public Property Management and Privatization') are too general for any specific estimations to be made on their basis as to the amount of budget expenditure earmarked for each of the directions of government property policy, including the cost of the upkeep and servicing of the RF treasury (in contrast to the figures stipulated in the budget for the period 2013–2015 and in the corresponding law on budget execution).

* * *

1. The management of property comprising the RF treasury is an important component of government property policy, although its definition in Russian legislation is rather sketchy. In addition to budget funds, it also consists of public property other than that consolidated to state-owned enterprises and state institutions by right of economic jurisdiction or operative management. From this it follows that the treasury comprises at least another two types of property, or property components: securities (including those that secure state participation in the capital of economic societies) and other miscellaneous movable and immovable property, including land plots.

2. Prior to the approval of the Government Program *Federal Property Management* in early 2013 the property complex held by the federal treasury was not treated as an object of property management in its own right, although the comprehensive Concept of State Property Management and Privatization in the Russian Federation had been adopted as early as the autumn of 1999. One not very important exception was the separation in the annual privatization programs, beginning from the forecast plan (or program) of federal property privatization for 2007, as a distinctive category of property earmarked for privatization, of the property entities held by the RF treasury and uninvolved in the execution of government functions.

3. The understanding of the place and role of property held by the treasury relative to the other property categories and property right holders was improving as the Federal Property Register was gradually taking shape. By late 2013, the bulk of registered entities (approximately 69%) was consolidated by right of operative management (granted in the main to state institutions), which is much greater than the share of property entities consolidated by right of economic jurisdiction (approximately 14%), which is granted to unitary enterprises. At the same time, the relative share of entities comprising the federal treasury by early 2014 had amounted to approximately 17% (vs. 11–12% in 2009–2010).

Thus, in the period 2013–2014, the treasury came to be the second largest federal property right holder among all the categories thereof, getting slightly ahead of the enterprises operating by right of economic jurisdiction. This circumstance has secured a more prominent role of the issues of treasury property management in the framework of government property policy.

4. The financial burden of the corresponding budget expenditures is relatively small, but due to the specific features of some of the property categories comprising the RF treasury they are fraught with risks of manmade disasters, and the liquidation of their consequences may be associated with certain costs. A more general (background) issue typical not only of treasury property management, but also of the management of all the other components of the public property complex, is the shortage of funding needed for property upkeep.

5. The by-type structure of property comprising the RF treasury is clearly dominated by land plots (approximately 2/3 of all entities), slightly more than 30% is taken up by other immovable property entities, while the rest (about 2%) are movable property entities.

If we look at property (other than land plots) held by the treasury, we will see that in early 2013, out of the total number of property entities comprising the RF treasury (approximately 88,3 thousand units, grouped into 13 categories), nearly 2/3 was taken up by 4 categories: administrative buildings and structures (20.9%); civil defense and protection facilities (approximately 20.5%); entities comprising the RF housing fund (13.6%); and housing and utilities (approximately 10,7%). The shares of mineral resources extraction facilities, transport infrastructure and communications facilities, and cultural heritage properties amounted approximately to 7–8% each.

6. The property comprising the RF treasury was for the first time treated as a separate government property policy target in the Government Program *Federal Property Management* approved in February 2013.

The core idea of that document was the necessity of defining and consolidating to each entity in federal ownership its targeted function; this was planned to do (alongside other types of assets) also with regard to property entities held by the treasury (with land plots being treated as a separate property category).

The targeted function associated with the execution of ownership rights to these assets is its proficient management whilst it is being held by the treasury, the ultimate goal being to bring the volume of such entities to a minimum, so that the treasury should ultimately retain only those property entities that have been deemed, by the normative acts issued by the RF Government, to be necessary for the execution by federal state bodies of authority of their proper functions and for securing the strategic interests of the Russian Federation. This standpoint was further confirmed by the fixed targets for annual planned reduction, on 2012, of the number of property entities comprising the RF treasury.

The main tasks to be accomplished towards achieving these ultimate goals were defined as follows:

- distribution of treasury-owned property entities depending on their targeted function;
- disposal of current assets;
- use of efficient mechanisms for involving relevant properties in economic turnover;
- allocation of sufficient funding for the upkeep of properties during the period while it is being held by the treasury;
- greater transparency of treasury property management.

Among the most significant measures implemented within the Government Program's framework, we should like to point out the following ones:

- categorization of property entities comprising the RF treasury;
- development of roadmaps for each category;
- elaboration of the Treasury Information System (IS), which will ensure an automatic coordination of each property entity entered into the Federal Property Register with the relevant property category;
- improvement of normative legal regulation of the management of property entities comprising the RF treasury (housing fund, mineral resources extraction facilities, etc.);
- the allocation of funding, in addition to the running costs of the upkeep of property entities (their protection, utilities and repairs), also to cover the cost of drawing up their technical passports, thus making it easier to proficiently manage the treasury and involve the relevant property entities in economic turnover.

7. As the methodology for determining the targeted function for this category of federal property was still being developed, the only real year-end results for the implementation of the GP in 2013 were the numerical indices pointing to a decline in the number of entities comprising the treasury.

In 2013, the number of property entities comprising the treasury was reduced as a result of the following acts:

- privatization (including free-of-charge privatization of apartments by RF citizens);
- transfer of property to another tier of public ownership;
- consolidation of property to enterprises and institutions.

As a result, the total number of immovable property entities held by the treasury declined for the first time, which in numerical terms amounted to more than 2.1 thousand units (or 2.5%). The aggregate number of property entities comprising the RF treasury (including movable property entities, but less land plots) over the course of 2013 declined by 0.8% (or by more than 700 units). Thus, given the planned target of 1%, we may note the slight deviation by 0.2 pp., which nevertheless represents a much less figure by comparison with the deviation demonstrated by the number of FSUEs and the area of treasury-owned land plots uninvolved in economic turnover.

In the structure of property comprising the RF treasury, alongside the shrinkage of the share of the 4 biggest property categories (administrative buildings and structures, civil defense and protection facilities, entities comprising the RF housing fund, and housing and utilities), the share of production entities increased by more than 60% (from 2% to approximately 5.3%); growth was also displayed by the shares of movable property entities, cultural, ritual and religious facilities, and hydro-technical facilities.

8. The miscellaneous nature of the property complex comprising the RF treasury (other than budget funds, securities and land resources), the prevalence of properties that cannot be privatized, the existence of other normative restriction on the disposal of such properties, and their low liquidity that became evident in the course of the attempts at their privatization over recent years have narrowed the spectrum of possible managerial solutions and emphasized the importance of an ‘evolutionary’ approach to the development of the system of measures designed to make their use more productive.

9. Further key improvements in the system of management of property comprising the RF treasury can involve the following measures:

- transfer of the properties subject to restrictions on its privatization, with due regard for targeted function, to relevant bodies of public authority with subsequent consolidation of these properties to their subordinated federal state institutions and enterprises;

- transfer of property to another tier of public authority alongside the improvement of the procedures of its normative regulation and only after the implementation of relevant preparatory measures;
- as for all the other propertya comprising the RF treasury, with no ban on its privatization, it is necessary to consider the feasibility of its alienation, or to choose the specific method and timing of its sale.

With regard to the first option, it is feasible to rely on the principle of targeted transfer of property entities to those bodies of authority that previously supervised the enterprises reorganized into JSC, as a result of which the relevant property entity was transferred to the treasury in the first place.

When attempting the optimization of the list of property entities to comprise the RF treasury in accordance with the second option, the significant factor to consider will be the limited potential of regional and local budgets coupled with their dependence on transfers from the upper tiers of the budgetary system.

In the context of the third option, the most important issues will be those of property valuation, simplification of the sale procedure for some property categories (without including the relevant property entities in the privatization program), and reliance on non-standard methods of privatization, concession mechanisms and public-private partnerships.

10. The newly adopted Government Program *Federal Property Management*, approved in April 2014 to replace the previous GP with the same title, the implementation of which had lasted for slightly longer than a year, on the whole reproduces the same targets, and this is also true for the property comprising the RF treasury. The budget allocation targets set in the new 2014 GP are oriented to the then approved federal budget for 2014–2016. Meanwhile, the implementation of the Government Program will take place under new conditions associated with the imposition of наличием harder budget constraints, a fact that has also been reflected in the law on federal budget for 2015–2017.

6.3. Innovations of corporate legislation and regulation: changes in the Civil Code and the new Code of Corporate Governance

6.3.1. Civil legislation reform; legal entities

The reform of civil legislation started in the summer of 2008, with the signing of the Presidential Decree of the Russian Federation of 18 July 2008 No. 1108 “On the improvement of the Civil Code of the Russian Federation”. The objectives of the changes in the Civil Code (*hereinafter referred to as the “CC”*) were declared as:

- a) the further development of the basic principles of the civil legislation of the Russian Federation, to match the new level of development of market relations;
- b) to reflect the experience of the use of the CC and its interpretation by the courts;
- c) rapprochement of the CC provisions with the rules regulating relations in the relevant laws of the European Union;
- d) the use in Russian civil legislation of the newest positive experiences of the modernisation of the civil codes of a number of European countries;
- e) to maintain the uniformity of regulation of civil-law matters in the member states of the CIS;
- f) to ensure the stability of civil legislation.

Significant changes in the Civil Code of the Russian Federation, including with regard to the Chapter “Legal Entities”, were considered within the framework of the Civil Legislation Development Concept, and these included several draft laws. This Concept was approved in October 2009.¹ In 2010–2011 the first versions of the draft laws were publicly presented.² The scale of the changes and additions to the Civil Code was even compared with that of 1995, when the First Part of the Civil Code, which then came into force, changed the Fundamentals of the Civil Legislation of the Union of Soviet Socialist Republics and of the Republics.³ In May 2014 Federal Law No. 99-FZ of 05 May 2014 was adopted, providing for the changes in the “Legal Entities” Chapter of the Civil Code.

According to the opinions of some authors, the revision of the rules relating to the legal entities was, on the whole, motivated by⁴ the need to simplify and unify legal regulation, to eliminate the multiplicity of active laws and their mutual contradictions, and to increase the role of the Civil Code in the regulation of the status of legal entities.

It is important to note, that in relation to a whole range of legal entities, such as the State Atomic Energy Corporation (Rosatom), the State Corporation for the Promotion of Development, Manufacture and Export of High-Technology Products (Rostechologies), the Deposit Insurance Agency, the state corporation - The Support Fund for the Reform of the Housing and Utilities Sector, the state corporation - the Bank for Development and Foreign Economic Affairs (Vnesheconombank), the State Corporation for the Building of Olympic Objects and the Development of the City of Sochi as a Mountain Resort, the state company - Russian Highways, and also in relation to other legal entities created by the Russian Federation on the basis of special federal laws, the provisions of the Civil Code of the Russian Federation on legal entities are applied only to the extent that there is no other provision under a special federal law with regard to the corresponding legal entity.⁵

General Provisions

The changes in the corporate legislation⁶ first of all, affected the term “*legal entity*”. Beside the fact, that “an organisation that has separate assets, and is liable for its obligations with such assets, may on its own behalf acquire and exercise civil rights and have civil obligations, to act as a plaintiff and defendant in court is recognised to be a legal entity”, it is now stipulated that the founders, holding proprietary rights for the assets of such a legal entity, should be state and municipal unitary enterprises or institutions. The participants of a legal entity that has corporate rights, should be corporate organisations. So, aside from the division of the rights of the participants in a legal entity into different types, the strengthening of the rights

¹ For more details, refer to: Apevalova E. A. Corporate legislation 2006–2010: some results and innovations.- // The Russian economy in 2010: the trends and prospects. - Moscow, the Gaidar Economic Policy Institute, 2011, pages 459–474

² For more details, refer to: The civil legislation reform./ Analytic information - www.consultant.ru

³ For instance, Turbanov A. V. The civil legislation reform: new approaches and mechanisms. //Banking Law, 2012 No., pages 3–7.

⁴ Soifer T. V. Topical directions of the development of the civil legislation on non-profit organisations. // Russian Justice 2014, No.3, page 8.

⁵ P.6 of Article 3 of the Federal Law of 05 May 2014 No. 99-FZ “On the Introduction of Changes in Chapter 4 of the First Part of the Civil Code of the Russian Federation and on the Recognition as Invalid Certain Provisions of the Legislative Acts of the Russian Federation”.

⁶ All changes in the Civil Code, considered below, are based on the “Changes in the Provisions of the Civil Code of the Russian Federation with regard to Legal Entities (Federal Law of 05 May 2014 No. 99-FZ)”.

(for instance, of the corporate rights) has been provided for, and without these, a legal entity cannot exist as such.

Earlier, in 2009,¹ the protection of corporate rights had been introduced in the Arbitration Code. Previously, corporate rights, as an institution in law, did not exist in the legislation, and the shareholders, for example, were considered to be endowed with the rights of obligation, i.e. with the rights to claim. Corporate rights are understood as a right to claim, on behalf of a corporation, for the compensation of damages inflicted on such a corporation; or, acting on behalf of a corporation, to challenge the transactions carried out by that corporation and to demand the enforcement of the consequences of such invalidated transactions, as well as the enforcement of the consequences of the invalidity of void transactions, in addition to some others. It is significant that the law and the constituent documents of a corporation may contain other rights as well.

Additionally, an *extension of the legal capacity of a legal entity has been secured*, already established in the field of legislation on self-regulation and practice, from now on a legal entity may engage in certain types of activity, not only on the basis of a licence, but also on the basis of its membership in a self-regulated organisation, or through a certificate issued by a self-regulated organisation on admission to certain types of works.

A broad list of types of non-profit organisations was provided, which included, for instance, partnership of property owners, Cossack associations, autonomous non-profit organisations, public companies, etc.² These will be considered in detail below.

Furthermore, *the preparation of the constituent documents of legal entities has been simplified*. All legal entities, other than commercial businesses, may now act only on the basis of their articles of association, approved by their respective founders (participants). The commercial business entities may now act on the basis of their memorandums of association. The possibility of using standard articles of association, approved by a corresponding state authority, has been provided for. The founders may now choose to adopt internal rules governing their corporate documents.

The obligation of members of the collegial bodies of a legal entity to act in the interests of such a legal entity, reasonably and in good faith, has been fixed (in a similar way to how a person, may be authorised to act on behalf of a legal entity). On the practical side, the principle of good faith means that the above-mentioned participants in civil law relations shall respect the rights and interests of counter parties, not abuse or misuse their rights, not perform any actions, aimed at the evasion of law, and not artificially create conditions for the non-performance of obligations or the unfounded acquisition of rights. In practice, the civil legislation is not able to spell out and prohibit all possible violations of the interests of other parties, and this is why it is important for the courts to have the possibility, based on the principle of good faith, to declare one or another person as dishonest, and the actions of such persons - as an abuse of rights.

From our point of view, the introduction of such a principle brings the Russian legal system closer to the Anglo-Saxon one (the possibility of making a decision, not only on the basis of specific rules, but also on general principles). This is undoubtedly a step forward; however,

¹ Federal Law of 19 July 2009 No. 205-FZ "On the Introduction of Changes to Certain Legislative Acts of the Russian Federation".

² For more details, refer to Article 50 of the CC of the Russian Federation, as amended and supplemented, entered into force since 01 September 2014.

in practice, mistakes and abuses may occur during the assessment of business risk and integrity.

Further, the legal responsibility of a person, authorised to act on his/her own behalf, as well as of the members of the collegial bodies of a legal entity has been fixed¹ (but excluding any who voted against a decision which resulted in damages, or who, acting in good faith, did not participate in such voting). Upon the request of a legal entity, the above-mentioned persons are obliged to compensate its founders (participants), for the damages, caused to the legal entity through their fault. In the case of the mutual infliction of damages, joint liability is provided for. Agreements on the limitation or elimination of such liability are null. In reality, this has introduced a mechanism for the protection of owners' interests against abuse and misuse on the part of management, which is already widespread in Russian practice.

On the whole, the innovations in this block should be considered as positive ones, aimed at developing legal regulation and a better level of protection for owners.

Reorganisation of legal entities

The law has fixed the possibility of complex reorganisation, i.e. the reorganisation of legal entities with the simultaneous combination of different forms of reorganisation, including that involving the participation of more than two legal entities, even if they are subject to different legal forms of organisation. It appears that such wide possibilities of reorganisation will hinder the definition of legal succession and will contribute to abuses on the part of the enterprises subject to reorganisation.

The key document in the reorganisation of legal entities is now only the Deed of Transfer (previously the separation balance sheet was also applicable), which, in addition to the original requirements, will now have to contain "the procedure for the definition of legal succession in connection with the change of type, composition and value of the assets, with the creation, change and termination of the rights and obligations of a legal entity, which may take place *after* the date of the corresponding Deed of Transfer" (Part 1 of Article 59 of the Civil Code of the Russian Federation).

If a Deed of Transfer does not allow for a successor to be defined, or implies that during the reorganisation the assets and obligations of the legal entities were not divided in good faith, and that this resulted in significant violations of the creditors' rights, such a reorganised legal entity and the legal entities, created as a result of the reorganisation, shall be jointly liable for such obligations.

The regulation of the guarantees of creditors' rights during reorganisation have undergone significant changes. Previously, a creditor of a legal entity was entitled to demand the early performance of the corresponding liability by the debtor if such a creditor's rights to claim had appeared before the publication of the reorganisation of the legal entity. Additionally, in the case of such early performance not being possible, to demand the termination of the liability and compensation for any damages, related thereto (with the exclusion of certain cases, established by law). Now all creditors are governed by the conditions, which previously applied to joint-stock companies, related to the demand for the early performance of liabilities; and moreover, through court procedures, to a 30 day term of submission of such demands, etc. An exception has been made for any creditors, who were provided with security for the

¹ The details of the compensation for losses by persons, included into the bodies of a legal entity, refer to the Ruling of the Plenum of the Supreme Arbitration Court of 30 July 2013 No. 62 "On Certain Matters, Related to the Compensation for Losses by Persons, Included into the Bodies of a Legal Entity".

fulfilment of obligations. In reality, a narrowing of creditors' rights during reorganisation is taking place.

Furthermore, it is now not only legal entities created through the reorganisation procedure that are responsible to their creditors for the non-performance of the corresponding obligations, but also "*persons, having the authority to define the actions of the reorganised legal entities, members of their collegial bodies, or a person, authorised to act on the behalf of a reorganised entity*", provided that they, by their actions, contributed to the non-compensation of losses, or the early non-performance of obligations, or the non-provision of sufficient security.

The law has directly established that the recognition by a court of the invalidity of a decision on reorganisation does not entail the liquidation of the legal entity formed as a result of that reorganisation, and nor does it constitute grounds for transactions, made by such a legal entity, to be considered invalid. It appears that such a situation will ensure immutability in the distribution of the assets of state companies and corporations that have undergone multiple reorganisations.

A special regulation applies where a reorganisation is recognised as void. It may be executed upon the request of a corporate member, who voted against a decision on the reorganisation or who did not participate in the voting on such a matter, provided that the decision on the reorganisation was not taken by the members of the reorganised corporation, or was established with the use of deliberately false information about the reorganisation.

The consequences through the court taking such a decision are:

- the reinstatement of the legal entities, which existed prior to the reorganisation,
- the transactions of the legal entities, created as a result of the reorganisation, with persons, who, in good faith, relied upon the legal succession, remain in force for the restored legal entities, which are the joint debtors and joint creditors in relation to such transactions;
- the participants of a previously existing legal entity are recognised as the owners of the participation shares in that legal entity to the extent of the shares that they owned prior to the reorganisation.

There are also some additional consequences not listed here.

A prohibition has also been introduced on the reorganisation of business partnerships and companies into non-profit organisations or into unitary commercial organisations.

From our point of view it appears that, in general, the rules which have been introduced on reorganisation provide particularly for the interests of large state companies and corporations, while they also narrow the rights of creditors during reorganisations.

Liquidation of a legal entity

With regard to the norms on liquidation, it is firstly worth noting the introduction of the definition of an "*inactive legal entity*", which means a legal entity, which, during the previous 12 months has not presented the accounting documents stipulated by the Tax and Levy Legislation and has not made transactions using at least one bank account. Such an entity is deemed to have actually terminated its activity and is subject to exclusion from the Unified State Register of Legal Entities, but this does not prevent persons from the governing bodies of such an entity being held liable, determining its actions, or representing its interests, in accordance with the liability discussed above. The introduction of such a procedure is positive, and will contribute to the "clearance" from the market of abandoned companies and fly-by-night companies.

In addition, a new basis for the liquidation of a legal entity by the courts has been introduced - the recognition of the state registration as being invalid in the case of absence of membership in a self-regulated organisation.

Prior to the approval of the liquidation balance sheet, the creditors of an entity being liquidated are granted *the right to apply to the courts with a claim to satisfy their demands against the entity under liquidation*, in the case that the liquidation commission has refused to satisfy their demands or has failed to consider them.

If it lacks sufficient funds, the liquidation of a legal entity is carried out jointly and severally at the expense of its founders (participants).

In the case of non-performance, or improper performance, by the founders of a legal entity of their obligations on the liquidation, the interested person, or an authorised state body, is entitled to request, through a court procedure, the liquidation of the legal entity and the appointment of an administrative receiver for that purpose.

The procedure for the liquidation of a legal entity remains essentially unchanged, but with the clarification of some points:

A) in the case of a dispute between the founders as to whom an item remaining after the satisfaction of the creditors' demands, shall be transferred, the item shall be sold at auction by the liquidation commission;

B) the assets of a non-profit organisation that remain after the satisfaction of the creditors' demands shall be used, in accordance with the articles of association, for achieving the purposes for which such assets were created.

With regard to the satisfaction of the demands of the creditors of an entity under liquidation, the most important point here is the introduction *of the right of an interested person or authorised body to apply to the courts with a claim for an appointment procedure for the distribution of discovered assets*. This right may be exercised in the case of the discovery of assets of a liquidated legal entity, excluded from the State Register, and includes the situation of it being declared bankrupt. Such an application may be submitted within 5 years from the date of entry of information on the liquidation of that legal entity into the State Register.

Additionally, it is expressly stated, that creditors' claims for the compensation of losses in the form of loss of profit and for the recovery of penalties (forfeits, penalty fees) are to be satisfied after the 1, 2, 3 and 4th stage claims of the creditors.

Corporate legal entities (general provisions)

The law introduces *a division of legal entities into corporate ones* – those in which the founders (participants) have the right of participation (membership), and form the supreme body of such legal entities; and the *unitary ones* - the founders of which do not become participants and do not acquire the rights of membership in such entities.

Corporate legal entities include economic partnerships and societies, peasant (farming) enterprises, economic partnerships; production and consumer cooperatives, public organisations, associations (unions); partnership of property owners, Cossack associations entered into the corresponding register, and indigenous small ethnic communities.

The law introduces *a general provision on the rights and obligations of the members of a corporation*, and it repeats, to a large extent, the current norms on the rights and obligations of legal entities. New aspects are firstly the obligation to participate in taking corporate decisions, without which a corporation cannot continue its activity, provided that their participation is necessary for taking such decision, and secondly, the obligation not to perform any ac-

tions to the detriment of the interests of the corporation. These represent a significant strengthening of the rights: to act on behalf of a corporation to claim compensation for damages inflicted on it; to act on behalf of a corporation to challenge, the transactions carried out by that corporation and to demand the enforcement of the consequences of such invalidated transactions, as well as the enforcement of the consequences of the invalidity of void transactions.

The Civil Code has been supplemented with the possibility to apply the consequences of the affiliation (relatedness) of legal entities.

The members of the collegial executive body of a corporation have been granted the rights to receive information about the corporation's activity, to familiarise themselves with its accounting and other documentation, to demand the compensation of damages inflicted on that corporation, to challenge the transactions carried out by the corporation and to demand the enforcement of the consequences of any such invalidated transactions, as well as the enforcement of the consequences of the invalidity of the void transactions.

The innovation in the regulation of the activities of non-public economic societies is the introduction of the possibility for the redistribution of the powers of the society's members, disproportionately to their shares in the charter capital. This possibility may be realised through the inclusion thereof in the society's articles of association or in the corporate agreement, provided that such information was entered into the Unified State Register of Legal Entities.

The matter of the contributions of the members of economic partnerships and societies has been regulated differently. While, previously, the issue concerned "securities", it is now related to the "shares in the charter (contributed) capital of other economic partnerships and societies, state and municipal bonds". Besides those specified earlier, there were named additional exclusive intellectual rights, and rights under licence agreements, subject to monetary valuation, unless otherwise provided by law".

The law, or the constituent documents of an economic partnership or society may establish the types of assets that cannot be contributed to pay for the shares in the charter (contributed) capital.

There is also further development concerning the general provisions *on the charter capital of an economic partnership*. When paying the charter capital of an economic society, the monetary resources must be contributed in an amount not less than that of the minimum amount of the charter capital. The monetary valuation of a non-monetary contribution to the charter capital must be carried out by an independent appraiser, and the participants in an economic society are prohibited from determining the monetary valuation of a non-monetary contribution as being higher than that defined by the appraiser.

The joint subsidiary liability of a company's participants and of the independent appraiser is now also established if, within 5 years from the date of registration of the company or from the date of entering the corresponding changes into the articles of association, there is an insufficiency of the company's assets during the payment of its shares with non-monetary resources, in the amount by which the corresponding valuation of the assets, as entered into the charter capital, was overstated. Such liability does not apply to companies, incorporated through the process of the privatisation of unitary enterprises.

A separation of companies, which had been under discussion for a long time, *into public and non-public ones has been* introduced. A public company is a joint-stock company, the shares of which, and the securities of which, convertible into its shares, are publicly placed (via public subscription) or are publicly traded under the conditions established by the corre-

sponding laws on securities. The rules, relating to public companies also apply to any joint-stock company, the articles of association and commercial name of which contain reference to the fact, that such a company is a public one.

Any business entity that does not meet the above criteria is considered to be a non-public company. With regard to non-public companies, the possibilities of making changes in certain general corporate norms, by registering them in the articles of association, are provided for. Such norms, for instance, include: the procedure for convening, preparing and carrying out general meetings of the participants of the business entity and the procedure for making decisions through these; on the procedure for exercising a pre-emptive right to acquire a share or part of a share in the charter capital of a limited liability company or a pre-emptive right to acquire shares or securities that are convertible into shares, placed by that company, etc.¹

Alongside this, additional liability companies and closed joint-stock companies shall cease to exist, as had been suggested, even before 2008, by the Corporate Legislation Development Concept.

As was previously stated, the law introduces the definition of a “*public joint-stock company*”, and establishes certain features of its activity

A public joint-stock company is obliged to submit to the Unified State Register of Legal Entities a reference to the fact, that the company is a public one. Only after doing so, will a joint-stock company be entitled publicly to place shares and securities convertible into shares. This requirement does not apply to joint-stock companies incorporated prior to 1 September 2014, provided they meet the criteria for public joint-stock companies.

The collegial governing body of a public joint-stock company must be comprised of not less than 5 people. The procedure for the creation and the competence of such a collegial body are defined according to the law on joint-stock companies and by the articles of association of that public joint-stock company.

The obligations, related to the maintenance of the registry and the performance of the counting commission of the shareholders of a public company, are to be undertaken by an independent organisation that has the appropriate licence provided for by law. In a public joint-stock company, the number of shares owned by any shareholder, their aggregate nominal value, as well as the maximum number of votes granted to any one shareholder, cannot be restricted. The articles of association of a public joint-stock company cannot provide for the necessity of receiving an individual’s consent for the alienation of the shares of that company. No one may be granted a pre-emptive right to acquire the shares of a public joint-stock company, except for those cases, provided for by paragraph 3 of Article 100, related to the increase of the charter capital of a joint-stock company.

The articles of association of a public joint-stock company may not attribute to the exclusive competence of the General Meetings of shareholders the solution of issues not related to such competence in accordance with the Civil Law and the law on joint-stock companies.

A public joint-stock company is obliged to disclose publicly the information prescribed by law. Additional requirements for the creation and activity, as well as for the termination of public joint-stock companies are established by the law on joint-stock companies and the laws on securities.

A public joint-stock company is prohibited from placing preference shares, the nominal value of which is lower than the nominal value of the ordinary shares.

¹ For more details, refer to the Article 66.3 of the Civil Code of the Russian Federation, as revised in the Federal Law of May 05, 2014 No.99-FZ.

On the whole, the innovations in this block may be evaluated as necessary ones, which had been anticipated for a long time.

Corporate agreement

Article 67.2, named the “Corporate Agreement”, has been introduced in the Code, and this Article is common to all business entities, including joint-stock companies. According to this Article, the participants of a business entity, or some of them, shall be entitled to execute between themselves an agreement on the exercise of their corporate (member) rights (the corporate agreement), in accordance with which they shall be obliged to exercise such rights in a specified manner, or to refrain from (refuse) the exercise thereof. This includes voting in a certain way at general meetings of the company’s shareholders, performing other actions related to the management of the company in a coordinated manner, acquiring or alienating shares in its charter capital at a certain price and/or upon the occurrence of certain circumstances, or refraining from the alienation of shares prior to the occurrence of certain circumstances (p. 1 Article 67.2).

A corporate agreement cannot oblige its parties to vote in accordance with the instructions of the company’s bodies, to determine the structure of the company’s bodies and their competence. Any conditions of a corporate agreement, contradicting those indicated above, are null.

The participants that have executed a corporate agreement are obliged to notify the company about this fact, but in doing so, they are not required to disclose the content of the corporate agreement. The information on the corporate agreement of a public joint-stock company shall be disclosed to the extent, and both in accordance with the procedure and conditions provided for by the law on joint-stock companies. Unless otherwise provided for by law, the information on the content of a corporate agreement, executed by the participants of a non-public company, shall not be subject to disclosure, and is considered to be confidential.

Violation of a corporate agreement may constitute grounds for the recognition of a decision made by a body of a business entity with regard to a claim, brought by a party under such an agreement, to be invalid, provided that, as on the date of taking the corresponding decision by the body of the company, all participants of the company were parties under the corporate agreement.

A transaction, made by a party under the corporate agreement that violates it may be found invalid by a court on the basis of a claim, brought by a party under that agreement, only if the other party under the transaction knew, or should have known, about the limitations provided for by the corporate agreement.

The rules related to the corporate agreement also apply to the agreements, executed by the creditors of a company and other third parties with the participants of the business entity, in accordance with which the latter is obliged to exercise their corporate rights in a certain manner of to refrain from the exercise thereof. The purpose of this is to secure the interests, protected by law, of such third parties.

These rules related to subsidiary business organisations, introduced in the Civil Code, essentially duplicate the norms of the Federal Law “On Joint-Stock Companies”.

The innovations in this block are aimed at the development of corporate relations and provide participants in the economic turnover with the possibility of regulating their own mutual relations, and this corresponds well with the nature of the entrepreneurial activity.

Non-profit corporate organisations

According to the evaluations of the developers of the first draft of the Civil Code of the Russian Federation, which was approved in 1994, at that time no one realised that, as a consequence of the open list of non-profit organisations provided for in the Code, the legislation in this branch would be created so actively and un-systematically. The current condition of this branch of legislation is such that even specialists differ in their opinions with regard to the number of currently existing forms of non-profit organisation (different specialists itemise from 20 to 40 such forms). Such a multiplicity of forms is evidently excessive, and as a rule, is not justifiable.¹ This is why the Civil Code provides a closed list of the legal organisational forms of non-profit organisations that also includes the corporate ones.

The non-profit corporate organisations are considered to be those legal entities that do not pursue profit-making as the main purpose of their activity, do not distribute received profit among their participants, and the founders of which receive the right of participation (membership) in such entities and form their supreme body.

The non-profit corporate organisations include: consumer cooperatives, public organisations, associations (unions), partnerships of property owners and Cossack associations, as well as indigenous small ethnic communities of the Russian Federation.

The remaining norms, related to non-profit corporate organisations, duplicate the corresponding norms of the Federal Law “On Non-Profit Organisations”.

With regard to the **consumer cooperatives**, changes have been made, related to the transformation thereof. Previously, the transformation of a consumer cooperative into a business entity or partnership was possible, and now they can transform into a public organisation, association (union) or an autonomous non-profit organisation or fund.

The law additionally fixed the new obligation of the members of a consumer cooperative - to cover any formed losses by making additional contributions. The size of such contributions is determined within three months of the date of the approval of the annual balance sheet. In the case of non-fulfillment of this obligation the cooperative may be liquidated through a court order at the request of the creditors. The members of a cooperative are held jointly and subsidiary liable for its obligations within the frame of the corresponding non-contributed part of the additional contribution of each member of the cooperative.

The legal norms, related to **production cooperatives**, to a significant extent, duplicate the norms of the corresponding Federal Law.

The regulation of the **activity of public organisations has been expanded**. Now, they are created “for the provision and protection of the mutual interests and achievement of other purposes not contradictory to the law”. Public organisations may amalgamate in associations (unions). A public organisation, upon the decision of its founders, may be transformed into an association (union), an autonomous non-profit organisation or a fund.

The number of founders of a non-profit organisation may not be fewer than three people. A participant (member) of a public organisation shall exercise the corporate rights noted above, according to the procedure, established by the articles of association of that organisation. Such a participant is also entitled to be on a par with other participants of the organisation in the gratuitous use of the services provided by the organisation. Such a participant is also obliged to pay membership and asset contributions and to bear other obligations incumbent upon the

¹ Denisov S. A. Non-profit organisations in the new version draft of the Civil Code of the Russian Federation // The Civil Law Bulletin. 2012. No. 4, pp 66–74.

participants of such a corporation. A participant of a public organisation has the right to withdraw from the organisation at any time. Membership of a public organisation cannot be alienated. The exercise of the participant's rights cannot be assigned to another person.

The exclusive competence of the supreme body of a public organisation has been expanded. In addition to a range of powers provided for the supreme body of a corporation (p.2 of Article 65.3 of the Civil Code of the Russian Federation) it now also includes the ability to take decisions on the size and procedure for payment of the membership and other asset contributions.

It is now mandatory for a public organisation to have a sole executive body (a chairman, president, etc.) while permanent collegial executive bodies (board, administration, presidium, etc.) may be created. Previously, one and/or the other body could be created. In addition to that, it has been established that, upon a decision taken at a general meeting of the members of a public company, the powers of its executive body may be prematurely terminated in cases of "flagrant violations by this body of its duties, an inability to demonstrate the proper conduct of affairs, or upon other serious grounds".

The legislator has introduced a definition of an **association** (a union), similar to that fixed in the Federal Law "On Non-Profit Organisations"; however, it is emphasised that the purposes of an association (union) should be non-profit in nature and not contrary to the law. The following examples of an association (union) are given:

- an association of persons, whose purposes are the coordination of their entrepreneurial activity and the representation and protection of their common property interests;
- professional associations of citizens, whose purposes are not the protection of the labour rights or the interests of their members;
- professional associations of citizens, not connected with their participation in labour relations (associations of lawyers, notaries public, appraisers, individual artists etc.);
- self-regulated organisations and their amalgamations.

An association is the owner of its assets, and is held liable for its obligations with all its assets, unless otherwise provided for by law with regard to associations (unions) of certain types. An association (union) is not held liable for the obligations of its members, unless otherwise provided for by law. The members of an association (union) are not held liable for its obligations, unless a subsidiary liability of the members is provided for by law or by the articles of association of such an association (union).

An association (union), upon the decision of its members, may be transformed into a public organisation, an autonomous non-profit organisation or a fund.

The features of the legal status of associations (unions) of certain types can be established by laws.

So, as we can see, the regulations leave open a wide range of possibilities for the functioning of the associations (unions) according to other rules.

There must be no fewer than two founders of an association (union). The laws on certain types of associations may establish other requirements for the minimum number of founders.

Issues related to taking decisions on the procedure for the determination of the size and method of payment of membership contributions, on additional asset contributions on the part of the members of an association (union) and on the extent of the subsidiary liability for the obligations of the association (union), if any, fall within the exclusive competence of the supreme body of the association (union), along with those matters provided for by p. 2 of Article 65.3, considered above.

The peculiarities of the creation and termination of the powers in an association (union) of the executive bodies, and the rights and responsibilities of its members are similar to those also considered above that are provided for a public organisation.

A further innovation is the introduction into the Civil Code of the definition of a **partnership of property owners**, which means a voluntary association of real estate owners, created by those owners for the joint possession, use and disposal, within the frames established by law, of property, which by law is in their joint possession or in joint use, in addition to other purposes provided for by law.

The articles of association of the partnership must contain all the key provisions, related to the activity of such a partnership. The partnership is not liable for the obligations of its members and the members of a partnership are not liable for its obligations. Upon the corresponding decision of its members, a partnership of property owners may be transformed into a consumer cooperative.

The partnership is the owner of its assets. Common property in an apartment building, as well as the shared facilities in horticultural, gardening and non-profit dacha partnerships, belong to the members of the partnership of property owners according to the right of common shared ownership, unless otherwise provided for by law. The composition of such property and the procedure for the determination of the shares in the common ownership right to such property is established by law.

A share in the common ownership right to the common property in an apartment building, a share in the common ownership right to the shared facilities in horticultural, gardening or in a non-profit dacha partnership of an owner of a land plot (who is a member of such a non-profit partnership) follow the fate of the ownership right to the above-specified premises or land plot.

The features of governance of a partnership of property owners are similar to those for a public organisation which were considered above.

The Code gives the definition of a **Cossack society**, as one which is introduced into the State Register of Cossack Societies in the Russian Federation of citizens' associations, created for the purposes of the preservation of the traditional way of life, households and culture of the Russian Cossacks, as well as for any other purposes provided for by the Federal Law of 5 December 2005 No.154-FZ "On the State Service of the Russian Cossacks", and which voluntarily, according to the procedure established by law, assumes the obligations of performing a state or other service.

A Cossack society, upon the decision of its members, may be transformed into an association (union) or an autonomous non-profit organisation. The provisions of the Civil Code with regard to non-profit organisations apply to Cossack societies, which have been entered in the State Register, unless otherwise established by the above-mentioned law on Cossacks.

The definition of an **indigenous small ethnic community of the Russian Federation** has also been included in the Code, to mean a voluntary association of the citizens belonging to any of the indigenous small ethnic communities of Russia, and who are united by blood, kinship and/or on a territorial or neighbourly basis for the purposes of protecting their native habitat, or preserving and developing their traditional ways of life, households, crafts and culture.

The members of such a community have the right to receive a part thereof or a compensation for the price of such part in the case of exiting the community or of its liquidation.

Such a community, upon the decision of its members, may be transformed into an association (union) or an autonomous non-profit organisation.

The provisions of the Code apply with regard to such communities, unless otherwise provided for by law.

In evaluating the innovations of this section, it is worth mentioning the limited list of organisations, their systematisation, and the raising of the status of the norms on non-profit organisations, which is, undoubtedly, a positive move.

Non-profit unitary organisations

More extensive regulation has been created in the Civil Code for **funds**. It has been stipulated that the reorganisation of funds is not permitted, with the exclusion of non-state pension funds.

The assets, transferred to a fund by its founders, are the property of the fund. The exclusive competence of the supreme collegial body of a fund has been established, although it can be expanded both by law and by the articles of association of the fund.

The supreme collegial body of a fund has to elect an exclusive executive body for the fund but may also appoint a collegial executive body.

The persons, authorised to act on behalf a fund are obliged, upon the request of members of the fund's supreme body, acting in the interests of the fund, to compensate for any losses caused to the fund by such persons. There also should exist a board of trustees of the fund that maintains supervision over the fund's activity, over making of decisions by other bodies of the fund and their enforcement, as well as over the usage of the fund's resources and the compliance of the fund with the current legislation. The board of trustees of a fund acts on a public basis.

It is interesting that the possibility of changes in the articles of association of a fund by a court decision is provided for (along with the more usual possibility of the introduction of such changes by the supreme body), on the basis of the corresponding application of the fund's bodies, if the preservation, unchanged, of the fund's articles of association entails consequences that could not be foreseen during the establishment of the fund, and the supreme collegial body of the fund or the founder of the fund have not changed its articles of association. This offers a mechanism for overcoming conflicts.

A fund may be liquidated only on the basis of a court decision, upon the application of the persons concerned, if the assets of the fund are insufficient to perform its activity and the possibility of receiving the necessary assets is unreal; if the purposes of the fund cannot be achieved, and the necessary changes in the purposes of the fund cannot be made; if the fund in its activity evades the purposes provided for in the articles of association; and in other cases, provided for by law.

In the case of the liquidation of a fund, its assets, which remain after the satisfaction of the claims of its creditors, are directed for the purposes, indicated in the fund's articles of association, with the exclusion of those cases where the law provides for the return of such assets to the founders of the fund.

Institutions have also been the subject of a definition that is uniform for all forms. That is: "an institution is considered a unitary non-profit organisation, created by the owner for the performance of governance, social and cultural and other functions of a non-profit nature". In addition to this, some innovations with regard to the FZ "On Non-Profit Organisations" have been introduced:

- In creating an institution, co-foundership by several persons is not permitted.

- An institution is held liable for its obligations for its disposable monetary resources, and in those cases established by law, also for other assets. In the case of insufficiency of monetary resources or assets, the owner of the corresponding assets is to be held subsidiary liable.

The founder must appoint a head of the institution, who is an organ of the institution. Heads of a state or municipal institution may be elected by its collegial body and approved by its founder.

With regard to **state or municipal institutions**, their division into state-owned, budgetary or autonomous institutions is preserved. State or municipal institutions are not held liable for the obligations of the owner of their assets. A state-owned institution is held liable for its obligations in respect of its disposable monetary resources. In the case of an insufficiency of those monetary resources the owner is held subsidiary liable for the obligations of the state-owned institution.

The property liability of a **budgetary institution** is differently regulated from now on. It is now held liable for its obligations for all its assets according to its right of operational management, including those acquired on the basis of income received from income-yielding activity, with the exclusion of very valuable assets and a number of other exceptions.¹ In the case of insufficiency of a budgetary institution's assets the owner of the assets of the institution will be held subsidiary liable for the obligations of the institution that may be levied in relation to the consequent infliction of harm to citizens.

With regard to a **private institution**, it must in whole or in part be financed by the owner of its assets, and is held liable for its obligations with respect to disposable monetary resources. In the case of insufficiency of those resources the owner of the assets shall be held subsidiary liable. A private institution may be transformed by the founder into an autonomous non-profit organisation.

Autonomous non-profit organisations are now subject to more detailed regulation, in respect of the requirements to their articles of association, which must now contain the purposes of the activity of the organisations, the composition, procedure for the formation of and the competence of the bodies of that autonomous non-profit organisation, etc. An important point is the fact that, an autonomous non-profit organisation that engages in entrepreneurial activity necessary for the achievement of its purposes, shall be obliged to establish business entities or to participate in such entities.

A person may, at his/her own discretion, withdraw from the founders. Upon the unanimous decision of the founders of an autonomous non-profit organisation, new persons may be included in its founders. An autonomous non-profit organisation, upon the decision of its founders, may be transformed into a fund.

The governance of the activity of an autonomous non-profit organisation is carried out by its founders, according to the procedure established by its articles of association as approved by the founders. Upon the decision of the founders a permanent collegial body (bodies) may be created, the competence of which must be established according to the articles of association. The founders must appoint a sole executive body, which may also be represented by one of the founder-citizens.

¹ For more details, refer to p. 5 of Article 123.22 of the Civil Code as revised on 05 May 2014, as amended and supplemented, and entered into force since 1 September 2014.

Religious organisations are subject to some new regulations. Now, such an organisation may be considered a voluntary association of the citizens of the Russian Federation or other persons, permanently and on legal grounds residing on the territory of the Russian Federation, which was created by them for the purposes of the joint confession and propagation of faith, according to the procedure, established by law.

The Civil Code now separates: a local religious organisation - a legal entity, from a centralised religious organisation - an association of these local organisations, as well as a governing or coordinating body, created by such association.

It has been stipulated that a religious organisation cannot be transformed into a legal entity of another legal organisational form. The rights of the founders, the articles of association and property issues are now regulated, to a large extent, uniformly with Articles 10 and 21 of the Federal Law “On the Freedom of Conscience and on Religious Associations”.

Summarising the results of the analysis of the changes in the Civil Code, it is worth mentioning the systematic development of the legislation (for the first time since 1995) with regard to the matter under consideration. The suggested measures are aimed at the further development of the rules on corporate governance by means of changing the norms on the reorganisation and liquidation of enterprises, the introduction of norms on corporate agreements, the rights and obligations of shareholders, and the classification of legal entities.

Theoretically, the conditions have been laid for *raising the levels of responsibility of the head of a legal entity, and of the founders and members of the Board of Directors* in the case of inflicting losses on a legal entity through their fault, or their joint liability. Furthermore, we can observe the development of corporate governance itself by the introduction of the institution of corporate agreements and the possibility to redistribute the legal powers of the participants of a company disproportionately to their shares. However, in this regard there is a risk of misuse and the violation of the rights of shareholders, particularly of the minority ones.

An important feature of the legal regulation of legal entities, which we would like to note, is *the flexibility of the regulation*:

- the use of open lists, which can be supplemented by each company itself;
- the participants of a corporation may, themselves, supplement the rights and obligations;
- the company may now determine the types of assets that cannot be contributed to pay for shares in the charter contributed capital;
- non-public companies can make changes in the articles of association with regard to the procedure for convening, preparing and carrying out the general meetings of the company and their decisions-making, etc.

The majority of the innovations which have been introduced seem to be the norms, which are necessary, systematic and developing the legal relations. The exceptions are those on reorganisation, which narrow the rights of creditors, and are aimed at the preservation of transactions, even those made after illegal reorganisation. By doing so, they slow down and impede the establishment of a balance of interests among the participants in corporate relations.

6.3.2. The New Code of Corporate Governance

The global financial and economic crisis in the late 2000s gave a new impetus to the revision and development of the norms of corporate governance. The OECD in its reports on cor-

porate governance and the financial crisis¹ for the years 2009–2010 emphasises the extensive impact of defects in corporate governance on the development of the crisis. In 2011, the Financial Crisis Inquiry Commission (FCIC), created by the US Government, published its Report on the Inquiry into the Financial Crisis,² in which the main causes of the crisis were named as the significant failures of corporate governance and of risk management in many systemically important financial institutions.

As is known, the Principles of Corporate Governance of the OECD (hereinafter referred to as the “PCG of the OECD”), which were initially approved in 1999 as a result of a series of large corporate scandals which swept the countries of the world at the turn of the millennium (for example, Enron and WorldCom in the USA, HIH and One.Tel in Australia), were reviewed as early as 2004. In 2014, the crisis of the end of the 2000s formed the grounds for beginning a new process of reviewing the PCG of the OECD.

It is quite natural, therefore, that the global financial and economic crisis has also become one of the reasons to review the Russian Code of Corporate Conduct of 2002³ (hereinafter referred to as the “CCC”). The speculative investors prevailing on the Russian market during the catch-up growth period have lost their interest in Russian companies, while the long-term investors require a clear understanding of the strategic targets and prospects of any company, as well needing to be sure that their rights will not be violated. This is impossible without constant improvements to the regulatory norms and practices of corporate governance.

At the beginning of the 2000s the Russian legislation on joint-stock companies was underdeveloped and had an abundance of loopholes, which the CCC of 2002 was intended to close. As a result, the structure of the CCC turned out to be rather bulky and overloaded. The principles of Corporate Conduct, stated in the first chapter of the CCC, were the basis for the recommendations contained in the subsequent nine chapters, but these were far too detailed for a framework document.

Since the adoption of the CCC, a significant number of problems and issues related to corporate conduct have been solved at the level of legislation and by regulatory legal acts. There is now no further need for the many “regulating” recommendations of the CCC: there is no more need for separate chapters on the general meetings of shareholders (Chapter 2), on the executive bodies of a company (Chapter 4), on dividends (Chapter 9) or on the settlement of corporate conflicts (Chapter 10).

The new Code of Corporate Governance of 2014⁴ (hereinafter referred to as the “CCG”) has adopted its structure from the PCG of the OECD of 2004. The CCG consists of two parts, the first part contains the principles of corporate governance (Part A), and the second part (Part B) contains recommendations related to the realisation of those principles.

¹ Corporate governance and the financial crisis. URL: <http://www.oecd.org/daf/ca/corporategovernance-andthefinancialcrisis.htm>.

² FCIC. The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States / Official Government Edition, 2011. – P. xviii. URL: <http://fcic.law.stanford.edu/report>.

³ The Order of the FCSM of the Russian Federation of 04 April 2002 No. 421/p “On the Recommendations for the Use of the Corporate Governance Code” // Bulletin of FCSM of Russia, No. 4, 30 April 2002 (the Order) actually became void after the publishing of the Letter of the Bank of Russia of 10 April 2014 No. 06-52/2463, which recommended the Corporate Governance Code.

⁴ The Letter of the Bank of Russia of 10 April 2014 No. 06-52/2463 “On the Corporate Governance Code” // Bulletin of the Bank of Russia, No. 40, 18 April 2014.

The second part of the CCG is more practical in character in comparison to the annotations of the second part of the PCG of the OECD, consisting of comments on the principles of corporate governance, which are intended to help in an understanding of the basis of these principles.

It is worth noting that the development of the CCG took place simultaneously with the realisation by the OECD of its plan of action for corporate governance and resolving the financial crisis, at one stage of which the experts of the OECD came to the conclusion that the defects in corporate governance, which had played a significant role in the development of the financial crisis, were caused, not by defects in the international and national standards of corporate governance, including the PCG of the OECD, but by the non-performance of such standards. As a result, in 2010 the OECD published a set of recommendations, complementing those principles, for overcoming the defects of corporate governance and supporting a more effective realisation of the PCG of the OECD.¹ Only in 2014 did it announce the start of the process of reviewing the PCG of the OECD themselves.

Since the OECD participated in the development of the Russian CCG during the above period, we can assume, that this fact, among others, has influenced the recommendatory (rather than annotative) character of the CCG, and that the new PCG of the OECD will also be of more practical character.

What is the difference between the principles of corporate governance of 2014 and the principles of corporate governance of 2002, and what do they have in common with the principles of corporate governance of the OECD?

Firstly, the new name of the Code - the Code of Corporate *Governance* - reflects the change in approach and role of the Code. Now it is not just a document, defining the proper conduct of Russian joint-stock companies in relation to their shareholders and investors, but also “a powerful tool for increasing the efficiency of governing a company and ensuring its long-term and sustainable development”.

The CCG adopted from the PCG of the OECD the definition of corporate governance, which was previously absent in the CCC.

The term “corporate governance” covers the system of mutual relations between the executive bodies of a joint-stock company, its Board of Directors, the shareholders and other stakeholders. Corporate governance is a tool for the definition of the targets of a company and a means for achieving such targets, as well as for ensuring the effective control over the company’s activity on the part of the shareholders and other stakeholders.

Secondly, the CCG adopts the principles of the CCC, based on the PCG of the OECD, which are related to the rights of shareholders and the equality of shareholders in the exercise of their rights, and it further develops these principles in the recommendations (section I).

Thirdly, the principles, related to the Board of Directors of a company, have changed to the largest extent (section II).

The CCG has clarified the obligations of the Board of Directors, particularly, by including several principles of corporate governance from the OECD. The Board of Directors is obliged:

¹ Corporate Governance and the Financial Crisis: Conclusions and Emerging Good Practices to Enhance Implementation of the Principles. OECD, 2010.

- to determine the principles and approaches to the system of risk management and of internal control in the company (2.1.3);
- to play a key role in ensuring the transparency of the company, the timeliness and completeness of the disclosure of information by the company, and the easy access of shareholders to the company's documents (2.1.6);
- to exercise control over the corporate governance practices in the company and to play a key role in significant corporate events, taking place in the company (2.1.7).

The CCG has turned the recommendation of the CCC, related to the requirements of a member of the Board of Directors, into a form principle. It is recommended that a member of the Board of Directors should have an impeccable business and personal reputation, and have the knowledge, skills and experience, necessary for performing his/her duties (2.3.1).

The CCG has improved the principles, related to independent directors (2.4.1–2.4.4), going further than the PCG of the OECD, and, in particular, has defined an independent director as a person who has sufficient professional competence, experience and independence to form his/her own position and who is able to make independent, objective and good faith judgments.

The CCC recommended, that the independent directors should comprise at least one quarter of the composition of the Board of Directors (and that under any circumstances, there should be no fewer than three independent directors). Along with the definition of an independent director, the requirement for the number of independent directors was a recommendation, made by the CCC. The CCG raised this recommendation to the level of a principle and increased the required proportion of independent directors up to at least one third.

The CCC recommended the creation of committees for the preliminary consideration of the most important issues related to the activity of a company, and that these should consist of the members of the Board of Directors. The principles of the CCG also establish new requirements for the composition of such committees (2.8).

The audit and remuneration committees must consist of independent directors. A remuneration committee must be headed by an independent director, who is not the chairman of the Board of Directors. The majority of the members of a committee for nominations must be independent directors.

The subsequent recommendations, transformed into principles, became the provisions: on the Chairman of the Board of Directors (2.5) (such a principle is absent in the PCG of the OECD), on the rights and obligations of the members of the Board of Directors (2.6) and on the obligation of the Board of Directors to ensure the assessment of the quality of the work of the Board of Directors, its committees and the members of the Board of Directors (2.9).

Fourthly, the Russian principles differ from the principles of the corporate governance of the OECD by the presence of principles related to the Corporate Secretary of a company. Now, the above-specified principles constitute a separate small section (III) of the CCG, which has been partly formed using the recommendations of the CCC (Chapter 5 of the recommendations of the CCC), but which clarifies the tasks of the Corporate Secretary of a company (efficient current interaction with the shareholders, coordination of the company's actions with regard to the protection of the shareholders' rights and interests and support of the efficient work of the Board of Directors) and establishes the requirements of his/her position (for instance, sufficient independence from the company's executive bodies).

Fifthly, through a separate section (IV) on systems of remuneration, the CCG develops a separate principle from those of the CCC and PCG of the OECD, which establishes the de-

pendence of the remuneration of the members of the Board of Directors, executive bodies and other key executive employees of a company on their actual contribution to the results of the company's activity and on the long-term interests of the company and its shareholders.

Sixthly, the CCG has updated the principles relating to the system of internal control, and has established new principles for risk management (section V). The CCC included risk management in the procedures for internal control, and the principles of risk management themselves were absent in it.

The development of the specified principles was due to the significant role of the defects of corporate governance in the field of risk management in the development of the global financial and economic crisis at the end of the last decade. Despite this significant role of the risk management system, there is little said about it in the PCG of the OECD.

Seventhly, the principles of disclosure of information about a company and of the information policy of a company as stated in the CCC and the CCG (section VI) do not specify, which substantial information about its activity a company must disclose. However, the recommendatory parts of the CCC and the CCG do contain a list of information subject to disclosure - from the structure of the capital of the company to information related to the social and environmental responsibility of the company.

The Principles of Corporate Governance of the OECD expressly state, that the disclosed substantial information should include, among other, data on the rights of the major shareholders and voting rights, transactions with affiliated persons and any predictable risk factors.

According to the recommendations of the CCG, the web-site of a company on the internet should be the main source of disclosing information.

The principles of the CCC and the CCG related to confidential and insider information, are absent from the PCG of the OECD, but in the annotations to the Principles of Corporate Governance of the OECD there is mention of the provision of such information.

Eighthly, as we have already seen, the CCG has transformed several recommendations of the CCC into principles of corporate governance. The most significant transformation is related to the provisions on substantial corporate actions (from the recommendatory Chapter 6 of the CCC into Section VII of the principles of the CCG).

For instance, the Codes consider as substantial corporate actions: the reorganisation and merger of a company, the performance by it of substantial transactions and increases or reductions of the charter capital. The innovation of the CCG is in classifying the listing and delisting of the shares of a company as among the above-mentioned actions. However, the provisions on substantial corporate actions are absent in the PCG of the OECD.

There are some principles of the corporate governance of the OECD, which have not been included in the Russian version of the CCG, but which are worth adopting and fixing.

First of all, there is the most important 'Principle I', related to the creation of an efficient system as a basis of corporate governance, inasmuch as this is related to the *applicability* of the legal and regulatory requirements affecting the practice of corporate governance, and, in this regard, vesting the supervision, regulatory and law-enforcement bodies with the corresponding powers and resources to perform their obligations in a professional and objective way.

As we have already said, the failures of corporate governance have been caused, not so much by flaws in the principles of corporate governance, as by the non-performance of such principles. Therefore, to ensure compliance with corporate, legal and regulatory requirements the above-specified bodies should be vested with the appropriate powers.

Furthermore, with the purpose of increasing the efficiency of the activities of companies, the systems of corporate governance should recognise the rights of the parties concerned (for example, of the companies' employees and creditors) and should encourage active cooperation between the companies and these parties (Principle IV of the PCG of the OECD).

So, the main advantage of the CCG of 2014 is in its structure, which has become more compact and convenient. Unnecessary provisions, duplicating the legislation, have been removed from the CCG. The CCG is now more in line with the international standards of corporate governance, and this facilitates the efficient use of its provisions by companies. However, such use remains voluntary, while the compliance with the provisions of the corporate governance codes of a number of developed countries has, for a long time, been founded on the "comply or explain" principle.¹

6.4. Public Policy for Stimulating Scientific and Industrial Cooperation

6.4.1. The evolution of public policy for promoting scientific and industrial cooperation in the 2000s: a brief summary

The state policy for promoting cooperation between science and business has been widely developed over the last few years. It was, and remains, fully immersed 'into the context' of the implementation of a policy of public stimulation of science and innovation, the configuration of which has been determined by a combination of the current resource capabilities of the state and the ideas of the role and place of innovation in the development of the national economy that has dominated the upper echelons of power at different periods time. The key stages in the evolution of public policy towards stimulating scientific and industrial cooperation have coincided with the stages of development of innovation policy in general.²

From the collapse of the Soviet Union to around the start of the last decade, Russia's innovation policy was not a primary focus of the state, for a whole range of objective and subjective reasons. The principal of these were the difficult socio-economic situation in the country, the scarcity of budgetary resources and even the disbelief in the possibility of resolving acute economic problems by fostering innovation, on the part of the representatives of government directly involved in shaping the agenda and determining the emphases of public policy. Measures implemented by the Government in this regard were aimed mainly at supporting at least a minimum level of operation of the extremely large and cumbersome system for organising the research and development sector which had been 'inherited' from the USSR. At the same time, questions regarding the commercialisation of the results of supported work and their application within the manufacturing sector were, in most cases, either not raised at all or considered only formally, without giving rise to any real commitments. This policy, which was relatively low-cost for the state but, of course, haphazard, obviously ended up preserving the problems which already existed in the development of national science, technology and engineering and did not result in any tangible or significant innovative breakthroughs.

The economic growth that began in the late 1990s quite quickly led to a considerable softening of budgetary limitations, thus, providing an opportunity to extend the range of real priorities of the policies implemented by the state and to increase the resources available to some

¹ For instance, the Corporate Governance Codes of the United Kingdom and Germany, the Corporate Governance Code of France (for public companies).

² See, for example, Kuzyk, M., Simachev, Yu. *Russia's Innovation Promotion Policies: Their Evolution, Achievements, Problems, and Lessons*. Published Papers 164, Gaidar Institute for Economic Policy, 2013.

of the fields that had previously been ‘on the periphery’ of the state’s attention. One of these new priorities of the state was support for innovation; although, of course, the process of ‘building’ it into the relevant public policy agenda was by no means instantaneous and took the major part of the last decade.

The first clear sign of change in the attitude of the state towards innovation was the initiation in 2002-2003 of an essentially new instrument of innovation policy: the key innovation projects of national significance (KIP), which was unprecedented, both in terms of the extent of support provided and the level of state attention to its initiation and ‘launch’.

A considerable intensification of innovation policy occurred in 2005-2008 due to the favourable economic situation and stable growth of budgetary revenues. This resulted, among other things, in the creation of new instruments of the state to stimulate scientific and industrial cooperation. During this period the TEMP and PUSK Programmes of the Foundation for Assistance to Small Innovative Enterprises were launched (the second programme was implemented jointly with Rosnauka, the Federal Agency for Science and Innovations) while R&D support mechanisms proposed by the business sector were introduced by the state. Moreover, the conditions for writing off R&D costs when determining taxable profit were significantly softened.

The financial and economic crisis erupted in the second half of 2008 and the ‘mobilisation’ of state resources for the implementation of the large-scale anti-crisis programme which it triggered, as was noted above, resulted (although with a certain time lag) in the curtailing of a number of public policy measures and tools aimed at stimulating scientific and industrial cooperation including the TEMP and PUSK Programmes of the Foundation of Assistance to Innovations and the support for business projects and KIPs which had been sponsored by the Ministry of Education and Science. It must be said, though, that even at the most acute stage of the crisis, the state did not refuse to create new initiatives in this area, including those relating to support for interaction between science and business. However, for obvious reasons, most emphasis was placed on tools which did not require additional budgetary expenditure: profit tax relief was introduced on R&D costs included in a special-purpose list, and the abilities for scientific and educational budgetary institutions to create small innovative enterprises (SIEs) were significantly extended.

Around the end of 2009 and early 2010, when clearer signs of the post-crisis recovery had begun to appear, innovation policy was brought to the fore in the Government’s active agenda. At the same time, in a new round of development, the stimulation of interaction between the different participants in innovation processes (including, of course, science and business) was named among the key priorities of innovation policy implemented by the state, along with support for the research and innovation activities of higher education institutions. In this context, we should note the launch of joint projects between businesses and higher education institutions for creating new manufacturing facilities, programmes for developing the innovation infrastructure of higher education institutions, the initiation of new technology platforms and regional innovation clusters whilst forcing the largest state-owned companies to adopt programmes for innovation-driven development with the mandatory inclusion of a ‘cooperative element’ in each programme.

Finally, starting about 2013, in a period that was at first marked by increasing uncertainty in respect of the prospects for development, and later by more distinct manifestations of a new crisis, the initiation of new areas and measures for state stimulation of scientific and industrial cooperation almost ceased.

An overview of the development of governmental policy for stimulating interaction between science and business in the last fifteen years is presented in *Table 18*.

The main form of public stimulation of scientific and industrial cooperation was, and still is, budgetary funding of the R&D conducted by scientific organisations and higher education institutions in the interests of business. Here, the direct recipients of budgetary funds could be both organisations performing R&D (typical example – business projects) and ‘end user’ companies (‘Mechanism 218’). Moreover, financial support of ‘cooperative’ R&D has also been carried out by state development institutes: the Foundation for Assistance to Small Innovative Enterprises, and the Russian Foundation for Technological Development (RFTR).

With the development of public innovation policy and the ‘enrichment’ of its set of active tools, the list of the areas of support for scientific and industrial cooperation was also extending: mechanisms of budgetary and quasi-budgetary funding were supplemented by fiscal incentives (the main one of which was profit tax relief for certain R&D costs included in a special-purpose list), special legislative mechanisms (a set of legal provisions stimulating the creation of inculcation companies by budgetary scientific and educational institutions), organisational tools (technology platforms) and policy measures (approval of the innovation-driven development programmes of the largest state-owned companies).

Table 18

Development of public policy for stimulating scientific and industrial cooperation

	Stable growth					Crisis		Recovery			Uncertainty	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Key innovation projects of national significance	Ministry of Industry, Science and Technology	Ministry of Industry and Energy/Ministry of Industry and Trade/Ministry of Education and Science				Ending of funding of KIPs by Ministry of Education and Science						
TEMP Programme of the Foundation for Assistance to Innovations												
PUSK Programme of the Foundation for Assistance to Innovations and Rosnauka												
Softening of the accounting procedure for R&D costs in profit taxation				Used – 2 years, with no result – 100%			1 year				In the tax period of R&D completion	
Projects for commercialisation of technology in thematic areas proposed by the business sector												
R&D projects in thematic areas proposed by the business sector												
VAT relief for certain types of R&D												
Profit tax relief for expenditure on R&D included in a specialist											Requirement to submit a report to the tax authorities	
Stimulation of the creation of SIEs by budgetary institutions							Simplification of the procedure for SIE	Support of partnerships between	Extension of the rights of institutions for their disposal of assets; possibility of using the simplified taxation procedure for SIEs; reduc-			

	Stable growth					Crisis		Recovery			Uncertainty		
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
							creation	SIEs and SECs (Scientific Educational Centres)	tion of payment rates to non-budgetary funds for SIEs				
Joint projects of companies with higher education institutions and scientific institutions								Higher education institutions	Higher education institutions and scientific institutions				
Programmes for development of the innovation infrastructure of higher education institutions													
Creation and development of technology platforms									Creation of a list of platforms; RFTR funding		Budgetary funding of R&D in the interests of the platforms		
Programmes for innovation-driven development by the largest state-owned companies									47 companies	60 companies			
Possibility to reduce taxable profit through reserves for future R&D													
Programmes for development of regional innovation clusters										Selection of 25 clusters	Funding of 15 clusters	Funding of 15 clusters	

Source: prepared by the authors.

6.4.2. Key areas and tools of public policy in the field of development of scientific and industrial cooperation

From the quite active and multi-faceted policy for stimulating scientific and industrial cooperation applied by the state in the 2000s, the following key areas can be highlighted:

- key innovation projects of national significance;
- TEMP and PUSK Programmes;
- softening of the accounting procedure for R&D costs when determining taxable profit;
- R&D and technology commercialisation projects in thematic fields proposed by the business community;
- VAT relief for certain types of R&D;
- profit tax relief for expenditure on R&D included in a special-purpose list;
- stimulation of the creation of inculcation companies by budgetary scientific and educational institutions;
- support for cooperation between companies, higher education institutions and state scientific institutions as part of a framework of projects for the creation of advanced manufacturing facilities;
- support for the development of innovation infrastructure within higher education institutions;
- creation and support for the activities of technology platforms;
- creation and monitoring of programmes for innovation-driven development of the largest state-owned companies;

- possibility of reducing the amount of taxable income through creating reserves for future R&D;
- support of programmes for the development of regional innovation clusters.

We should note that some of these areas were implemented in several stages and, more importantly, were often realised using a variety of different measures and tools (*Table 19*). For instance, stimulation of the creation of incubation companies by budgetary scientific and educational institutions, which had formerly been of a regulatory nature, soon also acquired financial and tax ‘components’, while technology platforms which were at first solely communication tools, later ‘set up’ special funding mechanisms.

Table 19

Key areas and tools of public policy for stimulating interaction between research and development sector organisations and business in the fields of research and/or innovation

Area	Tool (content)	Type	Application period	Key documents
Key innovation projects of national significance (mega-projects, or KIPs)	Non-repayable budgetary funding of R&D within the framework of innovative projects	Financial (budget)	From 2003	Order of the Ministry of Industry, Science and Technology of Russia of 11 February 2002 No. 22 ‘On the Organisation within the Ministry of Industry, Science and Technology of Russia of Work for the Preparation of Proposals on Projects (Programmes) of Particular National Significance’ Federal Target Scientific and Technical Programme (FTSTP) ‘Research and Development in Priority Areas of the Development of Science and Engineering’ for 2002-2006 (as amended by the Resolution of the Government of the Russian Federation of 12 October 2004 No. 540) Federal Target Programme (FTP) ‘Research and Development in Priority Areas of the Development of the Scientific-Technological Complex of Russia for 2007-2012’ (approved by the Resolution of the Government of the Russian Federation of 17 October 2006 No. 613) Resolution of the Government of the Russian Federation of 6 April 2011 No. 253 ‘On Making Amendments to the Resolution of the Government of the Russian Federation of 17 October 2006 No. 613’ Order of the Ministry of Industry and Trade of Russia of 30 April 2009 ‘On Approval of the Regulation on the Selection of Key Innovation Projects of National Significance by the Ministry of Industry and Trade of the Russian Federation’ Order of the Ministry of Industry and Trade of Russia of 3 November 2010 No. 991 ‘On the Organisation within the Ministry of Industry and Trade of the Russian Federation of Work Relating to Applied Scientific Research and Development’ State Programme of the Russian Federation ‘Development of Industry and Increasing Its Competitiveness’ (approved by the Resolution of the Government of the Russian Federation of 15 April 2014 No. 328)
TEMP (Technology for Small Enterprises) Programme of the Foundation for Assistance to Small Innovative Enterprises	Quasi-non-repayable funding of R&D required extend activities under licences	Financial (development institute)	2005-2011	Internal documents of the Foundation
PUSK (Partnership of Universities and Companies) Pro-	Non-repayable state funding of research activities and quasi-state – of devel-	Financial (budget and development)	2006-2009	Internal documents of the Foundation and Rosnauka

Area	Tool (content)	Type	Application period	Key documents
programme of the Foundation for Assistance to Small Innovative Enterprises and Rosnauka	development activities	institute)		
Softening of the accounting procedure for R&D costs when determining taxable profit	Reduction of the period of writing off costs on R&D the results of which are used in manufacturing, from 3 to 2 years; increase of R&D cost write-off rate for R&D which gave no positive results, from 70 to 100%	Tax (profit tax)	2006	Federal Law of 6 June 2005 No. 58-FZ 'On Making Amendments to Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation on Taxes and Duties'
	Reduction of the period of writing off costs on R&D to 1 year	Tax (profit tax)	2007-2011	Federal Law of 27 July 2006 No. 137-FZ 'On Making Amendments to Part I and Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation in Respect of Taking Measures for the Improvement of Tax Administration'
	Writing off R&D costs in the tax period of the R&D completion	Tax (profit tax)	From 2012	Federal Law of 7 June 2011 No. 132-FZ 'On Making Amendments to Article 95 of Part I, Part II of the Tax Code of the Russian Federation in Respect of the Creation of Favourable Tax Conditions for Innovation Activities and Article 5 of the Federal Law 'On Making Amendments to Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation'
Projects for commercialisation of technologies in thematic areas proposed by the business community (business projects)	Non-repayable budgetary funding of R&D related to innovative projects	Financial (budget)	2007-2010	Federal Target Programme 'Research and Development in Priority Areas of Development of the Scientific-Technological Complex of Russia for 2007-2012' (approved by the Resolution of the Government of the Russian Federation of 17 October 2006 No. 613) Resolution of the Government of the Russian Federation of 6 April 2011 No. 253 'On Making Amendments to the Resolution of the Government of the Russian Federation of 17 October 2006 No. 613'
R&D projects in thematic areas proposed by business community	Non-repayable budgetary funding of R&D	Financial (budget)	2007-2013	Federal Target Programme 'Research and Development in Priority Areas of Development of the Scientific-Technological Complex of Russia for 2007-2012' (approved by the Resolution of the Government of the Russian Federation of 17 October 2006 No. 613) Resolution of the Government of the Russian Federation of 6 April 2011 No. 253 'On Making Amendments to the Resolution of the Government of the Russian Federation of 17 October 2006 No. 613'
VAT relief for certain types of R&D	VAT relief for R&D including certain types of works	Tax (VAT)	From 2008	Federal Law of 19 July 2007 No. 195-FZ 'On Making Amendments to Certain Legal Acts of the Russian Federation in Respect of Creation of Favourable Tax Conditions for Funding Innovation Activities'
Profit tax relief for costs on R&D included in a special-purpose list	Writing off R&D costs at a 1.5 rate in the period of the actual conduct of those R&D activities	Tax (profit tax)	From 2009	Federal Law of 22 July 2008 No. 158-FZ 'On Making Amendments to Chapters 21, 23, 24, 25 and 26 of Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation on Taxes and Duties' List of scientific research and developments, the taxpayer's expenses on which are included, in accordance with clause 2 of Article 262 of Part II of the Tax Code of the Russian Federation, in other expenses in the amount of the actual costs multiplied by the rate of 1.5 (approved by the Resolution of the Government of the Russian Federation of 24 December 2008 No. 988, as amended by the Resolutions of the Government of the Russian Federation of 13 October 2011 No. 836 and of 6 February 2012 No. 96) Federal Law of 7 June 2011 No. 132-FZ 'On

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Area	Tool (content)	Type	Application period	Key documents
				Making Amendments to Article 95 of Part I, Part II of the Tax Code of the Russian Federation in Respect of the Creation of Favourable Tax Conditions for Innovation Activities, and Article 5 of the Federal Law 'On Making Amendments to Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation'
Stimulation of the creation of inculcation companies by budgetary scientific and educational institutions	Simplification of the procedure for the creation of business entities by budgetary institutions	Normative	From 2009	Federal Law of 2 August 2009 No. 217-FZ 'On Making Amendments to Certain Legal Acts of the Russian Federation on Matters of the Creation by Budgetary Scientific and Educational Institutions of Business Entities for the Purpose of the Practical Application (Implementation) of the Results of Intellectual Activity'
	Non-repayable budgetary funding (Rosnauka) of research activities of scientific and educational centres and quasi-state funding (Foundation for Assistance to Innovations) of development activities of small inculcation companies	Financial (budget and development institute)	2010-2012	Internal documents of Rosnauka and the Foundation
	Extension of rights of budgetary institutions in respect of property disposal	Normative	From 2011	Federal Law of 8 May 2010 No. 83-FZ 'On Making Amendments to Certain Legal Acts of the Russian Federation in Relation to Improvement of the Legal Status of State (Municipal) Institutions'
	Non-competitive procedure for leasing out property by budgetary institutions to inculcation companies	Normative	From 2011	Federal Law of 1 March 2011 No. 22-FZ 'On Making Amendments to Article 5 of the Federal Law 'On Science and Scientific and Technical Policy' and Article 17.1 of the Federal Law 'On Protection of Competition'
	Possibility to apply a simplified taxation system for inculcation companies	Tax	From 2011	Federal Law of 27 November 2010 No. 310-FZ 'On Making Amendment to Article 346.12 of Part II of the Tax Code of the Russian Federation'
	Reduction of payment rates to non-budgetary funds for inculcation companies	Quasi-tax	From 2011	Federal Law of 16 October 2010 No. 272-FZ 'On Making Amendments to the Federal Law 'On Insurance Payments to the Pension Fund of the Russian Federation, the Social Security Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund and the Regional Compulsory Medical Insurance Funds' and Article 33 of the Federal Law 'On Compulsory Medical Insurance in the Russian Federation'
Support of cooperation between companies and higher education institutions and state scientific institutions within the framework of projects for the creation of advanced manufacturing facilities ('Mechanism 218')	Non-repayable budgetary co-funding of R&D activities conducted by higher education institutions and (from 2012) by state scientific institutions for business companies within the framework of innovative projects	Financial (budget)	From 2010	Resolution of the Government of the Russian Federation of 9 April 2010 No. 218 'On Measures for the Public Support for the Development of Cooperation between Russian Higher Education Institutions and Organisations Carrying Out Complex Projects for the Creation of Advanced Manufacturing Facilities' Order of the Ministry of Education and Science of Russia of 16 July 2010 No. 786 'On Approval of the Form of an Agreement between an Organisation Carrying Out a Complex Project for the Creation of an Advanced Manufacturing Facility and the Ministry of Education and Science of the Russian Federation on the Conditions for the Provision and Use of Subsidies for the Implementation of Complex Projects for the Creation of an Advanced Manufacturing Facility Carried Out with the Involvement of a Russian Higher Education Institution' Resolution of the Government of the Russian Federation of 12 October 2012 No. 1040 'On Making Amendments to the Resolution of the Government of the Russian Federation of 9 April 2010 No. 218'

Section 6
Institutional Changes

Area	Tool (content)	Type	Application period	Key documents
				Order of the Ministry of Education and Science of Russia of 7 November 2012 No. 904 'On Approval of the Form of an Agreement between an Organisation Carrying Out a Complex Project for the Creation of an Advanced Manufacturing Facility and the Ministry of Education and Science of the Russian Federation on the Conditions for the Provision and Use of Subsidies for the Implementation of Complex Projects for the Creation of an Advanced Manufacturing Facility Carried Out with Involvement of a Russian Higher Education Institution or State Scientific Institution' Resolution of the Government of the Russian Federation of 5 April 2014 No. 269 'On Making Amendments to the Resolution of the Government of the Russian Federation of 9 April 2010 No. 218'
Support for development of the innovation infrastructure of higher education institutions	Non-repayable budgetary funding of programmes for the development of the infrastructure of higher education institutions	Financial (budget), infrastructure	2010-2012	Resolution of the Government of the Russian Federation of 9 April 2010 No. 219 'On Public Support for the Development of Innovation Infrastructure in Federal Educational Institutions of Higher Professional Education'
Creation and support for the activities of technology platforms	Approval of a list of technology platforms	Organisational, communication	From 2011	Procedure for the Creation of a List of Technology Platforms (approved by the Decision of the Government Commission for High Technology and Innovation of 3 August 2010, Minutes No. 4). List of technology platforms (approved by the Decision of the Government Commission for High Technology and Innovation of 1 April 2011, Minutes No. 2, as amended by the Decisions of the Government Commission for High Technology and Innovation of 5 July 2011, Minutes No. 3, of 21 February 2012, Minutes No. 2) Presidium of the Council of the President of the Russian Federation for Economy Modernisation and the Innovation-Driven Development of Russia, of 20 November 2012, Minutes No. 1, of 31 July 2013, Minutes No. 2
	Quasi-state repayable funding by RFTR of R&D undertaken within the framework of projects presented by the technology platforms	Financial (development institute)	From 2011	Internal documents of the RFTR
	Assignment of the President of the Russian Federation to the Government of the Russian Federation to link state programmes for the development of the industrial and agricultural sectors and the strategy for development of the leading sectors of the economy with top-priority technology platforms	Normative, directive	From 2012	Decree of the President of the Russian Federation of 7 May 2012 No. 596 'On Long-Term Public Economic Policy'
	Non-repayable budgetary funding of R&D proposed by the coordinators of technology platforms	Financial (budget)	2013	Internal documents of the Ministry of Education and Science of Russia
	Non-repayable budgetary funding of R&D that is in line with the strategic research programmes of technology platforms	Financial (budget)	From 2014	Internal documents of the Ministry of Education and Science of Russia
Programmes for innovation-driven development of the largest state-owned companies	Approval of programmes for innovation-driven development and monitoring of their implementation	Directive, monitoring	From 2011	Recommendations for Designing Programmes for Innovation-Driven Development of State-Owned Joint-Stock Companies, State-Owned Corporations and Federal State Unitary Enterprises, Regulation on the Procedure for Monitoring of Development and Implementation of

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Area	Tool (content)	Type	Application period	Key documents
				<p>Programmes for Innovation-Driven Development of State-Owned Joint-Stock Companies, State-Owned Corporations and Federal State Unitary Enterprises, List of State-Owned Joint-Stock Companies, State-Owned Corporations and Federal State Unitary Enterprises Designing Programmes for Innovation-Driven Development (approved by the Decision of the Government Commission for High Technology and Innovation of 3 August 2010, Minutes No. 4). List of Assignments of the President of the Russian Federation Based on the Results of the Meeting of the RF President's Commission on Modernisation and Technological Development of the Russian Economy, 3 November 2011, No. Pr-3291.</p> <p>Amendments to the Regulation on the Procedure for the Monitoring of Development and Implementation of the Programmes for Innovation-Driven Development of State-Owned Joint-Stock Companies, State-Owned Corporations and Federal State Unitary Enterprises, amendments to the List of State-Owned Joint-Stock Companies, State-Owned Corporations and Federal State Unitary Enterprises Designing Programmes for Innovation-Driven Development (approved by the Decision of the Government Commission for High Technology and Innovation of 30 January 2012, Minutes No. 1)</p>
Possibility to reduce taxable profit through creating reserves for future R&D	Taking reserves for future R&D into account when determining taxable profit	Tax (profit tax)	From 2012	Federal Law of 7 June 2011 No. 132-FZ 'On Making Amendments to Article 95 of Part I and Part II of the Tax Code of the Russian Federation in Respect of the Creation of Favourable Tax Conditions for Innovation Activities, and Article 5 of the Federal Law 'On Making Amendments to Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation'
Support of programmes for the development of regional innovation clusters	Assignment of the President of the Russian Federation to the Government of the Russian Federation to link state programmes for the development of the industrial and agricultural sectors and the strategy of developing the leading sectors of the economy with regional innovation clusters	Normative, directive	From 2012	Decree of the President of the Russian Federation of 7 May 2012 No. 596 'On Long-Term Public Economic Policy'
	Subsidies to the constituent entities of the Russian Federation for the implementation of programmes for pilot clusters	Financial (budget)	From 2013	<p>Procedure for the Creation of a List of Pilot Programmes for the Development of Regional Innovation Clusters (approved by the Decision of the Working Group for the Development of Private and Public Partnerships in Innovation Sector of 22 February 2012, Minutes No. 6-AK).</p> <p>Assignment of the Chairman of the Government of the Russian Federation of 28 August 2012 No. DM-P8-5060.</p> <p>Rules for the Distribution and Provision of Subsidies from the Federal Budget to the Budgets of Constituent Entities of the Russian Federation for the Implementation of Measures Envisaged by the Programmes for the Development of Pilot Regional Innovation Clusters (approved by the Resolution of the Government of the Russian Federation of 6 March 2013 No. 188).</p> <p>Resolution of the Government of the Russian Federation of 15 September 2014 No. 941 'On Making Amendments to the Rules for the Distribution and the Provision of Subsidies from</p>

Area	Tool (content)	Type	Application period	Key documents
				the Federal Budget to the Budgets of Constituent Entities of the Russian Federation for the Implementation of the Measures Envisaged by the Programmes for the Development of Pilot Regional Innovation Clusters'

Source: prepared by the authors on the basis of regulatory legal acts and internal documents of the federal authorities and development institutes.

Areas of public policy initiated in the period of stable growth (2002 – mid-2008)

Key innovation projects of national significance (KIPs, or mega-projects)

Support for projects in this category (in the form of targeted budgetary funding) was particularly mentioned in a fundamental document adopted in early 2002 in the field of scientific and technological development – ‘The Fundamentals of the Policy of the Russian Federation in the Field of Science and Technology Development for the Period until 2010 and Further Prospects’¹ –as one of the key measures of public stimulation of scientific, scientific-technical and innovation activities.

One can highlight a whole range of features of mega-projects that markedly distinguish them from any of the earlier applied public innovation support tools. Firstly, there is the quite the significant volume of both projects themselves and budgetary resources allocated for their implementation – up to Rb 1.5bn; furthermore, those budgetary funds were provided on a non-repayable basis and could cover up to one half of the project cost. Secondly, the duration of the projects: although the official limit of their implementation period was 4 years, in practice, most of these projects continued for 5-6 years, and some of them even longer. Thirdly, each project covered several consecutive stages of the innovation cycle – from the development of a new product or technology to the commencement of bulk sale. The latter circumstance determined both the scale and duration of the projects and established the necessity for a consortium of contractors to participate in each project (including at least the developer organisation and the company responsible for large-scale commissioning of the created products or technologies). This is what enables us to view mega-projects as a tool contributing to the development of scientific and industrial cooperation.

However, with the undoubted importance of the above features of mega-projects, the main peculiarity of this tool was that the recipients of support were required not only to develop and launch production of new products but also to gain revenues from the sale of such products in an amount that exceeded the costs incurred by the state to support the project by a factor of at least five times. This requirement, in our opinion, was the key one in the entire ‘structure’ of mega-projects, because it was through its help that the state attempted not only to ensure support for innovations that were in real demand in the market, but also to guarantee that it recovered (although with a significant delay) the invested funds – in the form of tax or other payments generated mainly at the stage of mass production and sale of the products. It was also assumed that each KIP was able to ensure a significant contribution to meeting the most important public objectives, such as an increase in the level of national security level and improvement in the quality of life of the population or, at least, having a considerable economic impact at the level of individual industries and sectors. However, it is important to note that the state initially suspected that not all mega-projects would give the expected quantitative results.² In 2001, according to the main ‘ideologist’ of the creation of this tool – the Deputy

¹ Letter of the President of the Russian Federation of 30 March 2002 No. Pr-576.

² Imamutdinov, I. Innovative Choice. Expert, 2002, No. 46.

Minister of Industry, Science and Technology of the Russian Federation, Andrei Fursenko – a fundamental effect of the implementation of KIPs should have been the creation of successful project teams and the generation of positive examples, stories of success.¹

The state's considerable 'stake' on the implementation of mega-projects as one of the main stepping stones for building the economy of knowledge² was clearly evident at the stage of the initial selection of their themes. The relevant process was quite complex and costly, included several stages, and lasted for about a year. In early 2002 the Ministry of Industry, Science and Technology of Russia organised a call for project proposals. The received applications (over two hundred) underwent preliminary scientific and technical expert examination in the Republican Research Scientific and Consulting Centre of Expertise (RRSCCE), after which they were referred for review to specially created thematic working groups, including, along with representatives of the Ministry, subject matter experts and independent innovation brokers and investors. The next stage of review of the projects was carried out by a representative expert council consisting of leaders of the Ministry, large business structures and academic institutes. Finally, a list of projects compiled by this expert council was submitted to the Government for approval.³

In 2003, based on the results of this selection, the Ministry of Industry, Science and Technology of Russia launched 12 KIPs, for which the total volume of budgetary funding had amounted to Rb 1.2bn by the end of the year (comparable, for example, to the annual volume of budgetary funding for the basic technological Federal Target Programme 'National Technological Base'). After the said Ministry had been abolished in 2004,⁴ six of the mega-projects were transferred to the Ministry of Education and Science of Russia, five – to the Ministry of Industry and Energy of Russia, and one – to the Ministry of Regional Development of Russia. The first two Ministries 'assimilated' the KIP tool and soon started initiating new projects. The relevant expenditure item of the Ministry of Education and Science of Russia was included first in the FTSTP 'Research and Development in Priority Areas for the Development of Science and Engineering' for 2002-2006⁵ and after its completion – in the FTP 'Research and Development in Priority Areas for the Development of the Scientific-Technological Complex of Russia for 2007-2012.'⁶ The development of new mega-projects sponsored by the Ministry had continued until 2009; and funding of previously initiated projects within the framework of the FTP 'Research and Development...' – until 2010.⁷ As for the launch and funding of mega-projects by the Ministry of Industry and Energy of Russia, and subsequently by the Ministry of Industry and Trade of Russia, this process is ongoing –

¹ Myazina, E. Five Rubles for One. *Izvestiya* of 8 July 2002.

² Leskov, S. Andrei Fursenko: How to Benefit from Natural Propensity of a Russian Man. *Izvestiya* of 17 October 2003.

³ Imamutdinov, I. Innovative Choice. *Expert*, 2002, No. 46.

⁴ Decree of the President of the Russian Federation of 9 March 2004 No. 314 'On the System and Structure of Federal Executive Bodies.'

⁵ As revised by Resolution of the Government of the Russian Federation of 12 October 2004 No. 540 'On Making Amendments to Federal Target Scientific and Technical Programme (FTSTP) 'Research and Development in Priority Areas of Development of Science and Engineering' for 2002-2006 and Invalidating Certain Legal Acts of the Government of the Russian Federation.'

⁶ Approved by Resolution of the Government of the Russian Federation of 17 October 2006 No. 613 'On Federal Target Programme (FTP) 'Research and Development in Priority Areas of Development of the Scientific-Technological Complex of Russia for 2007-2012.'

⁷ Resolution of the Government of the Russian Federation of 6 April 2011 No. 253 'On Making Amendments to Resolution of the Government of the Russian Federation of 17 October 2006 No. 613.'

with KIPs being named amongst the tools for the implementation of the State Programme 'The Development of Industry and Increase in its Competitiveness.'¹

In general, for the period from 2003 to 2014 about 70 mega-projects were initiated, out of which over 2/3 were 'in the line' of the Ministry of Industry and Energy/Ministry of Industry and Trade of Russia. Interestingly, the supported KIPs were by no means only from the high technology sectors: for instance, some of the projects represented the wood processing, paper and pulp, and metallurgy sectors. However, at the level of the entire group of supported mega-projects, two priority sectors were clearly distinguishable: the machine building complex and the medical and pharmaceutical industry (predominantly the KIPs were associated with these sectors). The total volume of budgetary funding of KIPs over the last 12 years has been around Rb 24bn.

The experience of application of the KIP tool by the state and the results achieved within the framework of supported projects were, on multiple occasions, positively assessed by not only representatives of the relevant Ministries,² but also by representatives of the expert community.³ Among the key positive effects of the implementation of mega-projects the following were most often noted: the creation and successful development of a new scheme of private and public partnership ensuring a rational combination of interests of the state and business within the framework of implementation of large-scale innovative projects and the development of effective and mutually beneficial collaboration between organisations of the research and development sector and industrial companies. Moreover, in respect of certain projects one could often hear mention of results such as significant growth in the manufacture of new and improved products, their widespread use in different sectors and the development of new markets, including for export.

Along with the merits and positive effects of KIPs, both experts and representatives of the government authorities noted considerable problems with their realisation. For instance, in some cases, the executives had difficulties ensuring the required level of non-budgetary co-funding of projects – there was even a precedent of the early termination of a state contract due to a failure to fulfil the relevant obligations.⁴ Moreover, the not insignificant problems of the practical realisation of mega-projects were related to the distribution of rights for created

¹ The effective version is approved by Resolution of the Government of the Russian Federation of 15 April 2014 No. 328 'On Approval of State Programmes of the Russian Federation 'Development of Industry and Increase of Its Competitiveness'. However, it should be noted that the state programme provides for relevant budgetary funding only until 2014 and only on item 'Support of innovation-driven development of companies in the field of technical regulation, standardisation, assurance of uniformity of measurements and information.'

² See, for example, Ministry of Education and Science of Russia. Improvement of Mechanisms of Formation and Implementation of the Key Innovation Projects of National Significance. Theses of the Report of the Minister of Education and Science of the Russian Federation Andrei Fursenko. 2006. <http://www.fcntp.ru/page.aspx?page=99>; Ministry of Industry and Trade of Russia. On Implementation of the Key Innovation Projects of National Significance. Theses of the Report of the Minister of Industry and Trade of the Russian Federation S. Naumov. 2009. <http://old.minpromtorg.gov.ru/industry/radioelectronic/1>

³ Voronkina, L., Ivanova, O. Key Innovation Projects of National Significance as an Element of National Innovative System. Almanac 'Science. Innovations. Education'. No. 2. Moscow: Languages of the Slavic Culture, 2007; Rykova, I., Bogachev, Yu., Oktyabrsky, A. Innovation Projects of National Significance: Principles and Methodology of Formation of the Key Innovation Projects of National Significance. In the book: Effective Public Administration in the Conditions of the Innovative Economy: Policy of Innovation-Driven Development. Edited by S.N. Silvestrov, I.N. Rykova. Moscow: Dashkov and Co., 2011.

⁴ Ministry of Education and Science of Russia. Improvement of Mechanisms of Formation and Implementation of the Key Innovation Projects of National Significance. Theses of the Report of the Minister of Education and Science of the Russian Federation Andrei Fursenko. 2006. <http://www.fcntp.ru/page.aspx?page=99>

intellectual property being limited by the possible forms of use of the allocated budgetary funds, the necessity to comply with legal requirements for state purchasing and unilateral changes to the rules and conditions of support by the state.¹

Viewing the results of the KIP tool in general, one has to admit that the ‘stake’ on mega-projects as a means of assuring meaningful technological changes on a national scale was something of a failure rather than a success: even with the undoubted successes reached within the framework of implementation of a considerable proportion of the projects, the achieved results were mostly of a ‘local’ nature and failed to ensure significant progress in technological development, at least at the level of particular industries and sectors.

TEMP Programme

In 2005 the Foundation for Assistance to Small Innovative Enterprises (Foundation for Assistance to Innovations) began the implementation of the TEMP (Technologies to Small Enterprises) Programme aimed at supporting the commercialisation of developments made by state scientific organisations (academic and sectoral research institutes) and higher education institutions. Under the Programme the Foundation provided non-repayable (grant) funding for the R&D required for the extension of work under the licences acquired by enterprises from state organisations; the major part of the works financed by the Foundation (at least 70%) was carried out by licensees. Supported projects were supposed to result in the development of manufacturing and introduction to the market of new promising products and services in volumes at least 3 times greater than the corresponding investment by the Foundation. The total duration of the supported projects could reach 4 years, with the maximum share of the Foundation’s funds in the total cost of the project set at 30%. The following were admitted to participation in the Programme: small enterprises already selling their products in the market in sufficiently large volumes (from Rb 30m per year) and consortia consisting of a small enterprise and a medium or large company.

Competitive selection of projects within the framework of the TEMP Programme had been carried out until 2008, after which the Programme implementation was terminated due to the re-allocation of state resources in favour of anti-crisis measures (in the implementation of which the Foundation for Assistance to Innovations was partly involved). Within the framework of the Programme the Foundation financed over 70 projects to the tune of about Rb 1bn in total. At the same time, for certain projects the volume of funds provided by the Foundation reached Rb 30m.

In general, the results of implementation of the TEMP Programme have been considered quite positive (although, mainly by representatives of the Foundation).²

The key advantage of this support mechanism was its strict orientation towards the commercialisation of particular developments and its key limitation – the necessity to use existing

¹ Parmon, V., Noskov, A., Anfimova, N. Problems of Innovative Interaction between the Russian Science and Large Manufacturing Facilities. *Innovations*, 2010, No. 5; Rykova, I., Bogachev, Yu., Oktyabrsky, A. Innovation Projects of National Significance: Principles and Methodology of Formation of Key Innovation Projects of National Significance. In the book: *Effective Public Administration in the Conditions of the Innovative Economy: Policy of Innovation-Driven Development*. Edited by S.N. Silvestrov, I.N. Rykova. Moscow: Dashkov and Co., 2011.

² See, for example, Bortnik, I. Foundation of Assistance: Development Logic. *Innovations* (special issue), February 2009; *Innovations: Mechanisms of Search for Ideas*. Record of the Round Table – meeting of Expert Group No. 5 ‘Transfer from Stimulation of Innovations to the Growth on Their Basis’ on work over ‘Strategy 2020’ of 24 March 2011 <http://2020strategy.ru/data/2011/07/22/1214726205/3.doc>

intellectual property items. However, it should be noted that this limitation was reasonably determined by the aim to ensure the real effectiveness of the projects (reaching the stage of sufficiently large sales) with relatively small predetermined volumes of support.

PUSK Programme

In 2006 the Foundation for Assistance to Innovations and the Federal Agency for Science and Innovations (Rosnauka) jointly initiated the PUSK (Partnership of Universities and Companies) Programme. This Programme was oriented towards the support of joint projects between Russian higher education institutions and small innovative companies envisaging the development and application of new products and technologies. The support recipients here were both higher education institutions developing technologies, and small companies implementing these technologies in manufacturing. Selection of projects to be supported was carried out on the basis of the results of parallel tenders conducted by Rosnauka and the Foundation for Assistance to Innovations. Based on the tender results, Rosnauka financed the conduct of research activities by the higher education institutions¹ aimed at the creation of new technology and its adaptation to the needs of particular enterprises; the Foundation, in its turn, provided the funds to the enterprises for carrying out development activities required for the implementation of the technology in manufacturing. Moreover, within the framework of each project the higher education institution was supposed to train, using its own or third-party funds, experts in the field of the newly-developed technology for the purpose of promoting further use of this technology by the enterprise. The duration of the supported projects was 2-3 years, with a relatively small total volume of funding – up to Rb 16m – and allocated in equal parts between Rosnauka and the Foundation for Assistance to Innovations.

The key feature of the PUSK programmes was, together, of course, with the ‘parallel’ scheme of selection and funding of small enterprises and higher education institutions, in the obligations which it envisaged requiring higher education institutions to provide personnel to support small enterprises in the realisation of joint projects.² This circumstance was, in our opinion, a key advantage of the tool in question. The most significant of its disadvantages was the necessity to ‘break down’ projects into two different (although still interrelated) parts, each of which was actually a separate object of support. Generally speaking, such a scheme posed a risk of significant problems when transferring the results of developments made by the higher education institution to the enterprise – not least, due to the inevitable differences in their research and business cultures. However, the training by the higher education institution resulting in highly-qualified personnel for each ‘particular project’ envisaged by the Programme was aimed, among other things, at contributing to the elimination of possible conflicts between the project participants.

According to the available data, from 2006 to 2009, within the framework of the PUSK Programme 22 projects were implemented the participants in which, on the part of the educational sector, were both relatively small higher education institutions and the largest universities, such as the Lomonosov Moscow State University or the Bauman Moscow State Tech-

¹ We should note that funding of projects on the part of Rosnauka was carried out within the framework of FTP ‘Research and Development...’, however, it was not documented as a separate mechanism but was performed using the funds allocated to the existing programme activities.

² For this reason this mechanism has some similarity with sufficiently successfully applied abroad (mainly, in the UK) ‘Teaching Company Scheme’ providing for delegating by universities of students and post-graduates to companies for the conduct of research and development (Dezhina, Kiseleva, 2008).

nical University. The total volume of their funding from the Foundation for Assistance to Innovations and from Rosnauka was about Rb 260m. When the 2008 financial crisis broke, the PUSK Programme suffered the fate of the TEMP Programme, with its termination being initiated by Rosnauka this time¹. Despite the quite modest scale of application of the support mechanism provided by the Programme, its results were positively assessed not only by its direct participants² but also by representatives of the expert community.³

Softening of the accounting procedure for R&D costs when determining taxable profit

Starting from 2006 the state has made a number of steps aimed at creating more attractive conditions for the funding of R&D by organisations (from the perspective of taxation on profits). The measures implemented were related both to independent R&D conducted by organisations which were ‘end consumers’ and the placement of relevant orders with third-party contractors, so this enables us to consider this area in the context of a stimulation of scientific and industrial cooperation.

Before the end of 2005, R&D costs incurred by organisations were accounted uniformly in determining the amount of taxable profit over the three years subsequent to the completion of the relevant work. In this case, if the R&D results were used by the organisation in manufacturing or in the sale of products and services, the relevant costs were to be written off in full; otherwise, only 70% of costs incurred were ‘taken into account’ when calculating taxable profit.⁴

From early 2006 the period for writing off expenditure on R&D the results of which were used by the organisation, was reduced to two years; meanwhile, costs on R&D which gave no positive results were still to be written off within three years but in their full amount.⁵ From 2007 the accounting period for R&D expenditure (regardless of the result) when determining taxable profit, was reduced to one year.⁶ Finally, since 2012 such expenses must be written off in the same tax period (year) in which relevant R&D activities were completed.⁷

In general, the gradual softening by the state of the tax regime in respect of R&D costs certainly deserves a positive view. However, it should be noted that the mechanism being im-

¹ Innovations: Mechanisms of Search for Ideas. Record of the Round Table – Meeting of the Expert Group No. 5 ‘Transfer from Stimulation of Innovations to the Growth on Their Basis’ on work over ‘Strategy 2020’ of 24 March 2011 <http://2020strategy.ru/data/2011/07/22/1214726205/3.doc>. We should note that in 2010 the Agency and Foundation initiated a new joint programme oriented on the support of partnerships of small innovative enterprises with scientific and educational centres – structural subdivisions of state-owned scientific organisations or higher education institutions (see below).

² Polyakov, S., Zybim, D. About the Implementation of the PUSK Programme. Innovations, 2007, No. 5; Bortnik, I. Foundation of Assistance: Development Logic. Innovations (special issue), February 2009.

³ Dezhina, I., Kiseleva, V. State, Science and Business in the Innovation System of Russia. Scientific Works/Institute of the Economy in the Transition Period; No. 115P. Moscow: Institute of the Economy in the Transition Period, 2008.

⁴ Tax Code of the Russian Federation (Part II) of 5 August 2000 No. 117-FZ.

⁵ Federal Law of 6 June 2005 No. 58-FZ ‘On Making Amendments to Part II of the Tax Code of the Russian Federation and Some Other Legal Acts of the Russian Federation on Taxes and Duties.’

⁶ Federal Law of 27 July 2006 No. 137-FZ ‘On Making Amendments to Part I and Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation in Respect of Taking Measures for Improvement of Tax Administration.’

⁷ Federal Law of 7 June 2011 No. 132-FZ ‘On Making Amendments to Article 95 of Part I, Part II of the Tax Code of the Russian Federation in Respect of Creation of Favourable Tax Conditions for Innovation Activities and Article 5 of Federal Law ‘On Making Amendments to Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation.’

plemented is not tax relief in the traditional meaning of the term because it provides neither for the scaling of the expenses actually incurred (unlike the mechanism of the 1.5-rate write off of costs on certain types of R&D described below) nor their write-off ‘ahead of time’ (as in the case of the formation of reserves for future R&D costs, also described below).

Funding of R&D conducted in the interests of business

When the previously mentioned FTP ‘Research and Development...’ was initiated in 2007, two new mechanisms of support for interaction between science and business were introduced.

The first mechanism provided for budgetary co-funding of projects for the commercialisation of technology in the interests of particular Russian companies (‘business projects’). Companies initiated projects by submitting their proposals in respect of their subject matter and key parameters to the state. Then, on the basis of the results of a review of the received proposals, the state announced a tender for undertaking the R&D required for the implementation of the projects. The initiating company was provided with an opportunity to participate in the preparation of the tender documents and the expert examination of the applications received, but neither the initiating company nor its affiliates could, themselves, participate in the tender. The organisation selected on the basis of the results of the tender would then conduct the R&D at the request of the state and the results received were to be transferred to the initiating company for commercialisation. The maximum duration of such supported projects was 3 years, with the annual volume of budgetary funding of the business project not exceeding Rb 100m. It was also established that the budgetary funds could account for no more than 30% of the total cost of the project.

It is important to note that such business projects had a whole range of features in common with KIPs. For example, in both cases the initiators of the projects were particular business structures, with the state being responsible only for the conduct of the R&D, and the expected result of the projects was not only the creation of new products and technologies, but also their application by manufacturing facilities. This explains both strengths and weaknesses of the two instruments: their implementation of several stages of the innovation cycle, the emphasis on commercialisation and their regulatory restrictions. However, the scheme of support for business projects had one principal peculiarity which, in our opinion, significantly limited its potential efficiency: in contrast to KIPs, the recipient of support was not the company initiating the project and directly interested in the results of the R&D financed by the state, but a third-party contracting organisation that, notably, was selected by the state (even if with some participation of the initiating company). Generally speaking, this posed substantial risks for companies in relation to the extent to which the R&D results eventually transferred to them would meet their needs.

However, the above disadvantage of business projects did not lead to a lack of interest on the part of Russian companies: 2007 and 2008 saw the commencement of implementation of 12 projects initiated by, inter alia, a number of large state and private companies: Scientific Production Organisation (NPO) ‘Saturn’, TNK-BP, Rocket and Space Corporation ‘Energiya’, etc. The annual volume of budgetary funding of business projects in 2007-2009 was about Rb 1.5bn; while the total budgetary expenditure on the implementation of any one project usually did not exceed Rb 150m.

The period of application of the business project tool was quite short – starting from 2009 no new projects were initiated, and budgetary funding of previously launched projects was cut

off in 2010. At the same time, despite such a short period of its existence, this instrument received positive assessment not only in official documents but even from some representatives of the expert community.¹

The second mechanism initiated within the framework of the FTP ‘Research and Development...’ provided for budgetary co-funding of R&D conducted in the interests of business. The scheme of its implementation was quite similar to that described above for the support of business projects: projects were initiated by high-tech Russian companies, and, on the basis of their proposals, the state announced a tender for the conduct of R&D. Initiating companies had a chance to participate both in the preparation of the tender documents and in expert examination of the received applications, but the selection of contractors was carried out by the state. The latter financed up to half of the conducted R&D, with the volume of support being Rb 30-50m per year and with durations not exceeding 3 years. The principal difference of this tool of support for business projects was that, in this case, the projects covered only the R&D stage but did not include the further commercialisation of the results, which were entirely the responsibility of the initiating companies for ‘buy-back’.

Thus, this scheme of R&D support in the interest of business fully replicated the key flaw of the business project tool – the ‘secondary’ role of the initiating companies in the selection of the R&D contractors and further interaction with them in project realisation together with the related risks of receiving results which did not quite meet their needs – but, at the same time, it lacked the important advantage of the latter – its orientation towards practical application of the supported developments.

However, as in the case of the business projects, the possibility of receiving state co-funding of R&D, even with the ‘load’ of the contractor being selected by the state, aroused great interest in Russian companies, both small and quite large: among the project initiators were, for example, MMC Norilsk Nickel and JSCB Gazprombank. At the same time, in contrast to the extremely limited practice of support for business projects, application of this mechanism was quite lengthy and large-scale: budgetary funding of R&D projects in the interests of business continued all the way until the completion of implementation of the FTP ‘Research and Development...’ in 2013,² while the initiation of new projects ceased in 2012 – one year before the completion of the Programme. During this period about 80 projects received public support and the total volume of budgetary funding of such projects was about Rb 8bn (from Rb 0.5m to Rb 2.2bn per year). The amount of support for any one project, however, usually did not exceed Rb 100m.

VAT relief for certain types of R&D

In early 2008 the state introduced a new mechanism of tax stimulation for R&D activities (and, hence, their funding – including funding within the framework of scientific and industrial cooperation). This tax benefit provided VAT relief for the conduct of R&D relating to the creation of new products and technologies or improvement of existing ones. However there was the constraint that the relevant work should include the development of a design for an

¹ Gurvich, V. At the Threshold of the New World. Political Journal, 2008, No. 2.

² By Resolution of the Government of the Russian Federation of 6 April 2011 No. 253 ‘On Making Amendments to Resolution of the Government of the Russian Federation of 17 October 2006 No. 613’ implementation of the programme was extended for one year.

engineering facility or a technical system, a new technology, or the creation of development prototypes of machines, equipment, materials (not for further resale) and their testing.¹

We should note that the spectrum of works eligible for the tax relief was quite wide, which was an undoubted advantage for the prospect of stimulating research and innovation activities. At the same time, the very fact that the tax relief applies only to a part of R&D (although a considerable part) somewhat complicates its application and administration. However, the dynamic growth of the scale of its use observed up to and including 2013 (when the volume of R&D ‘covered’ by the tax relief was Rb 53bn²) evidences the successful ‘adaptation’ of taxpayers to the peculiarities of this tax mechanism.

Areas of public policy initiated in the crisis period (second half of 2008 and 2009)

Profit tax relief for costs on R&D included in a special-purpose list

In early 2009 profit tax relief was introduced in respect of R&D costs in a range of thematic areas included in a special-purpose list,³ based on a list of critical technologies and, in fact, detailing the major part of the items included therein. This tax relief envisaged that expenditure on such R&D conducted in the interests of the taxpayer organisation itself (but not on behalf of third parties) would be taken into account at a rate of 1.5⁴ when determining the taxable profit of the organisation. In this case the preferential tax treatment applied both to the independent conduct of R&D by the company itself and to the placement of relevant orders with third-party organisations, which allows us to consider it as a tool, not only for stimulating expenditure on R&D in certain areas of utmost importance to the state, but also for promoting scientific and industrial cooperation in these areas.

The ‘selectiveness’ of the introduced tax mechanism (meaning that it covered only particular thematic areas, although, in fact, quite a substantial number) explains some of the difficulties in its application by the taxpayer organisations. In our opinion, it was because of this that the scale of its application, at first, was not particularly great: based on the results of 2009 the tax relief covered only 4% of all R&D costs accounted for the purposes of taxation. However, in the following two years, with taxpayers ‘becoming familiar’ with this mechanism, its application expanded greatly: in 2010 the tax relief was applied to 11% of the total R&D costs of taxpaying companies and in 2011 – to almost a quarter.

From 2012 the legal regime of the tax relief application was modified considerably: taxpayers applying this mechanism were now supposed to submit reports on the relevant R&D (documented in accordance with a standard form) to the tax authorities; the latter were granted the right to appoint experts to examine the received reports to verify their compliance with

¹ Federal Law of 19 July 2007 No. 195-FZ ‘On Making Amendments to Certain Legal Acts of the Russian Federation in Respect of Creation of Favourable Tax Conditions for Funding Innovation Activities.’

² For comparison: the volume of expenses on R&D eligible for the profit tax relief described in the next sub-clause in 2013 was Rb 9bn.

³ Federal Law of 22 July 2008 No. 158-FZ ‘On Making Amendments to Chapters 21, 23, 24, 25 and 26 of Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation on Taxes and Duties’; Resolution of the Government of the Russian Federation of 24 December 2008 No. 988 ‘On Approval of the List of Scientific Research and Developments, the Taxpayer’s Expenses on Which are Included, in Accordance with Clause 2 of Article 262 of Part II of the Tax Code of the Russian Federation, in Other Expenses in the Amount of Actual Costs Multiplied by 1.5.’

⁴ Costs on R&D not included in the list were accounted, for the purposes of profit taxation, in the amount of actually incurred costs during the year after the completion of relevant works (or certain stages of works).

the R&D specified by the government list.¹ This change that had been aimed at preventing unjustified application of the tax relief, at the same time considerably complicated its application by good-faith ‘users’ and burdened the tax authorities with additional organisational and financial costs, especially in requirement to appoint experts to examine the documents). Thus, to a considerable extent, this tax mechanism lost its previous key advantage of the relative simplicity of application and administration. As a result, in 2012 the share of costs on R&D formally eligible for the tax relief decreased by a factor of two, to 12%.

Stimulation of the creation of inculcation companies by budgetary scientific and educational institutions

Together with the launch of the above tax mechanisms, in 2009 the state commenced the implementation of measures stimulating the creation of inculcation companies by budgetary scientific and educational institutions. The first step on this path was the softening of the legislative norms regulating the creation of business entities by such institutions: the authorisation-based procedure for their creation that had been effective before was replaced by a notification-based procedure. There was a separate requirement for the activities of the created companies to be aimed at implementing the results of intellectual activity, the exclusive rights to which belonged to the creating institutions. Moreover, restrictions were established in respect of the minimum participation share of the ‘parent’ institutions in the capital of the inculcation companies (for OJSCs – one quarter; for LLCs – one third) and the disposal of the shares or units of the latter (only with the consent of the owner of the institution’s property).²

In mid-2010 ‘in line with’ the adopted legislative changes, Rosnauka and the Foundation for Assistance to Innovation launched a programme for the support of partner projects between scientific and educational centres (SEC)³ and small innovative companies. Its scheme of implementation was close to that described above for the joint implementation by the same participants in the PUSK Programme: the recipients of support were simultaneously SECs (or, to be more exact, scientific organisations and the higher education institutions that created them), and small innovative firms. Based on the results of the parallel tenders, Rosnauka financed research conducted by the SEC teams⁴ while the Foundation supported R&D by small companies conducted for implementing the SEC developments. It is remarkable that, as in the case of the other Foundation for Assistance to Innovations programme – TEMP, not only small business entities, but also larger firms were admitted to participation in the projects, provided that they involved smaller companies as joint contractors. The duration of supported projects was limited to 3 years, with the volume of funding provided to each participant not

¹ Federal Law of 7 June 2011 No. 132-FZ ‘On Making Amendments to Article 95 of Part I, Part II of the Tax Code of the Russian Federation in Respect of Creation of Favourable Tax Conditions for Innovation Activities and Article 5 of Federal Law ‘On Making Amendments to Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation.’

² Federal Law of 2 August 2009 No. 217-FZ ‘On Making Amendments to Certain Legal Acts of the Russian Federation on Matters of Creation by Budgetary Scientific and Educational Institutions of Business Entities for the Purpose of Practical Application (Implementation) of the Results of Intellectual Activities.’

³ Scientific and educational centres were recognised officially documented (by special-purpose resolution approved by the head of the organisation) structural subdivisions of public scientific, scientific and industrial organisations or higher education institutions conducting scientific research and training personnel of the highest qualification.

⁴ Relevant funds were allocated within the framework of FTP ‘Scientific and Scientific-Pedagogical Personnel of Innovative Russia’ for 2009-2013, however, as in the case of PUSK Programme, this area of support was not documented as a separate mechanism.

exceeding Rb 15m. Within the framework of the programme, 23 SEC partner projects and inculcation companies created by budgetary scientific and educational institutions, were supported, with the total volume of support provided amounting to about Rb 1.5bn.

It should be admitted that the regulatory measure taken in 2009, with its undoubted importance, was of a ‘half-way’ nature: budgetary institutions were granted the right independently to create inculcation companies and to include into their authorised capital the rights to the results of their intellectual activities, however, they were unable to transfer to them equipment, money or other property without the owner’s consent. Moreover, even the leasing of property by the ‘parent’ institutions to the inculcation companies was permitted only in accordance with the standard procedure – based on the results of auctions or tenders.

The above obstacles were eliminated when a number of new regulative norms came into force in early 2011. Budgetary institutions were granted the right to dispose, independently, of all of their property with the exception of immovable and especially valuable movable property, and performance of major and related-party transactions.¹ Furthermore, a non-competitive procedure was established for the lease by budgetary institutions of their property to inculcation companies which they had created.²

In addition to the above measures, a requirement preventing inculcation companies from applying the simplified taxation system in the absence of a participating organisations owning over one quarter of capital, was cancelled.³ Finally, for the period from 2011 to 2019 reduced rates of insurance payments to state non-budgetary funds were established in respect of inculcation companies created by budgetary institutions.⁴

In general, this process launched by the state, of the creation of inculcation companies by budgetary institutions, was quite large-scale and dynamic: while by November 2010 about 600 such companies had been established (out of which about 60% were in compliance with the standards of the ‘basic’ law No. 217-FZ), by April 2012 there were almost fifteen hundred (out of which 84% complied with the above law). It is important to note that the overwhelming majority (about 99%) of these companies were created by educational institutions.⁵ Obviously, this fact may be partially explained by the greater interest of higher education institutions in the implementation of their results through small innovative firms. However, in our opinion, it was to a much greater extent explained by the fact that higher education institutions were ‘forced’ by government authorities (mainly by the Federal Agency for Education) to create small enterprises. For example, a large number of universities (including the federal ones) included the relevant indicator into their development programmes. Moreover, programmes for the development of the innovation infrastructure of higher education institutions,

¹ Federal Law of 8 May 2010 No. 83-FZ ‘On Making Amendments to Certain Legal Acts of the Russian Federation in Relation to Improvement of the Legal Status of State (Municipal) Institutions.’

² Federal Law of 1 March 2011 No. 22-FZ ‘On Making Amendments to Article 5 of Federal Law ‘On Science and Scientific and Technical Policy’ and Article 17.1 of Federal Law ‘On Protection of Competition.’

³ Federal Law of 27 November 2010 No. 310-FZ ‘On Making Amendment to Article 346.12 of Part II of the Tax Code of the Russian Federation.’

⁴ Federal Law of 16 October 2010 No. 272-FZ ‘On Making Amendments to Federal Law ‘On Insurance Payments to the Pension Fund of the Russian Federation, Social Security Fund of the Russian Federation, Federal Fund of Compulsory Medical Insurance and Territorial Funds of Compulsory Medical Insurance’ and Article 33 of Federal Law ‘On Compulsory Medical Insurance in the Russian Federation.’

⁵ Andreeva, A., Kaigorodov, A. The Financial Mechanism of Commercialisation of Results of Intellectual Activity as a Key Element of Innovation Infrastructure of Regions. *News of Higher Education Institutions. Series: Economy, Finance and Industrial Management*, 2013, No. 1.

implemented in 2010-2012, had a significant effect on the creation of small enterprises by higher education institutions (see below): their support of small innovative firms was among the top priorities in these programmes and their number was one of the target indicators.

As a result, according to available estimates, about two thirds of companies created by higher education institutions exist either only nominally or are unviable.¹ However, at the level of individual higher education institutions the activities of incubation companies were often assessed positively,² although even in these cases it was noted that not all the created companies successfully operated in the market.³

Areas of public policy initiated during the period of post-crisis recovery (2010-2012)

Support for cooperation with higher education institutions and state scientific institutions within the framework of projects for the creation of advanced manufacturing facilities

One of the state's main steps in stimulating scientific and industrial cooperation, in 2010, was the initiation of a mechanism of support for cooperative projects between companies and higher education institutions for the creation of advanced manufacturing facilities (known by the number of the Resolution of the Government of the Russian Federation determining the procedure for its application – Resolution 218⁴). This mechanism envisaged budgetary co-funding of innovative projects carried out jointly by companies acting as the initiators (at least formally) and chief contractors of the project, and higher education institutions playing the role of R&D contractors. The direct recipient of the budgetary subsidies here was the company which, however, referred all the funds received from the state to the higher education institution to pay for the R&D conducted. Moreover, the company had to invest funds which were at least equal to the amount of budgetary funding in the project implementation, and at least 20% of these funds had to be provided for carrying out the R&D. The period of project support was limited to 3 years, with the amount of budgetary funds allocated for implementation of any one project not exceeding Rb 100m.

The support scheme stipulated by Resolution No.218 had significant particularities that distinguished it from the tools of support for the partnership projects initiated earlier – the PUSK Programme and both the schemes of R&D funding in the interests of business, specified by the Federal Target Programme (FTP) 'Research and Development...' In contrast to the latter, within the framework of 'Mechanism 218' the higher education institution carrying out R&D was determined by the initiating company and not by the state, and this guaranteed the mutual interest of the partners in collaboration and a mitigation of the risks that any conflicts may arise (or initially exist) between them. Moreover, unlike all the above mentioned tools, works performed by the higher education institution were ordered by the company that

¹ Sterligov, I. One Third of Small Enterprises at Higher Education Institutions Exist Only on Paper. Science and Technology of Russia – STRF.ru, 2 August 2011 http://www.strf.ru/material.aspx?CatalogId=221&d_no=41450#.VNqByeY0Enh

² See, for example, Shigapov, Z., Vasiliev, V., Bakaev, A. Analysis of Development of Innovative Entrepreneurship in Higher School (on the example of the Tupolev Kazan National Research Technical University – Kazan Aviation Institute). Innovations, 2014, No. 2.

³ Ruposov, V. Analysis of Economic Activities of Small Innovative Companies of the Irkutsk State Technical University. Bulletin of the Irkutsk State technical University, 2014, No. 4.

⁴ Resolution of the Government of the Russian Federation of 9 April 2010 No. 218 'On Measures of Public Support of Development of Cooperation of Russian Higher Education Institutions and Organisations Carrying Out Complex Projects for Creation of Advanced Manufacturing Facilities.'

planned to implement them in its industrial activities. This scheme of interaction between partners is obviously the most rational.

Generally speaking, the above positive aspects of the support mechanism for such cooperation projects as provided by Resolution No.218 ensured its ‘new quality’ when compared with the tools applied before.¹ In the context of the positive aspects of this mechanism we should also mention that, in addition to developments in the manufacture of new and improved products, each project envisaged the partners’ obligations to involve young scientists, specialists, students and post-graduates in conducting the R&D, to publish articles, to patent² and, starting from 2012, to create new jobs.³ It is also important to note that the project monitoring period is not limited to the 3 years of provision of support, but also includes the subsequent five years.

The key disadvantage of the support scheme defined by Resolution 218 was the limitation stipulating that only higher education institutions could partner with the initiating companies. In 2012 this requirement was somewhat softened – state scientific institutions were included in the list of potential project participants,⁴ – however, in our opinion, it was not softened enough, as a considerable proportion of the state scientific institutions functioning as unitary enterprises and joint stock companies that could be potentially interested in application to this mechanism still remains beyond the scope of its operation. The second significant flaw of the mechanism described is the existence of the possibility of potential ‘skewing’ of the implemented projects towards R&D – to the disadvantage of the remaining components. Indeed, in the case where a project was approximately equally financed by the state and the initiating company (which happened quite often), the share of R&D in the total project cost exceeded 2/3, and that could adversely affect (and, most likely, did affect) the viability of a proportion of the projects.

In general, the practical application of ‘Resolution 218’ turned out to be quite large-scale and long-lasting. Initially, only one cycle of support was envisaged by Resolution No.218 (in 2010-2012 – with an orientation towards the development of cooperation between companies exclusively being with higher education institutions), within the framework of which about 100 projects were selected. However, afterwards three more phases were initiated – in late 2012, early 2013 and mid-2014. It is remarkable that, while in 2010 and 2012, the maximum limit of requested subsidy was limited to Rb 300m, in 2013 it was Rb 190m and in 2014 – Rb

¹ Essentially, this mechanism represents a Russian analogue of the widespread (and well-proven) in industrially developed countries ‘matching-grants’ mechanism (see, for example, Dezhina I., Simachev Yu. Matching Grants for Stimulating Partnership between Companies and Universities in the Innovation Sector: Start Effects of Application in Russia. *New Economic Association’s Journal*, 2013, No.3).

² Order of the Ministry of Education and Science of Russia of 16 July 2010 No. 786 ‘On Approval of the Form of an Agreement between an Organisation Carrying Out a Complex Project for Creation of an Advanced Manufacturing Facility and the Ministry of Education and Science of the Russian Federation on the Conditions of Provision and Use of Subsidies for Implementation of Complex Projects for Creation of an Advanced Manufacturing Facility Carried Out with Involvement of a Russian Higher Education Institution.’

³ Order of the Ministry of Education and Science of Russia of 7 November 2012 No. 904 ‘On Approval of the Form of an Agreement between an Organisation Carrying Out a Complex Project for Creation of an Advanced Manufacturing Facility and the Ministry of Education and Science of the Russian Federation on the Conditions of Provision and Use of Subsidies for Implementation of Complex Projects for Creation of an Advanced Manufacturing Facility Carried Out with Involvement of a Russian Higher Education Institution or State Scientific Institution.’

⁴ Resolution of the Government of the Russian Federation of 12 October 2012 No. 1040 ‘On Making Amendments to Resolution of the Government of the Russian Federation of 9 April 2010 No. 218.’

160m, with a maximum payment of no more than Rb 100m being envisaged for the third year of support.

At present, more than 200 cooperation projects are supported, and the total volume of their budgetary funding for 2010-2014 amounted to about Rb 30bn. Many of the largest Russian companies and higher education institutions became project participants: RZD, ALROSA, Magnitogorsk Iron and Steel Works, RSC Energia, Transneft, KAMAZ, Ilim Group, Moscow State University and St. Petersburg State University. Some of these organisations participated in several projects.

The results of application of the support mechanism provided by Resolution No. 218 are generally assessed as quite positive by the Ministry of Education and Science of the Russian Federation which has been responsible for the realisation of this mechanism, and by representatives of the expert community. The Ministry highlighted the quantitative results of the implementation of the projects: the wide involvement of the employees of higher education institutions, including young scientists, students and post-graduates, the creation of a large number of new jobs, and sufficiently high publication activity.¹ Experts, on the other hand, pointed out a range of qualitative effects of the support, such as the stimulation of mutual interest of companies and higher education institutions to collaborate with each other, the enhancement of orientation towards the demands of real business for the research activities of higher education institutions, and the building of relevant capabilities.² Among the significant problems of implementation of the joint projects were the initial non-readiness of higher education institutions and companies to engage in effective cooperation (in particular, the lack of necessary skills and education), a lack of skilled staff in the higher education institutions able to implement innovative projects (scientific and engineering as well as managerial), and ‘conflicts’ in the distribution of the rights to the results of the intellectual activity.³

Support of programmes for the development of the innovative infrastructure of higher education institutions

Simultaneously with the initiation of support for cooperative projects between companies and higher education institutions the state launched a mechanism for realising programmes for development of the innovative infrastructure of higher educational institutions.⁴ Relevant programmes could provide for budgetary funding of a wide range of measures aimed both at cre-

¹ Ministry of Education and Science of the Russian Federation. Report on the Results and Key Areas of Activity of the Ministry of Education and Science of the Russian Federation for 2014-2016. 2013. <http://минобрнауки.рф/%D0%B4%D0%BE%D0%BA%D1%83%D0%BC%D0%B5%D0%BD%D1%82%D1%8B/4693/%D1%84%D0%B0%D0%B9%D0%BB/2074/%D0%94%D0%A0%D0%9E%D0%9D%D0%94-2014.pdf>

² Veprev A., Sergunov A., Golovnykh I., Pashkov A., Akhatov R., Shmakov A., Savilov A. Experience and Prospects of Academic Science Participation in the Creation of Innovative Aircraft Construction Technologies on the Basis of Irkut Corporation. The Defence Complex to the Scientific and Technological Progress of Russia, 2012, № 4; Dezhina I., Simachev Yu. Matching Grants for Stimulating Partnership between Companies and Universities in the Innovation Sector: Start Effects of Application in Russia. New Economic Association's Journal, 2013, No.3; Tashlykova E., Petrochenkov A., Tashkinov A. About Performance Indicators of Advanced Manufacturing Facilities. Scientific and Technical Reports of St. Petersburg Polytechnic University, 2013, No.183.

³ Dezhina I., Simachev Yu. Matching Grants for Stimulating Partnership between Companies and Universities in the Innovation Sector: Start Effects of Application in Russia. New Economic Association's Journal, 2013, No.3.

⁴ Resolution of the Government of the Russian Federation of 9 April 2010 No. 219 ‘On Public Support for the Development of Innovation Infrastructure in Federal Educational Institutions of Higher Professional Education.’

ating and equipping a wide range of infrastructure facilities (business incubators, technoparks, innovative technological centres, engineering centres, accreditation centres, technology transfers, innovative consulting, etc.). Additionally there was support for the development and implementation of programmes for training and qualification upgrades in small innovative business, the estimation and legal protection of the results of intellectual activity, payment for the services of consultants in the field of technology transfer, and the creation and development of small innovative companies, including the involvement of academic teaching staff in normative, methodological and practical support for the creation of such companies. Each programme was supposed to define a set of numerical performance indicators, including the volume of R&D carried out by the higher educational institution, the number of small innovative enterprises created, the number of employees working at these enterprises and the infrastructure facilities created, the number of students, post-graduates and teachers involved in activities of the small enterprises, as well as the volume of high-tech products created with the use of elements of the innovative infrastructure. Infrastructure development programmes were selected on a tender basis, with a period of implementation not exceeding three years and the maximum amount of budgetary funding being limited to Rb 50m per year.

From 2010 to 2012 the state financed about 80 programmes for the development of the innovative infrastructure of higher education institutions, annually spending about Rb 3bn for these purposes. As in the case of the mechanism of stimulation of cooperation between higher education institutions and companies discussed above, the state initially set a one-time support regime for the infrastructure development programmes. However, in contrast to ‘Mechanism 218’ (and to another support tool introduced in 2010 and oriented towards higher education institutions— targeted grants solicited by higher education institutions for scientists), the first round of support for infrastructure programmes turned out to be the only one, which obviously provides evidence for their lack of success and effectiveness. At the same time, current assessments of the results of the programme implementation, both by the Ministry of Education and Science of Russia (the ‘operator’ of this field of support) and by a number of experts, is generally positive. In particular, they highlighted the mass creation of small innovative enterprises supported by higher education institutions, the wide involvement of employees and students of higher education institutions in the activities of such companies, the fairly large-scale manufacture of high-tech products, and the dynamic growth in the volume of works and services of the innovative infrastructure organisations.¹ Additionally, the implementation monitoring system of the programme received a positive response.²

¹ Ministry of Education and Science of the Russian Federation. Report on the Results and Key Areas of Activity of the Ministry of Education and Science of the Russian Federation for 2014-2016. 2013. <http://минобрнауки.рф/%D0%B4%D0%BE%D0%BA%D1%83%D0%BC%D0%B5%D0%BD%D1%82%D1%8B/4693/%D1%84%D0%B0%D0%B9%D0%BB/2074/%D0%94%D0%A0%D0%9E%D0%9D%D0%94-2014.pdf>; Ministry of Education and Science of the Russian Federation. Report on the Results and Key Areas of Activity of the Ministry of Education and Science of the Russian Federation for 2015-2017. 2014. http://минобрнауки.рф/%D0%B4%D0%BE%D0%BA%D1%83%D0%BC%D0%B5%D0%BD%D1%82%D1%8B/4692/%D1%84%D0%B0%D0%B9%D0%BB/2982/%D0%94%D0%A0%D0%9E%D0%9D%D0%94_%D0%9C%D0%B8%D0%BD%D0%BE%D0%B1%D1%80%D0%BD%D0%B0%D1%83%D0%BA%D0%B8_24-03-14_1.doc; Andreev Yu. About the Results of Monitoring of Programmes for Development of the Innovative Infrastructure of Higher Education Institutions. *Innovation Theory and Expert Review: Scientific Works*. 2013. No.1 (10).

² Andreev Yu., Lukashova N. The Problem of Monitoring of Effects of Activities of Higher Education Institutions. *Innovation Theory and Expert Review: Scientific Works*, 2014, No. 1.

Creation and activities of technology platforms

In mid-2010 the state started implementing measures aimed at a ‘reproduction’ under Russian conditions of the long-term tool successfully applied in the EU for prioritisation of R&D areas which are in demand for business, and a consolidation of the efforts of business, science and state in these areas – technology platforms. Platforms created in Russia were designated to stimulate the efforts of the main interested parties – business, science, state and civil society – for the expansion of R&D funding and the creation of advanced commercial technologies, products and services through, among other things, extending scientific and industrial cooperation and the formation of new partnerships in the innovation sector. For this purpose, each technology platform envisaged the development of a strategic research programme defining both medium-term and long-term R&D priorities and providing for the setting-up of mechanisms for scientific and industrial cooperation and the creation of an organisational structure ensuring the necessary conditions for realisation of the interaction between enterprises, scientific and educational organisations. The central link within such a structure was supposed to be a technology platform coordinator – an organisation carrying out management and information support for interactions between the platform participants. Technology platforms could be created by initiative ‘from above’ (federal and regional government authorities) and ‘from below’ (companies, scientific and educational organisations, development institutes, business associations, etc.). The procedure for the creation of technology platforms was, in fact, authorisation-based – they were included in a special-purpose list by the Government Commission for High Technology and Innovation, on the basis of the review of relevant applications by a working group.¹

In 2011-2013 the Government Commission (and the Presidential Council for Economy Modernisation and the Innovation-Driven Development of Russia, that replaced it) made decisions on the inclusion in the list of 34 technology platforms,² almost one third of which were related to the energy sector (including nuclear) and the extraction and processing of natural resources. At the same time, some areas of considerable social significance, such as construction (except for road construction) or solutions to the complex problems of urban development, remained almost ‘unrepresented’ by technology platforms. In most cases platform coordinators were the largest state-owned companies and corporations (RZD, Rosatom), universities (Lomonosov Moscow State University, Gubkin Russian State University of Oil and Gas) and academic centres (Kurchatov Institute, VIAM (Scientific Research Institute of Aviation Materials)).

It is important to note that initially no special measures and tools of support were envisaged for the technology platforms. It was established only that government authorities would provide institutional, management and consulting support for the activities of technology platforms while the platforms themselves would develop proposals intended to improve public policy in the scientific-technical and innovation sector, including those in relation to the specification of government-supported areas of R&D, the perfection of mechanisms for stimulating innovative activities, the improvement of technical regulation, the determination of future

¹ Procedure for Creation of a List of Technology Platforms (approved by the Decision of the Government Commission for High Technology and Innovation of 3 August 2010, Minutes No. 4).

² Decisions of the Government Commission for High Technology and Innovation of 1 April 2011, Minutes No. 2, of 5 July 2011, Minutes No. 3, of 21 February 2012, Minutes No. 2; Presidium of the Council at the President of the Russian Federation for Economy Modernisation and Innovation-Driven Development of Russia of 20 November 2012, Minutes No. 1, of 31 July 2013, Minutes No. 2.

requirements for the qualities of products purchased for state purposes, the specification of programmes for the innovation-driven development of large state-owned companies (see below), and the areas and principles of support for the development of scientific-technical and innovative activities by state institutes. Moreover, the results of the activities of the technology platforms were supposed to be taken into account in the planning and implementation of state support measures aimed at ensuring socio-economic development and the improvement of scientific-technical and innovative activities. At the same time, the lack of a pre-determined set of tools for supporting the technology platforms did not imply any principal refusal by the state to determine this; quite the opposite, the working group responsible for the selection of technology platforms was required to prepare proposals on state support measures and their contribution to the effective implementation of the technology platforms.

The first tool of ‘field-specific’ support for technology platforms was the Russian Foundation for Technological Development that resumed its activities in 2011¹: in its ‘new life’ it was oriented mainly towards supporting projects (in the form of easy loans for the conduct of R&D) approved by the technology platforms. To date, the Foundation has participated in funding 18 such projects, out of which 16 were initiated by six technology platforms: Photonika, Medical Science of the Future, Materials and Technologies of Metallurgy, Bioindustry and Bioresources, Small Distributed Generation and Environmentally Friendly Thermal Energy.

In 2012 the issue of the involvement of technology platforms in the ‘sphere’ of the implementation of public policy in particular sectors and areas of activity attracted the attention of government authorities at the highest level: within the framework of one of the ‘programme-oriented’ Decrees of the President of the Russian Federation adopted in May 2012 (known as the ‘May Decrees’), the Government of the Russian Federation was given an assignment to link the state development programmes in the industrial and agricultural sector and the strategies for development of the leading sectors of the economy with the top-priority technology platforms (and the pilot projects of the regional innovation clusters – see below).²

In the second half of 2012, technology platforms were involved in the process of formation of a set of topics of problem-oriented exploratory research supported within the framework of the Federal Target Programme ‘Research and Development in Priority Areas of Development of the Scientific-Technological Complex of Russia for 2007-2013’: the coordinators of the platforms submitted relevant proposals to the Ministry of Education and Science of Russia for review, on the results of which, in 2013, over 400 works were financed for the total amount of about Rb 3bn. Around two thirds of the projects were based on the proposals of 8 technology platforms: Medical Science of the Future, Materials and Technologies of Metallurgy, Radiation Technologies, Bioindustry and Bioresources, Environmentally Friendly Thermal Energy, the National Information Satellite System, Small Distributed Generation and Environmental Development Technologies. The major proportion of the contractors (over 80%) was represented by large state-owned scientific and educational organisations.

Support for R&D carried out in the interests of technology platforms continued in 2014 – already within the framework of the new Federal Target Programme ‘Research and Development in Priority Areas of Development of the Scientific-Technological Complex of Russia for 2014-2020.’ Then, in respect of initiated projects a requirement was established for compli-

¹ Five years earlier the Foundation almost ceased its activities due to problems of legal nature.

² Decree of the President of the Russian Federation of 7 May 2012 No. 596 ‘On Long-Term Public Economic Policy.’

ance with strategic programmes for the development of technology platforms (officially confirmed by the coordinator of the relevant platform). The duration of the support of projects was limited to 3 years, with the maximum volume of budgetary funding for each project being Rb 15m per year. Furthermore, at least half of the cost of the projects should be covered by non-budgetary co-funding, with at least 20% of the non-budgetary funds being referred for funding R&D. Each project should be oriented towards a particular consumer – a real-sector enterprise providing at least 10% of the non-budgetary co-funding. In 2014 about 150 projects were initiated, with the total volume of budgetary funding in the first year of implementation amounting to about Rb 2bn. It is remarkable that, as in 2013, the major proportion of the contractors (over 80%) was represented by large state-owned scientific and educational organisations.

We should note that the creation and development of technology platforms in Russia were carried out in a somewhat different manner from that in the EU. In foreign practice the key factors considered in the creation of technology platforms are the current and forecasted business needs in new technologies, while the support of the activities of the platforms remains within the common ‘context’ of the scientific and technical and innovation policy. In Russia, by contrast, the creation of technology platforms was initially related to the basic scientific and technological priorities of the state (priority areas of development of science, technology and engineering and a list of critical technologies), while research aimed to contribute to the development of platforms was supported on special grounds – within the framework of special-purpose procedures and tenders. In general, while European technology platforms are rather a tool of technological and industrial policy, oriented towards the formation of new sources of sustainable growth,¹ Russian platforms, to a much greater extent, represent aspects of the scientific and technological policy of the state.²

It should be admitted that, despite the obvious ‘ideological’ novelty of technology platforms for Russian innovation policy, in practice their creation and development fits quite well the traditional Russian model of the public stimulation of innovation being directed towards the priorities established by the state, and existing large players, and the provision of ‘perceivable’ socio-economic effects with the creation of special-purpose channels of public support. On the one hand, this can hardly be said to be unexpected, but, on the other hand, when creating the principally new (at least for Russia) tool of innovation policy that technology platforms were meant to be, it would be reasonable, in our opinion, at least to try to use new approaches and principles in its organisation.

At the moment, the activities of technology platforms have revealed a number of risks that had been noted by experts at the initial stage of their formation. For example, the priority areas for the creation of platforms were, mainly, predetermined ‘at the top’, the major part of platforms turned out to be too ‘secluded’ within the framework of in-country cooperation, and the attempts of platforms to ‘capitalise’ on their status in the form of the receipt of public support³ became apparent. At the same time, it should be noted that not all of the concerns which

¹ Simachev, Yu., Kuzyk, M., Kuznetsov, B., Pogrebnyak, E. Russia Is on the Way to New Technological and Industrial Policy: Among Attractive Prospects and Fatal Traps. *Foresight*, 2014, No. 4.

² Lenchuk, E. Technology Platforms as a New Tool of Scientific and Technological Policy of Russia. In the book: *Effective Public Administration in the Conditions of the Innovative Economy: Policy of Innovation-Driven Development*. Edited by S.N. Silvestrov, I.N. Rykova. Moscow: Dashkov and Co., 2011.

³ Simachev, Yu. Areas of Lending Best Practice of European Technology Platforms: Problems and Opportunities. Presentation to the Report at the Seminar of NRI-HSE ‘European Experience of Formation and Functioning

were raised actually turned out to be true in practice: the extent of creation of technology platforms did not go beyond reasonable limits and the participation of the state in their development was not limited to simple approval of the relevant list.

In general, there is no obvious dominance of positive or negative evaluations in expert opinions in respect of the results of the creation and activities of technology platforms. In particular, among the significant achievements of technology platforms were: the organisation of productive interaction between representatives of the state, science and business communities, the mutual explanation of interests of the parties, agreements on positions and views on the development of relevant technological areas, including for the long-term.¹ As a rule, critics note the excessive ‘deviation’ of Russian technology platforms from the European prototype, their insufficient linkage with other elements of the innovation system, excessive emphasis on the attraction of budgetary resources and the weak participation of private business in their formation and development.² However, even the sceptics frequently accept the positive impact of the creation and activities of technology platforms on the intensity of interaction between science and industry.³

Formation and monitoring of the programme for innovation-driven development of the largest state-owned companies

Along with technology platforms, the ‘active agenda’ of public innovation policy was supplemented in mid-2010 by another area directly related to the development of scientific and industrial cooperation: 47 of the largest companies in the public sector were assigned to develop and integrate into their business strategy, mid-term programmes for innovation-driven development (IDP) aimed at developing and implementing world class new technologies, innovative products and services, and at innovation-driven development within the relevant sectors. Each programme should have provided for considerable improvement of the key performance indicators of manufacturing activities: reduction in the costs of products and services by at least 10%, the rational use of energy resources, increased labour productivity, environmentally friendly manufacturing and an improvement in the consumer-friendly properties of manufactured products. When determining the target values for energy consumption and labour productivity indicators, the companies were supposed to refer to the equivalent aspects of similar foreign companies.

of Technology Platforms and Prospects of Distribution of Best Practices in Russia’, Moscow, 2 December 2010 <http://www.iacenter.ru/publication-files/100/78.pdf>

¹ Inter-Departmental Analytical Centre. Certain Conclusions and Recommendations on Improvement of the Institute of Technology Platforms. Summary of the Round Table ‘Technology Platforms as a Tool of Development or Private and Public Partnership in Innovation Sector,’ Nizhny Tagil, 10 September 2011 <http://www.iacenter.ru/publication-files/154/130.pdf>; Chekmarev, V. Harmonisation of Industrial Policy and Processes of Reindustrialisation. Bulletin of the Nekrasov Kostroma State University, 2014, No. 6.

² Lenchuk, E. Technology Platforms as a New Tool of Scientific and Technological Policy of Russia. In the book: Effective Public Administration in the Conditions of the Innovative Economy: Policy of Innovation-Driven Development. Edited by S.N. Silvestrov, I.N. Rykova. Moscow: Dashkov and Co., 2011; Dushin, A. Institutes of Development of Resource-Producing Regions under the Conditions of Neoindustrialisation. News of the Ural State Mountain University, 2014, No. 4; Lebedev, A. Russian Practice and Tools of Self-Funding of Scientific and Technical and Innovation Activities. Bulletin of the Tver State University. Series: Economy and Management, 2014, No. 4.

³ Lenchuk, E. Technology Platforms as a New Tool of Scientific and Technological Policy of Russia. In the book: Effective Public Administration in the Conditions of the Innovative Economy: Policy of Innovation-Driven Development. Edited by S.N. Silvestrov, I.N. Rykova. Moscow: Dashkov and Co., 2011.

Considerable attention in the programmes should have been paid to measures aimed at developing cooperation between the companies and higher education institutions and, to a somewhat lesser extent, between the companies and scientific organisations: in particular, it was proposed to determine priority areas for cooperation and to prepare joint research programmes. In this regard, it was proposed to include in the IDP indicators performance indicators characterising the interaction with external sources of development and innovation: the number of innovative proposals from third-party organisations and the percentage of sales of external developments in the total sales. Moreover, ‘cross-participation’ of the representatives of companies, scientific organisations and higher education institutions in collegial management bodies and consulting authorities was mentioned as a possible organisational mechanism of the development of such interaction. Finally, the programmes were supposed to envisage participation of companies in the creation and activities of technology platforms.¹ The implementation of the programmes for innovation-driven development was the subject of annual monitoring on the part of the Government Commission for High Technologies and Innovations (for the 22 largest and most significant companies) or the relevant sector departments for which the companies were required to submit reports on the progress of their IDP implementation.²

It is important to note that initially the companies were required to publish their programmes for innovation-driven development – the relevant requirement arose as early as within one year and related, not to the full texts of the programmes, but only to their summaries (‘passports’) and lists of planned innovative projects and R&D areas.³

In early 2012 the list of companies developing programmes for innovation-driven development increased by about a quarter – up to 60 companies, mainly, through extension of the first ‘elite’ group of companies, for which the IDPs are monitored by the Government Commission.⁴

It is quite difficult to speak about the results of programmes for innovation-driven development because, as a rule, the companies not only do not disclose the content of the reports on IDP implementation, but they even refrain from publishing the full texts of the programmes, confining themselves only to programme ‘passports’. For this reason any detailed expert estimates of the effectiveness of IDPs are currently almost non-existent.

Possibility to form reserves for future R&D expenses

From the beginning of 2012 organisations were provided an opportunity to reduce the amount of their profits subject to tax through creating reserves for future R&D expenditure.

¹ Recommendations for Designing Programmes for Innovation-Driven Development of State-Owned Joint-Stock Companies, State-Owned Corporations and Federal State Unitary Enterprises (approved by the Decision of the Government Commission for High Technology and Innovation of 3 August 2010, Minutes No. 4).

² Regulation on the Procedure for Monitoring of Development and Implementation of Programmes for Innovation-Driven Development of State-Owned Joint-Stock Companies, State-Owned Corporations and Federal State Unitary Enterprises (approved by the Decision of the Government Commission for High Technology and Innovation of 3 August 2010, Minutes No. 4).

³ List of Assignments of the President of the Russian Federation Based on the Results of a Meeting of the Commission at the President of the Russian Federation for Modernisation and Technological Development of Economics of Russia, 3 November 2011, No. Pr-3291.

⁴ Amendments to the List of State-Owned Joint-Stock Companies, State-Owned Corporations and Federal State Unitary Enterprises Designing Programmes for Innovation-Driven Development (approved by the Decision of the Government Commission for High Technology and Innovation of 30 January 2012, Minutes No. 1).

The amount of such reserves may not exceed 3% of the sales revenues, with their term being limited to 2 years. It should also be noted that for the creation of a reserve the taxpaying company should develop and approve a programme for the conduct of its R&D.¹

The key advantage of the relief in question is stimulation of the planning of R&D and a certain simplification of the relevant budgeting. At the same time, the main disadvantages of the mechanism for small and newly created companies are both the relatively small maximum amount of the payments for reserve creation and its link to sales revenues, while for large businesses the maximum 2-year term of the reserving of funds may seem insufficient.

Support for programmes for developing regional innovation clusters

In 2012 Russian innovation policy ‘put into service’ another tool successfully applied abroad – regional innovation clusters. The territorial proximity of such companies and participating organisations along with the availability of the scientific and manufacturing chain in one or more sectors uniting both them and the mechanism of coordination of the activities and cooperation of the cluster participants were established as the key characteristics of a cluster. Moreover, a cluster was expected to provide a synergistic effect, manifesting itself as an increase in the economic efficiency and effectiveness of the activities of each enterprise or organisation through the high degree of their concentration and cooperation.

As in the case of technology platforms, a cluster was supposed to have a central element – an organisation ensuring methodological, organisational, expert, analytical and informational support for the development of the cluster. In addition, within each cluster a coordinating body was to be created – a council including representatives, not only of the key participants of the cluster, but also of the government authorities.

The core document of a cluster is its development programme, including, in particular, measures for the development of R&D, the system of personnel training, the manufacturing potential of the cluster and its infrastructure.

It is remarkable that, as opposed to the technology platforms, public support for the development of clusters was declared from the very beginning.²

We should note that prior to the official documenting of the first (and still the only) ‘series’ of clusters, the President of the Russian Federation assigned the Government to link state programmes for the development of industrial and agricultural sectors and the strategy of development of the leading sectors of the economy with the pilot regional innovation clusters projects.³

In mid-2012, based on the tender results, 25 pilot regional innovation clusters were selected.⁴ At the same time, the the ‘Rules for the Distribution and Provision of Subsidies from the Federal Budget to the Budgets of the Constituent Entities of the Russian Federation for the

¹ Federal Law of 7 June 2011 No. 132-FZ ‘On Making Amendments to Article 95 of Part I, Part II of the Tax Code of the Russian Federation in Respect of Creation of Favourable Tax Conditions for Innovation Activities and Article 5 of Federal Law ‘On Making Amendments to Part II of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation.’

² Procedure for the Creation of a List of Pilot Programmes for Development of Regional Innovation Clusters (approved by the Decision of the Working Group for Development of Private and Public Partnership in Innovation Sector of 22 February 2012, Minutes No. 6-AK).

³ Decree of the President of the Russian Federation of 7 May 2012 No. 596 ‘On Long-Term Public Economic Policy.’

⁴ Assignment of the Chairman of the Government of the Russian Federation of 28 August 2012 No. DM-P8-5060.

Implementation of Measures Provided by Programmes for the Development of Pilot Regional Innovation Clusters' adopted in early 2013¹ provided for the allocation of funds to support only 15 clusters. The relevant funding volume in 2013 amounted to Rb 1.3bn. However, in 2014 the list of recipients of support already included 25 clusters² and the amount of funds allocated from the federal budget was Rb 2.5bn.

As in the case of other tools of public support, significant interest in the activities of the clusters was shown by the largest state-owned structures, such as Rosatom, Gazprom, RSC Energia, Kurchatov Institute, etc.

In general, it must be admitted that, as with the other cooperation and communication tool assimilated from foreign practice – technology platforms – Russian innovative clusters were 'designed' on the basis of a traditional (Russian) approach which places a focus on the existing leaders, and creation of special-purpose channels of direct public support. However, despite a number of sceptical assessments of the effectiveness of the approach used in Russia for the implementation of the cluster policy³ in respect of the functioning of certain clusters, some positive effects have also been noted, primarily in respect of the increased effectiveness of communications between business, education and government authorities.⁴

6.4.3. Peculiarities of public policy for stimulating scientific and industrial cooperation; inherent problems and lessons for the future

When considering the practical results of the implementation of the different areas of public stimulation of scientific and industrial cooperation, their strengths and weaknesses (*Table 20*), we should firstly note the 'local nature' of the successes reached: even the largest-scale mechanisms, whether through engaged resources (mega-projects) or subjective coverage (VAT and profit tax relief) failed to ensure particularly significant effects, such as the mass implementation of new technology (at the level of industry or sector) or a considerable expansion of R&D funding.

Secondly, with the undoubtedly positive influence of measures taken by the state for the development of scientific and industrial cooperation, one should take into account that in most cases this development was nothing but 'capitalisation' of the already existing business connections which had arisen as early as in the Soviet period.

Thirdly, a distinctive feature of substantially all the financial mechanisms (including 'quasi-state' support by development institutes) was the strict limitation in respect of possible forms of use of allocated resources and the attempt at strict documentation of target results, limiting attention on the possible indirect positive effects.

¹ Approved by Resolution of the Government of the Russian Federation of 6 March 2013 No. 188.

² Resolution of the Government of the Russian Federation of 15 September 2014 No. 941 'On Making Amendments to the Rules for Distribution and Provision of Subsidies from the Federal Budget to the Budgets of Constituent Entities of the Russian Federation for Implementation of Measures Envisaged by Programmes for Development of Pilot Regional Innovation Clusters.'

³ See, for example, Korolev, V. Regional Innovation Clusters: Foreign Experience and Russian Conditions. *Russian Foreign Economy Bulletin*, 2013, No. 11; Ivanova, V., Tarasenko, V., Khafizov, R. Influence of Clusters on the Competitiveness of the Economy of Constituent Entities of the Russian Federation. *News of the Volgograd State Technical University*, 2014, vol. 20, No. 17.

⁴ Ayupov, A., Mikhailov, R. The Mixed Model of Development of an Economic Cluster (on the example of the Kama Regional Innovation and Manufacturing Cluster). *Bulletin of the Tatischev Volga University*, 2013, No. 4 (29).

Table 20

Strength and weaknesses of key areas of public policy for stimulating scientific and industrial cooperation

Area	Strengths, successes	Weaknesses, problems
Key innovation projects of national significance	<ul style="list-style-type: none"> • Large scale of projects and long terms of implementation, significant volumes of support • Coverage of several stages of the innovation cycle – from product and development to their application in production • Emphasis on the real commercialisation, orientation towards the creation of products and technologies demanded by the market • Long period of application, proven processes • Creation of a range of new industrial facilities, considerable sales of new and improved products 	<ul style="list-style-type: none"> • Problems of distribution of rights to results of intellectual activity • Limited possibilities for the use of allocated budgetary resources • Deficit of well-developed ideas and solutions suitable for initiation of projects • Particularly frequent change of the rules and conditions of support, sometimes in the course of project implementation • As a rule, the ‘local’ nature of successes and achievements
TEMP Programme	<ul style="list-style-type: none"> • Strict orientation towards the real commercialisation, introduction of new products to the market • Sufficiently long duration of supported projects • Partner organisations are selected by the company implementing the project • Substantial (as compared to the size of support) volumes of new and improved products • Assurance of receipts to scientific organisations and higher education institutions holding the licences • Possibility of participation of large companies (in consortium with small ones) 	<ul style="list-style-type: none"> • Possibility to use only already existing R&D results in projects • Possibility to acquire licences only from public organisations • Limited possibilities to use allocated resources
PUSK Programme	<ul style="list-style-type: none"> • The composition of project participants was determined by the participants themselves, suggesting mutual interest in cooperation • Personnel support by higher education institutions of developments transferred to companies, employment of trained specialists • Adaptation of development technologies to the needs of a particular company, support for their implementation • Support of both sides of a partner project 	<ul style="list-style-type: none"> • Limited experience of application • Insignificant size of projects • Limited possibilities to use allocated resources • ‘Split’ of projects into two separate parts with different contractors and customers • Risk of conflicts between the developer and consumer of the technology at the stage of its transfer and implementation
Softening of the accounting procedure for R&D costs when determining taxable profit	<ul style="list-style-type: none"> • Wide circle of beneficiaries • Relevant simplicity of application and administration • Stimulating influence of R&D costs of the business 	<ul style="list-style-type: none"> • Not an actual relief
Projects for commercialisation of technologies in thematic areas proposed by the business community	<ul style="list-style-type: none"> • Orientation towards the satisfaction of business needs, real commercialisation of created products and technologies • Increase in production of new and improved products 	<ul style="list-style-type: none"> • ‘Secondary’ role of the initiating company in selection of a contractor to conduct R&D and acceptance of work results; risk of obtaining results which do not correspond to the initiator’s interests • Limited possibilities of using allocated budgetary resources • Limited experience of application, small number of launched of projects
R&D projects in thematic areas proposed by the business community	<ul style="list-style-type: none"> • Sufficiently large scale and long term of application, proven procedures 	<ul style="list-style-type: none"> • ‘Secondary’ role of the initiating company in selection of a contractor to conduct R&D and acceptance of work results; risk of obtaining results which do not correspond to the initiator’s interests • Limited possibilities for use of allocated budgetary resources • No obligations for commercialisation of obtained results
VAT relief for certain types of R&D	<ul style="list-style-type: none"> • Wide circle of beneficiaries • Stimulation of creation of new or improvement of existing products and technologies • Relevant simplicity of application • Significant scales of application 	<ul style="list-style-type: none"> • ‘Selectiveness’ of application – by certain types of works

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Area	Strengths, successes	Weaknesses, problems
Profit tax relief for costs on R&D included in a special-purpose list	<ul style="list-style-type: none"> • Wide circle of beneficiaries • Stimulation of R&D in thematic areas being of top priority for the state • Until 2012 – relevant simplicity of application • Dynamic growth of scales of application up to and including 2011 	<ul style="list-style-type: none"> • ‘Selectiveness’ of application – by compliance of the R&D subject with the special-purpose list of thematic areas • Since 2012 – excessive complication of the procedure for application and administration
Stimulation of creation by of inculcation companies budgetary scientific and educational institutions	<ul style="list-style-type: none"> • Orientation towards the commercialisation of R&D results • Significant number of created inculcation companies • High demand by higher education institutions 	<ul style="list-style-type: none"> • Low activity of budgetary science institutions • Nominal nature and non-viability of a considerable proportion of the created companies
Support for cooperation between higher education institutions and state scientific institutions within the framework of projects for the creation of advanced manufacturing facilities (‘Mechanism 218’)	<ul style="list-style-type: none"> • The composition of project participants was determined by participants themselves, suggesting mutual interest in cooperation • The initiating company orders R&D itself, which lowers the risk of obtaining results not meeting its needs • Orientation towards the creation of advanced manufacturing facilities, production of new and improved products, involvement of students and post-graduates to the conduct of R&D, publication activities • Sufficiently large scale and long term of application, proven procedures • Major participation in implementation of employees of higher education institutions, students and post-graduates, creation of a significant number of new jobs, sufficiently high publication activity • Stimulation of mutual interest of companies and higher education institutions to interact • Strengthening of orientation of research activities of higher education institutions towards real business needs • Building top-of-the-agenda research, engineering and educational capabilities of higher education institutions 	<ul style="list-style-type: none"> • Too strict limitations in respect of the composition of R&D contractors: until 2012 – only higher education institutions, from 2012 – higher education institutions and state scientific institutions • Excessive emphasis on assurance of a considerable (and often major) share of R&D in the project structure • Limited possibilities to use allocated budgetary resources • Reduction of the maximum value of budgetary subsidies from Rb 300m (2010, 2012) to Rb 190m (2013) and then Rb 160m (2014) • Insufficiently flexible funding structure of projects initiated in 2013 and 2014 • Formal nature of a part of partnerships, non-viability of certain projects • Problems with distribution of rights to the results of intellectual activity among participants
Support for development of the innovation infrastructure of higher education institutions	<ul style="list-style-type: none"> • Wide spectrum of possible areas of use of budgetary funds • Sufficiently developed and effective system for monitoring of results • Mass creation of small innovative firms, wide employment in their activities of employees and students of higher education institutions, substantially significant scales of manufacturing of high-tech products, dynamic growth of volumes of works and services of organisations of the innovation infrastructure 	<ul style="list-style-type: none"> • Perhaps, excessive orientation towards the support of small innovative firms
Creation and support of activities of technology platforms	<ul style="list-style-type: none"> • Application of successful international experience • Development of communication between the state, science and business, contribution to approximation of their views • Facilitation of long-term R&D planning • Reasonable number of platforms 	<ul style="list-style-type: none"> • Dominating orientation towards scientific and technological priorities of the state, rather than business needs • Excessive orientation towards large public players (companies, scientific centres, higher education institutions) and their interests • No coverage of a number of socially important areas • Relatively weak involvement of private business • In some cases – insufficient attention to development of international cooperation • Emphasis on attraction of public resources
Development and monitoring of programmes for innovation-driven development of the largest state-owned companies	<ul style="list-style-type: none"> • Determination of particular areas of innovation-driven development and modernisation of the largest state-owned companies on the medium-term perspective • Orientation towards similar foreign companies, 	<ul style="list-style-type: none"> • Closed nature of a major part of programmes and results of their implementation; no public discussion

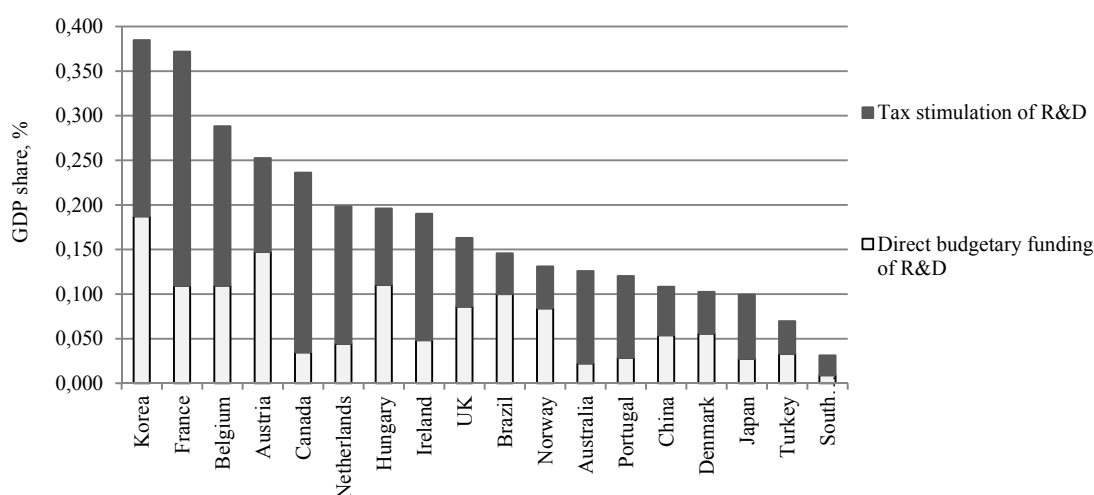
Area	Strengths, successes	Weaknesses, problems
	considerable improvement of the effectiveness of manufacturing activities	
Possibility to reduce taxable profit through creating reserves for future R&D	<ul style="list-style-type: none"> • Wide circle of beneficiaries • Relevant simplicity of application and administration • Stimulating influence of R&D planning, simplification of relevant budgeting 	<ul style="list-style-type: none"> • Too strict limitations in respect of the amount of payments to create reserves and periods of their existence
Support of programmes for development of regional innovation clusters	<ul style="list-style-type: none"> • Application of successful international experience • Positive influence on interaction between business, science, education and government 	<ul style="list-style-type: none"> • Excessive orientation towards large public players (companies, scientific centres, higher education institutions) and their interests • Emphasis on attraction of public resources

Source: prepared by the authors.

In general, the analysis of the set of tools of public support for scientific and industrial cooperation applied in the last fifteen years allows us to make *a number of observations*.

Firstly. The set of measures of public stimulation of interaction between science and business, as with Russian innovation policy in general, was characterised by excessive ‘focus’ on direct financial support tools. It is remarkable that some of the areas of implemented policy that had not initially been designed to provide direct financial support (stimulation of the creation of incubation companies by budgetary scientific and educational institutions and the activities of technology platforms) over time acquired ‘financial component’.

It is important to note that in many foreign countries tax measures play a significant (and often major) part in stimulating the R&D expenditure of businesses (*Fig. 1*). In Russia the situation is different: in 2012 the volume of budgetary revenues not received due to the above tax reliefs was only about Rb 5bn, while direct budgetary funding of R&D within the framework of the highlighted tools for stimulating cooperation exceeded Rb 14bn.



Source: (OECD, 2014).

Fig. 1. Public stimulation of R&D costs of businesses in a number of foreign countries in 2012

One should take into account that tax and financial tools of support have different ‘target audiences’ and, generally speaking, lead to different results. Financial measures are *a priori* designated for a smaller circle of beneficiaries than tax incentives and require expenditure on the selection of recipients of support and means of control of the allocated spending. At the

same time, financial mechanisms allow for providing point-wise and selective support, mitigating the risks taken by the recipients.¹ As evidenced by results of empirical research, direct budgetary funding of R&D ensures longer-term effects as compared to tax incentives.² Financial support more often ‘pushes’ companies to initiate new projects and contributes to mitigation of the risks of their implementation,³ while tax tools mostly stimulate investments in existing projects.⁴

Secondly. The crisis of 2008-2009 resulted in ‘rethinking’ by the state of its role in ensuring economic development and the appropriate optimal model for stimulating innovation. While before, innovation policy had been built within the framework of the model (let us nominally call it ‘consolidating’), suggesting orientation towards priorities set by the state, existing large players, the assurance of ‘perceivable’ socio-economic effects and the creation of special-purpose channels of support, at the stage of crisis and post-crisis recovery actions of the state acquired signs of a new ‘search-oriented’ model (*Table 21*). This was distinguished by its orientation towards the identification of new areas of scientific-technological development, new growth drivers based on the demands of business and society, the formation of new groups of interests and the ‘horizontal’ nature of the relationship with the state.⁵

Table 21

Alternative models of innovation policy formation

Consolidating model	Search-oriented model
Consolidation of efforts on implementation of already formed areas of technological development	Identification of new promising areas of scientific-technological development, new growth drivers, structuring of interests of business and science
Key driver – state priorities and programmes	Key driver – demand from business and society
Interaction with the state occurs in accordance with the ‘classic’ scheme – top-down	Interaction with the state are of ‘horizontal coordination’ nature
Orientation towards the key leaders – economic or scientific and technological	Orientation towards groups of leaders, including those under formation
Participants are united around leaders	Participants are united by common vision of promising area of development
Direct results are important (number of created companies, production and export volumes, employment)	Indirect effects are important (demonstration, institutional effect, agreed vision), change in the attitude towards innovations
Combination of the initiative ‘from above’ (from the state) and ‘from below’ (from large companies and organisations)	Initiative comes ‘from below’, from medium and small businesses, business unions and associations
Priority of direct support tools	Considerable attention is paid to indirect and coordinative tools

Source: prepared by the authors.

A range of areas and tools of public innovation policy initiated in the period from 2008 to 2012 (normative stimulation of creation by budgetary scientific and educational institutions of inculcation companies, ‘Mechanism 218’, technology platforms, regional innovation clusters,

¹ See, for example, Berube, C., Mohnen, P. Are firms that receive R&D subsidies more innovative? UNO-MERIT Working Paper Series No. 15, 2007.

² Guellec, D., Van Pottlesberghe, B. The impact of public R&D expenditure on business R&D. *Economics of Innovation and New Technologies*, 2003, 12 (3).

³ Simachev, Yu., Kuzyk, M., Feigina, V. Public support for innovation in Russia: What Can Be Said about the Influence of Tax and Financial Mechanisms on Companies? – *Russian Management Journal*, 2014, vol.12, No.1.

⁴ Guellec, D., Van Pottlesberghe, B. The impact of public R&D expenditure on business R&D. *Economics of Innovation and New Technologies*, 2003, 12 (3); Jaumotte, F., Pain, N. An Overview of Public Policies to Support Innovation. OECD Economic Department Working Paper No. 456, 2005.

⁵ Simachev, Yu., Kiselev, V. Technology platforms: the case of a system innovation in Russia. OECD System Innovation Project Template workshop, Helsinki, Finland, November 29, 2013. <http://www.iacenter.ru/publication-files/192/171.pdf>

etc.) was initially in compliance with the 'ideology' of the search-oriented model. However, in practice, almost all of these mechanisms were implemented in accordance with the principles of the traditional consolidating model. For instance, the 'soft' mechanism of stimulating budgetary institutions soon 'acquired' relevant target indicators, while in the creation of technology platforms and their activities the orientation towards priorities set by the state, existing large players and building special-purpose channels of public support became apparent.

Thirdly. Along with the evolution of a public 'cooperative' policy, in general, it is important to note the significant development of its complete range of areas and tools (*Table 22*). However, not in all cases should the results of such development be recognised as totally positive. For example, the gradual softening of the procedure for writing off R&D costs and the supplementation of the notification-based procedure for the creation of inculcation companies by budgetary institutions with the wider rights of the latter in respect of property disposal, undoubtedly, expanded the potential for the use of these mechanisms and promoted their contribution to the development of scientific and industrial cooperation. In the case of the mechanism of public support for the cooperative projects of companies and higher education institutions the situation does not look so unambiguous. On the one hand, inclusion of state budgetary institutions in the circle of possible business partners allowed increasing the scope of application of 'Mechanism 218'. On the other hand, the reduction of the maximum amount of support firstly to Rb 190m and then to Rb 160m accompanying the introduction of an inflexible funding structure with a maximum in the third year of project implementation, by contrast, decreased the potential of the useful application of this mechanism. Finally, the modification of the mechanism of preferential write-off of expenditure on R&D included in a special-purpose list requiring the submission of reports to the tax authorities complicates significantly both its application and administration.

Table 22

Development of certain areas of public stimulation of scientific and industrial cooperation

Area	Condition before the change	Main changes	Result
Softening of the accounting procedure for R&D costs when determining taxable profit	Writing off R&D costs during 3 years; for R&D that gave no positive results – 70% of costs	<ul style="list-style-type: none"> • Writing off R&D costs, the results of which are used in production, during 2 years; writing off R&D costs that gave no positive results in full • Writing off R&D costs during 1 year • Writing off R&D costs in the tax period of R&D completion 	Extension of the scale and potential of influence
Stimulation of creation by budgetary scientific and educational institutions of inculcation companies	Notification-based procedure for creation by budgetary institutions of business entities	<ul style="list-style-type: none"> • Extension of rights of budgetary institutions in respect of property disposal • Non-competitive procedure for leasing property by budgetary institutions to inculcation companies • Possibility to use simplified taxation system by inculcation companies • Reduction of payment rates to non-budgetary funds for inculcation companies 	Extension of the scale and potential of influence
Profit tax relief for costs on R&D included in a special-purpose list	Writing off R&D costs at 1.5 rate in the period when they are actually incurred	Necessity to submit a report on R&D to tax authorities	Complication of application and administration, reduction of the scale
Support of cooperative projects for creation of advanced manufacturing facilities ('Mechanism 218')	Support of partnerships between companies and higher education institutions, maximum amount of support – Rb 300m (Rb 100m per year)	<ul style="list-style-type: none"> • Inclusion of state scientific institutions in a number of possible partners • Maximum amount of support – Rb 190m (1st year – up to Rb 30m, 2nd year – up to Rb 60m, 3rd year – up to Rb 100m) • Maximum amount of support – Rb 190m (1st year – up to Rb 30m, 2nd year – up to Rb 60m, 3rd year – up to Rb 100m) 	Extension of the scope of application but limiting the scale and potential

Source: prepared by the authors.

We should also note that in creating these new tools of public policy one can often trace a succession from mechanisms initiated earlier, with both their advantages and disadvantages being reproduced. In particular, the programme of support for cooperation of small innovative firms and scientific and educational centres implemented jointly by the Foundation for Assistance to Innovations and Rosnauka, on the one hand, reproduced one of the important merits of the TEMP Programme, namely, the possibility for the participation of a consortium of a small company and larger enterprise and, on the other hand, – replicated a fundamental disadvantage of the PUSK Programme consisting of the separate and isolated support of the two participants in the partner project. However, in some cases, the ‘designing’ of new measures was most probably based on the experience of application of the previously launched mechanisms, including the negative aspects, which enabled avoidance of a repeat of their problems. For example, the mechanism of support for cooperative projects between companies and higher education institutions did not ‘inherit’ the key disadvantage of the tools of R&D funding in the interests of business: now R&D was commissioned not by their direct ‘consumer’ but by the state (*Table 23*).

Table 23

**Comparison of key mechanisms of financial support
of innovative projects**

Commencement of application	Key innovation projects of national significance	Projects for commercialisation of technologies in thematic areas proposed by the business community	Cooperative projects for creation of new manufacturing facilities (mechanism 218)
	2002	2006	2010
Volume of budgetary funding of the project	Formally – up to Rb 500m (in practice in certain cases – up to Rb 600m and more)	Formally up to Rb 300m (in practice – no more than Rb 260m)	Initially – up to Rb 300m, then – up to Rb 190m, then – Rb 160m
Duration of support	Formally – up to 4 years (in practice in certain cases – up to 6 years and more)	Up to 3 years	Up to 3 years
Required level of non-budgetary co-funding	Initially – at least 50%, later – at least 60%	At least 70%	At least 50%
Scale of application	Point-wise – few projects per year	Medium – about 10 projects per year	Significant – up to one hundred projects per year
Features	Large-scale and long duration of projects, strict requirements for end results	Creation of a list of topics for R&D business proposals, tender-based selection of R&D contractors	Participation in the tender of partnerships of companies and higher education institutions (later also state scientific institutions); monitoring period exceeds the support period
Support scheme	A direct recipient of support is the key project contractor that engages required subcontractors	A direct recipient of support is the R&D contractor selected by the state	A direct recipient of support is the project initiating company, which finances R&D of higher education institutions (scientific institutions)

Source: prepared by the authors.

Fourthly. A major part of the selective measures for public stimulation of scientific and industrial cooperation (with the exception of, mainly, ‘highly specialised’ mechanisms – oriented only towards small business, higher education institutions or budgetary institutions) is characterised by the participation of a certain circle of ‘loyal customers’ which, as a rule, are represented by quite large state-owned companies, leading scientific centres (industrial and academic) and certain higher education institutions. This situation reflects a widespread effect

called the ‘Matthew effect’ in the economic literature.¹ It implies that the state, when selecting recipients for support within the framework of a new tool (or round), mainly relies on the companies’ previous history of getting support and their successful fulfilment of undertaken obligations. This results in the creation of quite a narrow circle of companies attractive (in terms of provision of support) to the state, which are regularly granted state funding. However, with the obvious negative influence of the ‘Matthew effect’ on the total number of companies supported by the state, at the level of the beneficiaries, the repeated support gives rather positive results.²

Fifthly. The principally important question, which defines materially the effectiveness of the support provided by the state, is in the degree to which the support provided by the state is ‘additional’ for the innovation activities of the companies. In other words, whether the receipt of support resulted simply in a replacement (or rather ‘displacement’) of private resources with public ones, while the total amount of R&D expenditure actually remains unchanged. At the same time, while in foreign countries the displacement effect is most often seen in the case of direct state funding,³ in Russian practice it is approximately equal for both the financial and tax tools for support.⁴

It seems impossible to receive a comprehensive answer to these questions – at least due to the lack of practice of any comprehensive assessment of results of the application of the various measures of public innovation policy (assessments usually cover only the direct results of support and do not allow us to determine the extent of their ‘complementary nature’). However, certain ideas about this can be obtained on the basis of the data of ‘subjective statistics’ – the results of surveying companies’ chief executives (*Fig. 2*).⁵

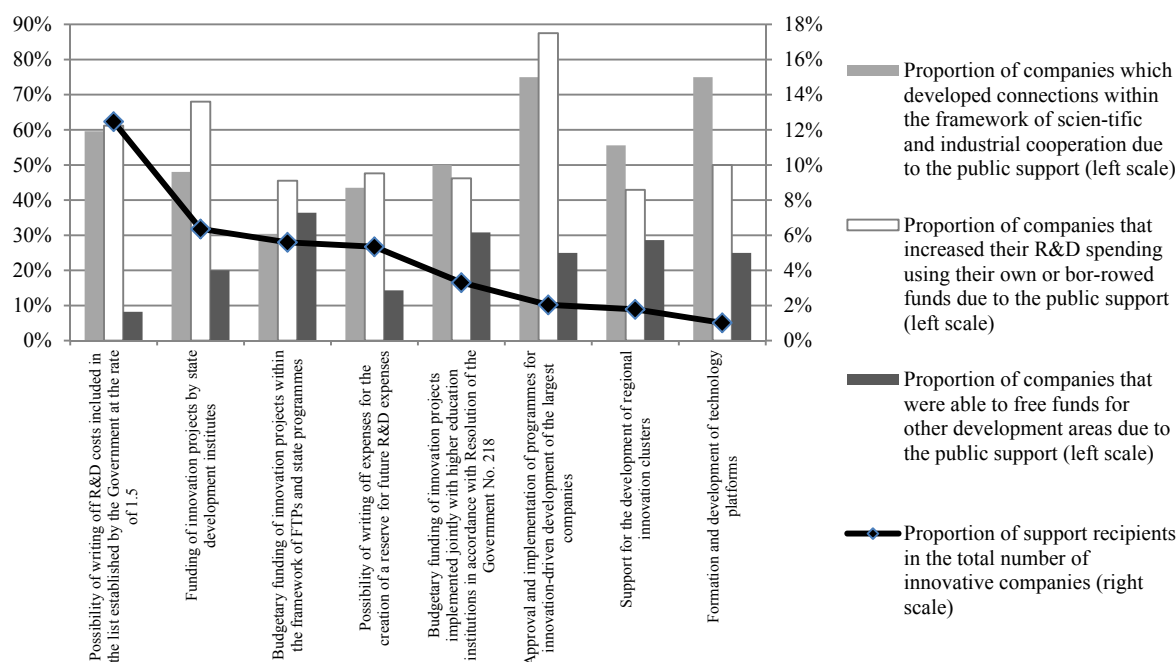
¹ Falk, R. Measuring the Effects of Public Support Schemes on Firms’ Innovation Activities. WIFO Working Paper, Austrian Institute of Economic Research, Vienna, 2006; Aschhoff, B. The effect of subsidies on R&D investment and success: do subsidy history and size matter? ZEW Discussion Paper 09-032, Mannheim, 2009; Antonelli, C., Crespi, F. Matthew effects and R&D subsidies: knowledge cumulability in high-tech and low-tech industries. Working Paper 11/2011, University 'Roma Tre', 2011.

² Falk, R. Measuring the Effects of Public Support Schemes on Firms’ Innovation Activities. WIFO Working Paper, Austrian Institute of Economic Research, Vienna, 2006; Aschhoff, B. The effect of subsidies on R&D investment and success: do subsidy history and size matter? ZEW Discussion Paper 09-032, Mannheim, 2009.

³ See, for example, David, P., Hall, B., Toole, A. (). Is Public R&D a Complement or Substitute for Private R&D? A Review of the Econometric Evidence. *Research Policy*, 2000, 29 (4-5); Lach, S. Do R&D subsidies stimulate or displace private R&D? Evidence from Israel. *The Journal of Industrial Economics*, 2002, 50 (4).

⁴ Simachev, Yu., Kuzyk, M., Feygina, V. Public Support for Innovation in Russian Firms: Looking for Improvements in Corporate Performance Quality. *International Advances in Economic Research*, 2015, vol. 21, issue 1.

⁵ The used data set was obtained on the basis of a questionnaire-based survey of 652 Russian manufacturing companies conducted in the second half of 2012 by the Centre of Market Research of the Institute of Statistic Research and Economic Knowledge of NRU-HSE and commissioned by the Inter-departmental Analytical Centre. The survey was oriented, among other things, on assessment of influence of different measures of public stimulation of innovations on companies. From about 20 measures considered, 8 were related with stimulation of scientific and industrial cooperation (see *Fig. 2*).



Source: calculated by the authors on the basis of the data provided by the Inter-departmental Analytical Centre.

Fig. 2. Scales and effects of application of certain measures of public stimulation of innovations

As it was reasonable to expect, the tax relief for R&D expenditure included in a special-purpose list was characterised by the largest ‘coverage’ while technology platforms and regional innovation clusters were characterised by the smallest, which is also not surprising because both of these areas of support had arisen not so long before the survey was conducted. However, the development of scientific and industrial cooperation in supported companies was, in most cases, happening in the setting of both the application of the said tax relief and their participation in the creation of technology platforms and regional innovation clusters and was connected with the approval and implementation of the programmes for innovation-driven development of the largest state-owned companies. The latter mechanism, along with the support of state development institutes and, again, the profit tax relief for expenditure on R&D included in the special-purpose list, was characterised by its positive connection with the additional R&D spending of the supported companies. Finally, the displacement of private resources with public was most often observed with the use of the tools related to direct budgetary funding. Interestingly, while for the entire set of measures of tax stimulation of innovation the displacement effect was quite significant,¹ for the tax profit relief for R&D expenditure this problem is obviously secondary.

* * *

¹ Simachev, Yu., Kuzyk, M., Feygina, V. Public Support for Innovation in Russian Firms: Looking for Improvements in Corporate Performance Quality. *International Advances in Economic Research*, 2015, vol. 21, issue 1.

In conclusion, it seems important to note that, to date, the world has accumulated a wide experience of the empirical assessment of the influence on companies of different tools for stimulating innovation. In accordance with the established practice, such assessment is performed breaking the effects down into several groups, including changes in the resources available for innovations, the competitiveness of companies, behavioural changes. A special part here is played by the assessment of effects of ‘behavioural complementarity’ relating mainly to internal and poorly formalised factors – the specifics of the organisational structure of the companies, interests and motivations of the various parties, the company’s potential to gain new knowledge and to perceive new technologies. It is behavioural changes that determine the stability of the stimulation mechanisms on such companies.

It would be reasonable to introduce into the Russian practice the assessment of ‘behavioural complementarity’ and development of relevant methodology. This would allow us to ensure more objective analysis and comparison of the influences of the different mechanisms of stimulation of the innovative activities of companies.

In foreign countries empirical research for the assessment of innovation policy is deeply integrated into the decision-making system – such research activities are of a regulatory nature, performed on the basis of statistical data over long observation periods (over 10 years), the results of assessment are publicly available and continuously compared between countries. In this regard, in accordance with Russian innovation policy, it seems important to introduce the system of regular assessment of the influence on companies of the mechanisms of support for innovation. As for initiating new mechanisms of stimulating innovation for the assessment of potential beneficiaries and their possible effects, it is necessary to develop a methodology and practice of ex-ante assessment.

All this would create a basis for the accumulation and discussion of research results, improvement of our understanding of the specifics of their influence on Russian companies, an extension of training processes on the basis of the implemented initiatives and a redistribution of resources in the interests of up-scaling successful practices.

Significant factors for the increase in the effectiveness of stimulation mechanisms are their long-term stability and user-friendliness. It is in this case that they become an element of business planning and preventive decision-making in companies. Noting that there are substantial reserves for further increase in the effectiveness of the stimulation mechanisms, it should be admitted that improvements of the institutional environment, the development of competition and the labour market, and an increase in the predictability of public socio-economic policy are not any less important for the development of the innovation activities of businesses.

6.5. The Real Estate Market of the Russian Federation

6.5.1. The Market of Land Plots

According to the data of the Rosreestr, the area of land plots owned by Russian nationals keeps decreasing and as of 1 January 2014 amounted to 117,044,500 ha or 6.84% of the land of the Russian Federation against 118,281,900 ha (6.92%) as of 1 January 2013 (*Table 24*). On the contrary, the area of land in public and municipal ownership and ownership of legal entities keeps growing. Within a year, the area of land plots owned by legal entities increased by 1.2m ha and amounted to 15.92m ha or 0.93% of the land of the Russian Federation. The area of land plots in public and municipal ownership increased by 37,900 ha. As of 1 January 2014, individuals’ land shares (including 656,600 ha in general joint ownership) decreased by

2.6m ha and amounted to 5.4% (92.3m ha) of the country's land or 69.4% of Russia's land in private ownership (Table. 24). A decrease in the area of land in shared ownership is regarded as positive factor as land plots in shared ownership by virtue of incompleteness of that title are used inefficiently.

Table 24

**The pattern of land plots of the Russian Federation by the form of ownership,
the 2011–2014 period**

Form of ownership	01.01.2011		01.01.2012		01.01.2013		01.01.2014		
	Million ha	%	Million ha	%	Million ha	%	Million ha	%	
Public and municipal ownership	1576.4	92.2	1576.7	92.2	1576.8	92.22	1576.9	92.23	
Individuals' ownership	121.4	7.1	119.6	7	118.3	6.92	117	6.84	
including:	Individuals' land shares; On the basis of individuals' other titles of ownership	100.8	5.9	97.6	5.7	94.9	5.55	92.3	5.4
		20.6	1.2	22	1.3	23.4	1.37	24.7	1.44
Legal entities' ownership	12.1	0.7	13.5	0.8	14.7	0.86	15.9	0.93	
TOTAL land in ownership	133.4	7.8	133.1	7.8	133	7.78	132.9	7.77	

Source: The State (National) Report on The State and Utilization of Land in Russian Federation in 2013

In 14 constituent entities of the Russian Federation, as of 1 January 2014 the share of privatized land exceeded 40% of the land of a constituent entity. It is mainly southern and south-western regions. In 15 constituent entities of the Russian Federation, the share of privatized land amounts to less than 0.40%. The Southern Federal District has the highest index (43.32%) while the Far Eastern Region, the lowest one (0.33%); Russia's average nationwide index amounts to 6.85%. In Moscow and St Petersburg individuals own 14.14% and 6.41% of land, respectively (Table 25).

Table 25

**The level of privatization of land by federal districts and constituent entities
of the Russian Federation as of 1 January 2014***

Federal districts and constituent entities of the Russian Federation	Total area, thousands ha	Land owned by individuals, thousand ha	Land owned by legal entities, thousand ha	Level of privatization by individuals, %	Level of privatization by legal entities, %	Place by the level of privatization by individuals
1	2	3	4	5	6	7
Southern Federal District	42087.6	18230.3	1569.8	43.32	3.73	I
Rostov Region	10096.7	6196.8	624.3	61.37	6.18	1
Volgograd Region	11287.7	6399.5	337.7	56.69	2.99	4
Astrakhan Region	4902.4	892.4	89.2	18.20	1.82	38
Central Federal District	65020.5	19357.6	5304.5	29.77	8.16	II
Orel Region	2465.2	1296.2	200	52.58	8.11	6
Voronezh Region	5221.6	2598.8	405.2	49.77	7.76	7
Moscow Region	4432.9	737.1	532.5	16.63	12.01	41
Moscow	256.1	36.2	10	14.14	3.90	43
Kostroma Region	6021.1	487.4	119.7	8.09	1.99	51
Privolzhsky Federal District	103697.5	30836	4880.1	29.74	4.71	III
Orenburg Region	12370.2	7251.2	301.5	58.62	2.44	3
Saratov Region	10124	5522.5	825.7	54.55	8.16	5
Perm Territory	16023.6	1270.1	329.8	7.93	2.06	52
North-Caucasian Federal District	17043.9	4231.9	480.2	24.83	2.82	IV
Stavropol Territory	6616	3931.2	457.2	59.42	6.91	2
Republic of Karachaevo-Cherkessia	1427.7	265.2	6.7	18.58	0.47	37
Republic of Dagestan	5027	4.1	1.6	0.08	0.03	76
The Russian Federation	1709825.0	117045	15919.7	6.85	0.93	V

Cont'd

1	2	3	4	5	6	7
Siberian Federal District	514495.3	29293.4	1829.4	5.69	0.36	VI
Altai Territory	16799.6	6268.9	338.7	37.32	2.02	18
Omsk Region	14114	4584.1	536.6	32.48	3.80	25
Republic of Tyva	16860.4	68.1	3.1	0.40	0.02	69
Urals Federal District	181849.7	8909	830.1	4.90	0.46	VII
Kurgan Region	7148.8	2990.3	233.4	41.83	3.26	12
Chelyabinsk Region	8852.9	2925	184.1	33.04	2.08	24
Yamalo-Nenets Autonomous Region	76925	1.4	0.7	0.00	0.00	81
North-Western Federal District	168697.2	4139.6	691.2	2.45	0.41	VIII
Kaliningrad Region	1512.5	449.1	140.6	29.69	9.30	27
Pskov Region	5539.9	1487.6	143.6	26.85	2.59	29
St. Petersburg	140.3	9	23.7	6.41	16.89	54
Murmansk Region	14490.2	6.8	4.3	0.05	0.03	78
Nenets Autonomous Region	17681	0.2	0.1	0.00	0.00	82
Far Eastern Federal District	616932.9	2046.7	334.4	0.33	0.05	IX
Maritime Territory	16467.3	700.3	151.3	4.25	0.92	58
Jewish Autonomous Region	3627.1	104.8	1.1	2.89	0.03	60
Chukotka Autonomous Region	72148.1	0.1	0.2	0.00	0.00	83

* In each federal district, two constituent entities of the Russian Federation with highest indices as regards the share of land plots in individuals' ownership and a constituent entity of the Russian Federation with the lowest index are presented. Additionally presented are the Moscow Region, Moscow and St. Petersburg.

Source: The State (National) Report on the State and Utilization of Land in the Russian Federation in 2013.

By the beginning of 2014, for the purpose of provision of housing development with land plots 7,882,600 households were provided with land plots with the total area of 987,500 ha which is 1.37% and 2.46% higher as regards the number of households and the area of land, respectively, than in 2012. It is to be noted that 29.4% of land for individual housing development was provided to households (2,317,500 households) on the basis of the titles (which do not exist any longer) of lifetime ownership with hereditary succession, permanent (timeless) utilization and limited utilization of state land, including land to which titles have not been executed (*Table 26*).

Table 26

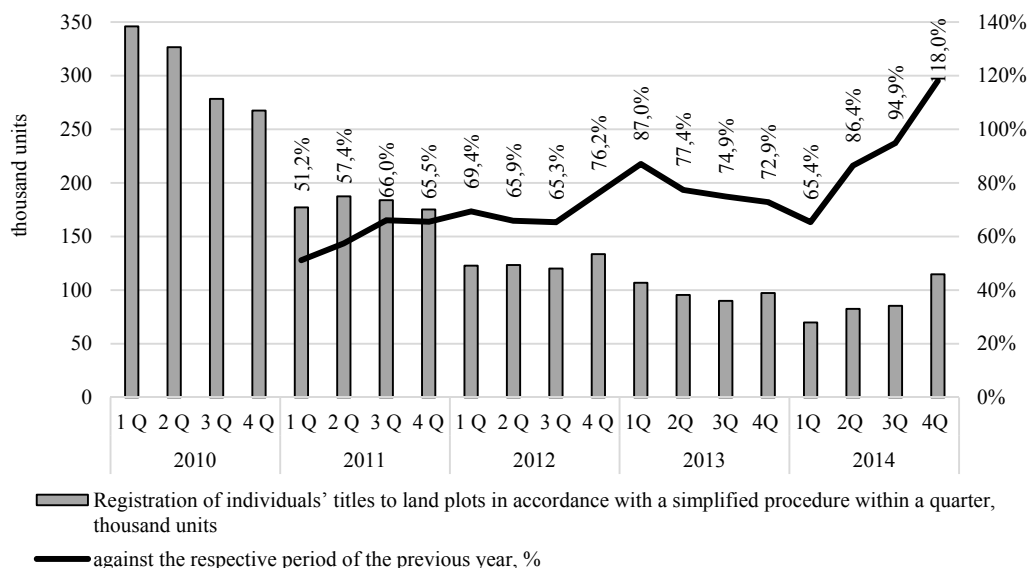
The pattern of ownership of land allocated for individual housing development, the 2011–2013 period

	2011		2012		2013	
	Thousand ha	%	Thousand ha	%	Thousand ha	%
Private ownership	514.3	55.3	546.2	56.7	576.9	58.4
State and municipal ownership, including:	416.5	44.7	417.6	43.3	410.6	41.6
Permanent (timeless) utilization	206.2	22.2	202.7	21.0	197.4	20.0
leasehold	110.8	11.9	119.1	12.3	120.4	12.2
Free of charge limited utilization (temporary utilization)	2.2	0.2	3.5	0.4	2.5	0.2
lifetime ownership with hereditary succession	56.2	6	54.8	5.7	54.0	5.5
Without execution of the title to land	41.1	4.4	37.5	3.9	36.3	3.7
Total	930.8	100	963.8	100	987.5	100

Source: The State (National) Report on The State and Utilization of Land in Russian Federation in 2013

According to the data of the Rosreestr, the process of the summer cottage amnesty, that is registration in accordance with a simplified procedure of individuals' title to land plots provided before approval of the Land Code of the Russian Federation for individual subsidiary, summer cottage husbandry, vegetable gardening, horticulture and individual garage and housing building slowed down (*Fig. 3*). In Q4 2014, as compared to Q4 2013 the excess of the

volume of registration of titles in accordance with the “summer cottage” amnesty did not change much the situation within a year: in 2014 352,721 registrations of titles were made which is 9.51% less than in 2013. Due to a lack of proper registration of the title of ownership, land plots cannot be used in the economic turnover, nor can a property tax be charged from the owner of land.



Source: The Rosreestr.

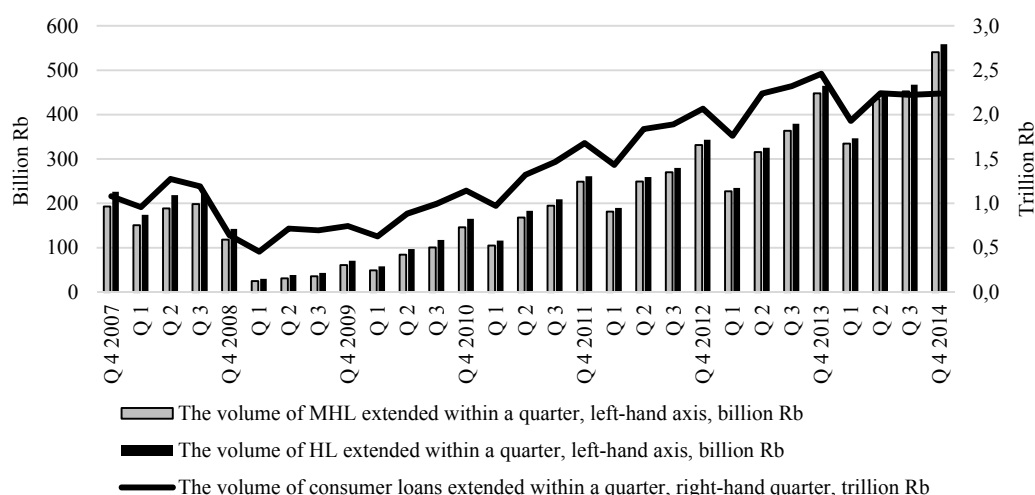
Fig. 3. Dynamics of registration of individuals' titles to land plots in accordance with the simplified procedure

According to the data of the Rosreestr, in 2014 the overall volume of registration of individuals' titles to land plots (5,992,002 certificates) increased by 2.65% as compared to 2013. The number of registered titles of legal entities to land plots rose by 5.14%, having amounted to 291,663 certificates as of 1 January 2015. In 2014, leasing of land plots by individuals (78,473 certificates) fell by 8.29% as compared to 2013, while that by legal entities (44,237 certificates), by 34.42%.

As compared to 2013, in 2014 the number of registered mortgages on land plots for individuals (694,657 certificates) rose by 26.11%, while that for legal entities (151,161 certificates) fell by 7.66%.

6.5.2. Home Equity Lending

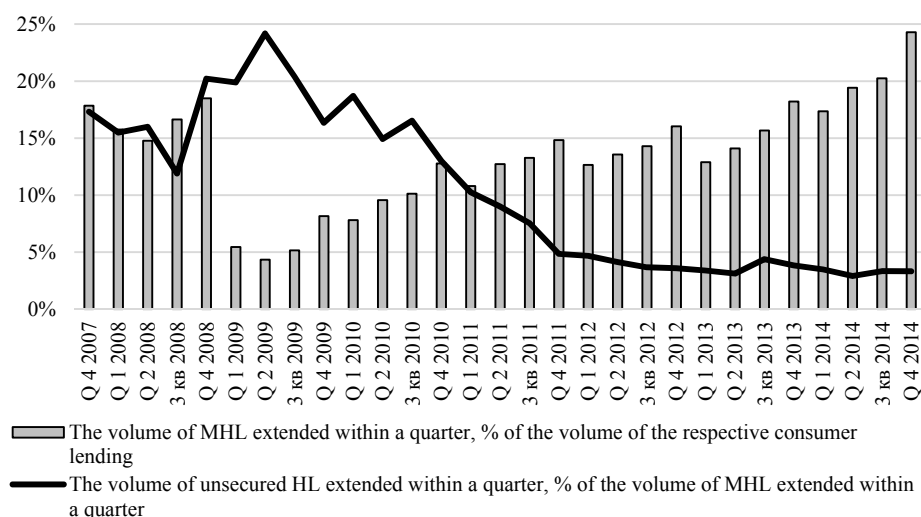
In 2014, according to the data of the Central Bank of the Russian Federation, 629 credit institutions provided 1,012,301 mortgage housing loans (MHL) for the total amount of Rb 1,762,523bn which exceeded by 22.7% and 30.18% the volume of MHL extended in 2013 and in monetary terms, respectively. In 2014, growth rates of MHL were close to those of the 2013 indices (growth of 19.27% and 31.20% as regards the number of loans and in monetary terms, respectively). In Q4 2014, they extended MHL for the total amount of Rb 540,661bn which is 20.7% more than in Q4, 2013 (*Fig. 4*).



Source: The Central Bank of the Russian Federation.

Fig. 4. Dynamics of mortgage housing lending to individuals, the 2007–2014 period

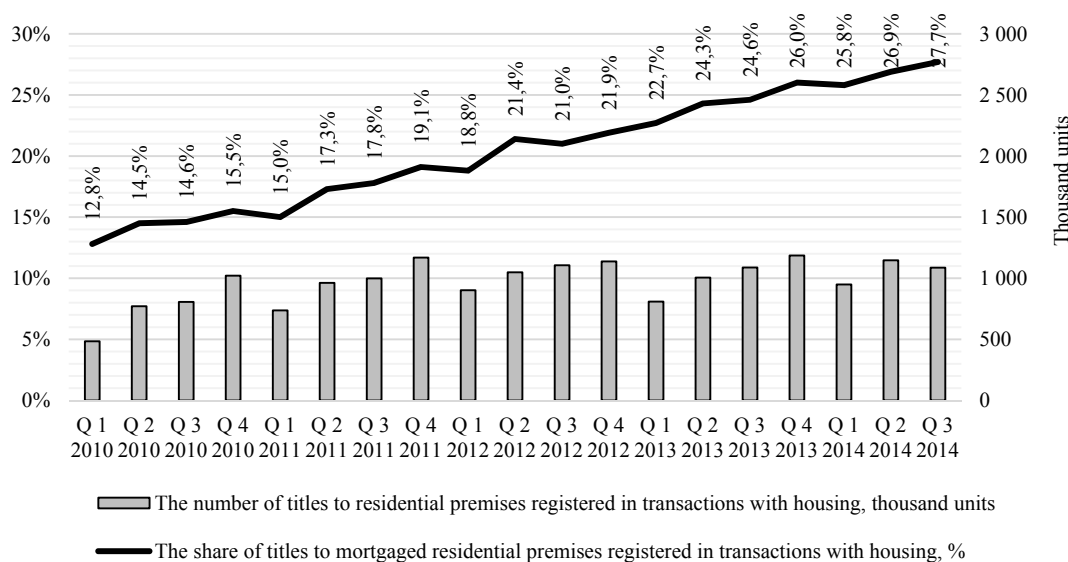
In 2014, the volume of consumer lending fell by 1.75%. In 2014, the share of MHL extended within a year in the volume of consumer loans rose by 5.02 p.p. as compared to 2013 and amounted to 20.44% against 16.13% in 2008. The share of MHL in the consumer lending volume amounted to 24.29% in Q4 2014 and increased by 6.08 p.p. as compared to Q4 2013 (Fig. 5). A trend of decrease in the share of unsecured housing loans (UHL) in the HL volume preserved with some fluctuations in 2014, too. In Q4 2014, the share of UHL in the MHL volume was 0.52 p.p. lower than that of UHL in Q4 2013. The above trend is underpinned by requirements of the Central Bank of the Russian Federation to provisions for unsecured loans (Resolution No. 254-P on The Procedure for Formation by Credit Institutions of Bad Loan Provisions and Provisions for Loan Debts and Debts Made Equal to Them).



Source: The Central Bank of the Russian Federation.

Fig. 5. Dynamics of the ratio between the volumes of consumer lending and housing lending, the 2007–2014 period

According to the data of the Rosreestr provided by the OAO AHML (*Fig. 6*), in Q3 2014 the share of mortgaged real property units in the total number of real property units registered in transactions with housing increased by 3.1 p.p. as compared to Q3 2013 and amounted to 27.7%, that is, over a quarter of apartments bought with use of mortgage. Within that period, the number of titles to residential premises registered in transactions with housing did not virtually change (a 0.1% decrease) and amounted to 1,086,753 certificates.



Source: The OAO AHML on the basis of the Rosreestr data.

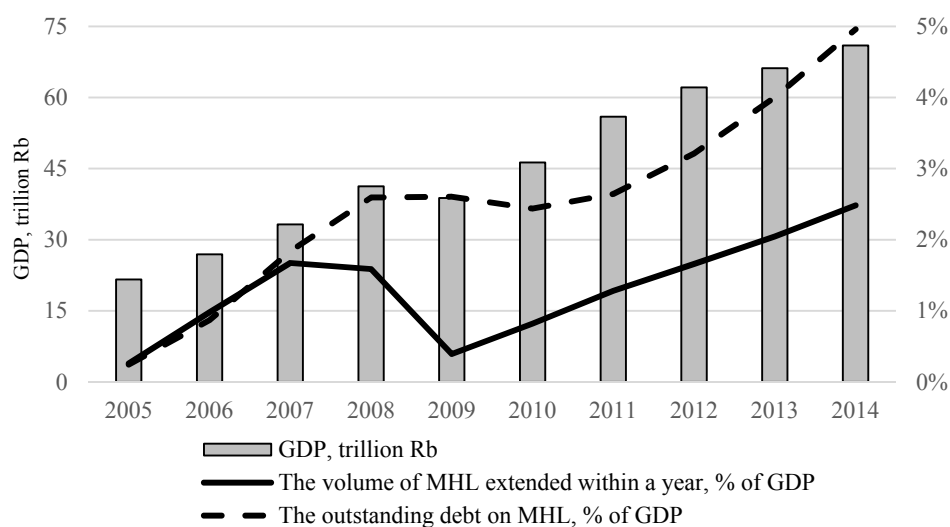
Fig. 6. Dynamics of the number of real property units registered in transactions with housing (units) and shares of mortgaged real property units in the total number of real property units registered in transactions with housing (%)

In 2014, the volume of MHL in shares of the respective value of GDP rose to 2.48% against 2.05% in 2013 and exceeded the 2007 maximum historic value by 0.81 p.p. (*Fig. 7*). As of 1 January 2015, the debt on MHL amounted to 4.96% of the respective GDP, that is, a 0.96 p.p. increase as compared to the value of 1 January 2014 (*Fig. 7*). The share of debt on MHL in GDP of the European Union, the US and the UK amounts to about 40%, 50% and 60%, respectively. According to the World Bank, for countries with a medium level of development the benchmark for the share of MHL in GDP should be equal to about 25%.

As of 1 January 2015, the debt on MHL in rubles increased by 33.38% as compared to 1 January 2014 and amounted to Rb 3,383.7bn (*Fig. 8*). With substantial growth in MHL portfolio in rubles, the overdue debt on those loans (Rb 27,205bn) rose by the mere 13.8%, while as percentage of the outstanding debt it amounted to 0.86%, which is 0.15 p.p. lower than that as of 1 January 2014. The latter is the evidence of higher quality of the portfolio of ruble mortgages.

In 2014 the quality of the MHL portfolio in foreign currency which was below that in rubles even improved a little. The debt (Rb 136.37bn) increased by 21.77% with simultaneous growth of 20.67% in the overdue debt (Rb 17.14bn); it is to be noted that in 2014 the overdue debt as percentage of the outstanding debt fell by 0.12 p.p. to 12.57% (*Fig. 8*). In 2014 the share of the overdue debt on MHL in foreign currency as percentage of the total overdue debt

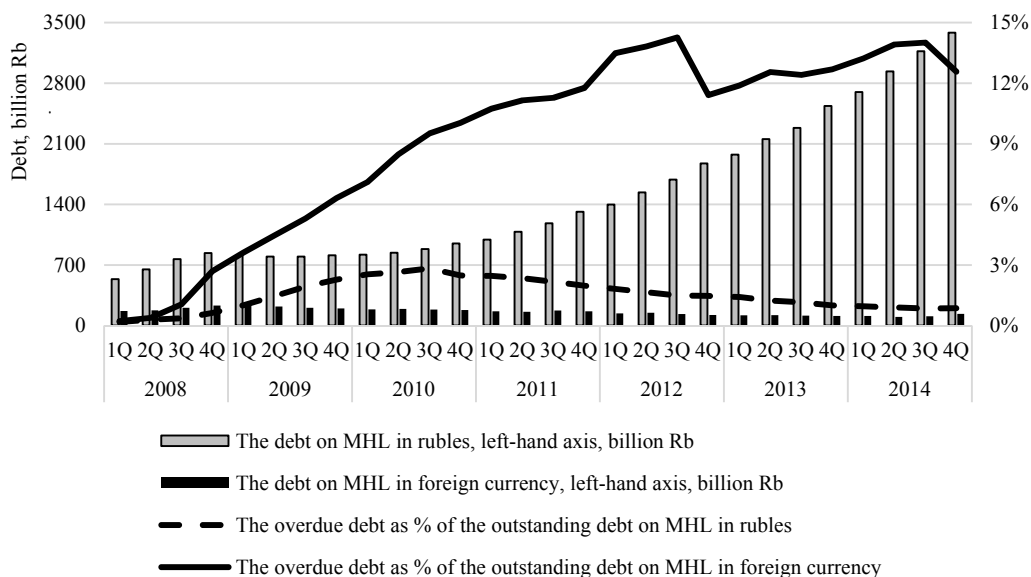
varied from 34.6 to 40.22%. As of 1 January 2015, that share amounted to 37.19%, having decreased in December by 3.3 p.p.



Source: The Central Bank of the Russian Federation.

Fig. 7. Dynamics of mortgage housing lending, % of GDP

As of 1 January 2015, the total overdue debt as percentage of the total outstanding debt amounted to 1.31%.

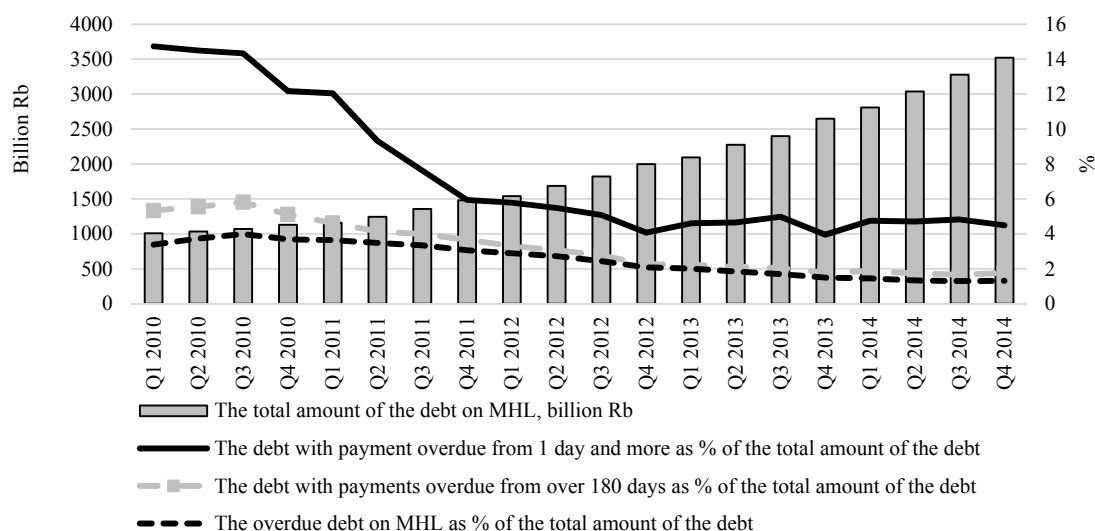


Source: The Central Bank of the Russian Federation.

Fig. 8. Dynamics of outstanding and overdue debt on mortgage housing loans

As of 1 January 2015, in the total amount of the debt the share of the overdue debt on MHL with payments overdue from 1 day and more amounted to 4.49%, which is 0.54 p.p.

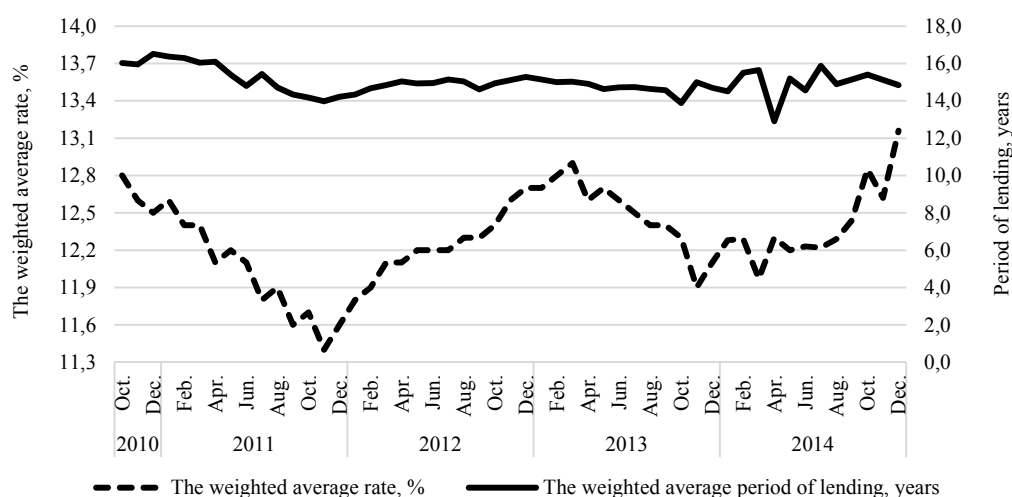
higher than that as of 1 January 2014. At the same time, the share of the debt on MHL with payments overdue for over 180 days (the debt on defaulted loans) in the total amount of the debt kept falling and as of 1 January 2015 amounted to 1.76%, that is, a decrease of 0.02 p.p. as compared to that as of 1 January 2014 (Fig. 9).



Source: The Central Bank of the Russian Federation.

Fig. 9. Dynamics of the debt on MHL by the period of delay in payments

In 2014 the weighted average rate on MHL in rubles extended within a month increased from the minimum value of 11.97% in March to 13.16% in December (Fig. 10). The weighted average period of lending as regards MHL in rubles extended within a month varied from 12.9 years to 15.9 years (Fig. 10).



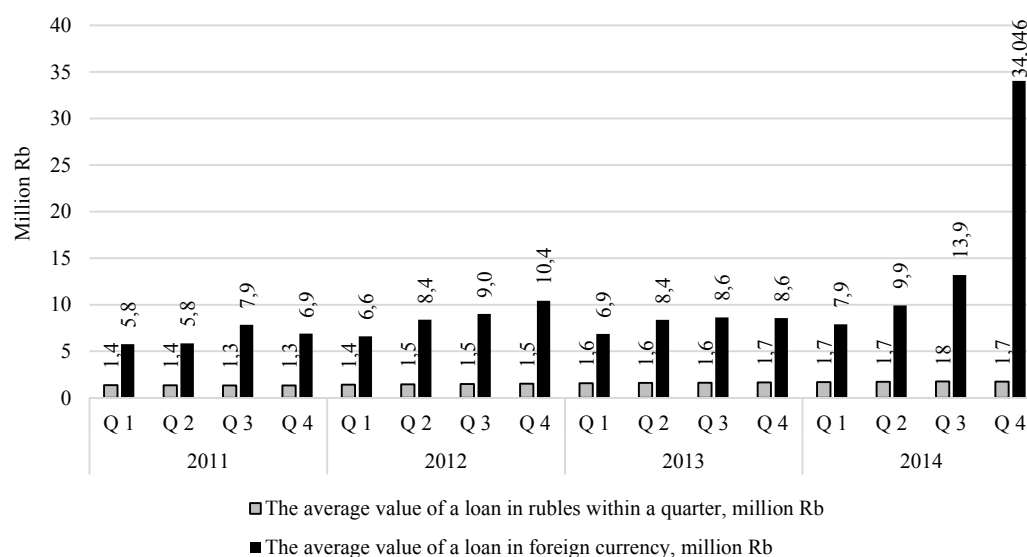
Source: The Central Bank of the Russian Federation.

Fig. 10. The weighted average rate and the period of lending as regards MHL in rubles extended within a month

As of 1 January 2015, the weighted average rate on MHL in foreign currency fell to 9.25% with the highest rate of 9.84% registered as of 1 February 2014. As of 1 January 2015, the weighted average period of lending as regards MHL in foreign currency extended from the beginning of the year amounted to 12.2 years.

In 2014, the share of the volume of MHL in foreign currency extended from the beginning of the year and the share of the debt on MHL in foreign currency in the total amount of the debt varied at the level of 0.5% and 4.0%, respectively and as of 1 January 2015 amounted to 0.61% and 3.87%, respectively.

In Q4 2014, the average value of the mortgage loan in foreign currency rose to Rb 34m, having exceeded nearly 20 times over MHL in rubles (Rb 1.74m) (*Fig. 11*).

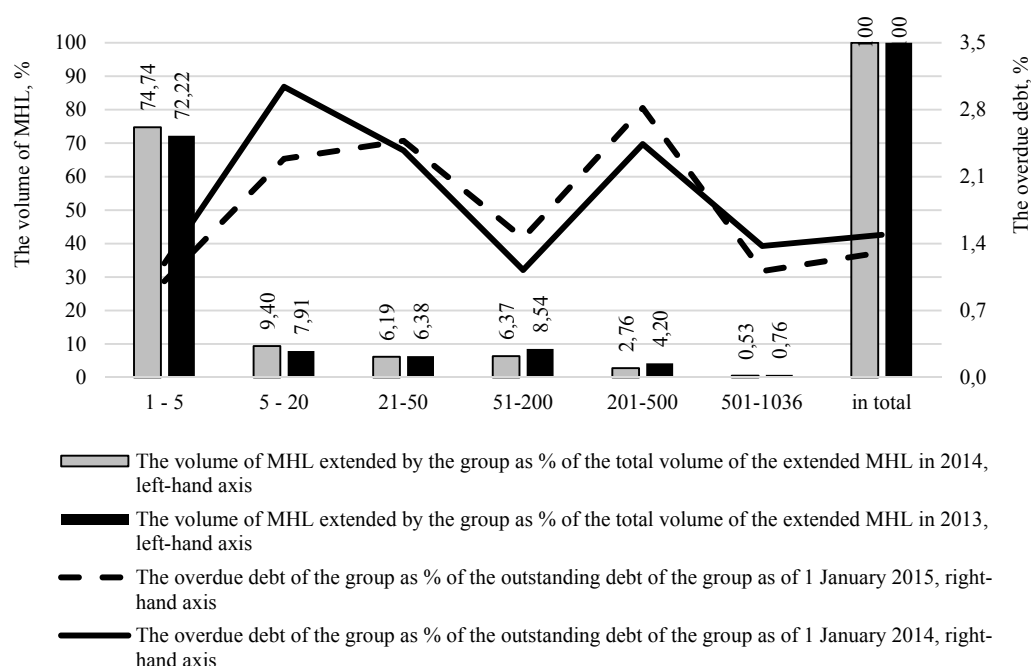


Source: The Central Bank of the Russian Federation

Fig. 11. The average value of MHL in rubles and foreign currency within a quarter

The share of the first group of five credit institutions (with largest assets) in the total volume of MHL extended in 2014 amounted to 74.74%, having gained 2.52 p.p. and 8.75 p.p. as compared to 2013 (*Fig. 12*) and 2012, respectively, which factor is evidence of continued concentration of the mortgage market. With reduction of the share of the overdue debt on MHL in the total debt in the Russian Federation (1.31% as of 1 January 2015 against 1.49% in 2013 and 2.08% in 2012), the leading position was taken over from the second group by the fifth largest group as regards the size of assets. That group has the largest value of the share of the overdue debt (2.82%), that is, the highest risk MHL portfolio. As of 1 January 2014, the first two groups (20 credit institutions out of 629) account for 84.14% of the Russian MHL market (*Fig. 12*).

As of 1 July 2014, Rb 154.6bn worth of MHL was repaid by borrowers prior to maturity which value is 36.8% higher than that as of 1 July 2013. The above sum amounts to 20.1% of the volume of MHL extended in H1 2014, while in the total volume of early repaid MHL it is equal to 76.42%, which is 0.39 p.p. lower than in H1 2013. It is to be noted that Rb 1.98bn worth of MHL was repaid early by means of funds received from sale of mortgaged property, that is, a decrease of 21.56% as compared to H1 2013.



Source: The Central Bank of the Russian Federation.

Fig. 12. Dynamics of the volumes of MHL extended to individuals and the overdue debt by the groups of credit institutions ranged by the value of assets, the 2013–2014 period.

In 2014, the OAO AHML maintained the volume of refinancing of AHL at the level of 2013. It is to be noted that 32,392 loans for the total amount of Rb 50.27bn were refinanced which was 4.73% higher and 0.98% lower in monetary and quantitative terms, respectively, than in 2013. As compared to 2012, the OAO AHML refinanced 17.54% and 40.04% less of MHL in monetary terms and as regards the number of mortgages, respectively. In 2014, the weighted average rate of repurchasing of mortgages by the OAO AHML amounted to 10.7%, while that on special products, to 10%, in particular, 9.7% on the *Military Mortgage* program. Generally, in 2014 within the frameworks of realization of special mortgage programs the OAO AHML refinanced 16,495 mortgage loans for the total amount of Rb 29.5bn (including 6,800 loans under the *Military Mortgage* program for the total amount of Rb 14.97bn). The share of mortgage loans refinanced by the OAO AHML within the frameworks of social mortgage programs amounted to 50.92% and 58.69% of the total volume of the OAO AHML’s activities on the primary market in quantitative terms and monetary terms, respectively.

As of 1 January 2015, within the frameworks of the *Stimul* program the OAO AHML’s existing liabilities as regards provision of loans to banks which finance housing development projects amounted to Rb 51.5bn. From 1 October 2009, the OAO AHML concluded agreements for the total of Rb 119.4bn which was to be spent on building of 6.9m sq. m of housing.

Growth in housing mortgages in a situation of the macroeconomic crisis is evidence of the fact that a mortgage loan is becoming an investment and savings instrument. In prospect, the above may result in growth in prices on housing which situation, in its turn, reduces short-term risks of housing lending and, thus stimulates relaxation in requirements to borrowers,

that is, emergence of low-quality high-risk loans. A similar scheme of development resulted in the 2008 mortgage crisis in many OECD countries.

6.5.3. Building, Commissioning and Supply of New Housing

In 2014, in housing development the highest growth in housing commissioning volumes (14.9% as compared to 2013) in the entire period after the previous financial and economic crisis was observed. However, within the entire year a downward quarterly trend of commissioning of volumes of housing as compared to the respective indices of 2013 was observed.

Generally, in 2014 1,080,300 apartments with the total floorspace of 81.0m sq. meters were commissioned (*Table 27*).

Table 27

Commissioning of housing in Russia in 1999–2014

Year	Million sq. meters of housing	Growth rates, %	
		Against the previous year	Against 2000
1999	32.0	104.2	105.6
2000	30.3	9.7	100.0
2001	31.7	104.6	104.6
2002	33.8	106.6	111.5
2003	36.4	107.7	120.1
2004	41.0	112.6	135.3
2005	43.6	106.3	143.9
2006	50.6	116.0	167.0
2007	61.2	120.9	202.0
2008	64.1	104.7	211.5
2009	59.9	93.4	197.7
2010	58.4	97.5	192.7
2011	62.3	106.6	205.6
2012	65.7	104.7	216.8
2013	70.5	107.3	232.7
2014	81.0	114.9	267.3

Source: The Russian Statistical Yearbook. 2007: Statistical collected volume/ The Rosstat M., 2007, p. 507; The Russian Statistical Yearbook. 2011: Statistical collected volume/ The Rosstat M., 2011, p. 461; On Housing Development in 2014, www.gks.ru and authors' calculations.

In 2014, individual developers commissioned 260,300 of housing with the total floorspace of 35.2m sq. meters which is 14.8% more than in 2013. Growth rates of housing development by individual developers were in line with those of housing development in general, while the share of housing development by individual developers in the total floorspace of completed housing nationwide was equal to 43.5%.

Positive dynamics of housing development was observed in Russia's most regions, including nearly all the regions where the aggregate volumes of commissioning of housing exceeded 1m sq. meters (*Table 28*).

Table 28

**Dynamics of commissioning of housing in Russia's regions in 2014
(arranged by the rates of commissioning)**

Region	Growth rates of housing commissioning, % as compared to 2013
1	2
Chechen Republic	3.1 times
Kaliningrad Region	175.7
Orenburg Region	145.6
Volgograd Region	140.0
Sverdlovsk Region	138.3
Novosibirsk Region	128.1
St. Petersburg	126.3

Cont'd

1	2
Krasnodar Territory	120.3
Leningrad Region	117.9
Lipetsk Region	117.6
Saratov Region	115.7
Voronezh Region	115.6
Tyumen Region (with autonomous regions)	114.0
Belgorod Region	113.6
Chelyabinsk Region	113.6
Moscow Region	111.5
Perm Territory	109.9
Rostov Region	109.0
Samara Region	108.7
Dagestan	107.2
Bashkortostan	106.7
Krasnoyarsk Territory	105.9
Moscow	105.8
Nizhny Novgorod Region	103.3
Kemerovo Region	100.7
Tatarstan	100.2
Stavropol Territory	80.1

Source: On Housing Development in 2014, www.gks.ru.

As seen from *Table 28*, the dynamics of commissioning of housing which was largely above the average nationwide (over 20%) was observed in Chechnya, the Kaliningrad Region, the Orenburg Region, the Volgograd Region, the Sverdlovsk Region, the Novosibirsk Region, St. Petersburg and the Krasnodar Territory. At the same time, in the Kemerovo Region and Tatarstan, growth in the volumes of housing development did not exceed 1%, while in the Stavropol Territory there was a drop in the volumes of commissioning of housing.

The Moscow Region retained its leading position among Russian Regions as regards the volume of commissioning of housing in absolute terms. Moscow which took the 3rd place (over 3.3m sq. meters) in the country after the Moscow Region (about 8.3m sq. meters) and Kuban (4.75 sq. meters) succeeded in that, too. The unit weight of the capital region in the overall volume of housing development in Russia amounted to 14.3% of which the Moscow Region accounted for a larger portion (10.2%), while the share of Moscow proper was equal to 4.1%. It is to be noted that by the value of that index Moscow is followed closely by St. Petersburg and the Tyumen Region,¹ where volumes of commissioning of housing exceeded 3m sq. meters.

On the basis of the results of 2014, substantial growth in housing development should be unambiguously regarded as a great achievement. The case for it is the fact that annual growth rates of housing commissioning doubled as compared to 2013, physical volumes of housing development increased and fulfillment of the *Zhilische* (Housing) federal purpose program in the 2011-2015 was ahead of the schedule.

In the entire period from the beginning of the 2000s, the higher rates of commissioning of housing were observed only in the 2006–2007 period. If in the first two years of the recovery growth after the previous crisis (2011–2012) they finally succeeded in achieving the excess of the absolute value of that index over the volumes of commissioned housing in the 1990 (61.7m sq. meters), while in 2013 they got closer to the values which were the best ones in the

¹ What is meant here is the territory of the Tyumen Region (together with Khanty-Mansiisk-Yugra (the Khanty-Mansiisk Autonomous Region) and the Yamalo-Nenets Autonomous Region); it is to be noted that in the Tyumen Region proper (without autonomous regions) and the Khanty-Mansiisk Autonomous Region in particular the volumes of commissioned housing exceeded 1m sq. meters.

late 1988-1989 Soviet period (71m sq. meters–72m sq. meters), in 2014 they managed to exceed them substantially¹. Achievement of the target index of the volume of commissioned housing scheduled for 2015 (71m sq. meters) – which is the most important one for the Zhilische (Housing) purpose program – took place 2 years earlier.

However, the above is in no way an automatic guarantee of positive trends being preserved in future, particularly, in a new and more complicated situation of Russia's economic development in general. Due to the above, it is to be reminded that in the period of the previous crisis on the basis of the results of 2008 growth in housing development - which gave way to a drop in subsequent two years - was observed; as a result of that drop the volumes of commissioned housing fell by 9% against the index of 2008.

Further prospects of housing development are not quite clear yet. In terms of the effect of the balance of supply and demand in the market on the volumes of housing, it is important to take into account the fact that with a decrease in households' incomes and growth in the cost of lending for households and developers, in the next two years the latter will have to reduce the volumes of commissioned housing, carry out a more conservative policy and keep building only the most profitable projects preferring within a certain period of time not to initiate new projects. The first evidence of that can be seen today: while volumes of commissioned housing grow as a result of the building boom of the 2011-2012 period, in a two-year time a drop in building activities may result in a large reduction of volumes of commissioned housing.

According to the estimate of the Ministry of the Building Industry of the Russian Federation, in 2015 about 76m sq. meters of housing can be commissioned in Russia, that is, a decrease within the same volume as in 2009 is accepted. However, difficulties experienced by the banking sector may affect the building industry and the existing targets as regards commissioning of housing. M. Men, Minister of the Building Industry, Housing and Public Utilities of the Russian Federation stressed that in case of mortgage-related problems all the building entities would be affected.²

Generally, the situation on the mortgage lending market is quite a complicated one. According to the data of the Agency for Housing Mortgage Lending (OAO AHML), in January 2015 the weighted average rate on mortgage loans was equal to 14.2% amounting to 16% on some banking mortgage programs. It became apparent that in 2015 the situation on the market would be getting worse. Everything points to the fact that in the near future the mortgage market, as well as the number of mortgage-issuing banks is going to decrease.³

M. Zadornov, Head of the VTB24 does not exclude the prospect of a 2.5 times reduction of the volumes of mortgage issuing⁴. Most experts are unanimous that with preservation of the key rate at the level of the end of last year in 2015 it is logical to expect reduction of 20%-60% in demand on mortgage, though at the official level more optimistic estimates are made.

¹ It is to be noted that such an achievement alone does not mean that housing has become more affordable for most households due to higher differentiation of the existing and desired housing conditions which arise from the difference in households' incomes, as well as changes in the pattern of commissioning of housing. At present, fewer housing premises with large floorspace are being built. So, in the 1988–1989 period in the RSFSR they commissioned over 1.2m apartments, while in 2014 with the record-high volume of housing as regards floorspace less than 1.1m apartments were built.

² RealEstate.ru

³ www.Restko.ru

⁴ RealEstate.ru.

According to A. Simanovsky, First Deputy Chairman of the Central Bank of the Russian Federation, mortgage growth will amount to about 15–17%.

According to D. Zemskov, Head of the Strategy and Development company, if the statistics of the 2008-2009 is taken as the reference point, then with an adverse situation prevailing in the economy for the next six months it is likely that 8%-10% of developers will become financially insolvent in case of 5%-7% decrease in the real average price on the primary market; in case of a decrease of 15%-20% in average prices the share of insolvent developers will already amount to 20%–25%.

According to the estimate of experts of the Metrium Group company¹: “The official statistics of the Rosreestr reflects quite precisely the situation on the real property market. New housing development are in great demand and the number of EPA² late [2014 – *Editor.*] in the year was increasing, while the growth rates of the market of mortgage lending and the secondary housing market slowed down a great deal. However, by spring 2015 buyers’ activities are expected to be less active and then all the three indices will get adjusted against one another and start to go down smoothly. It is difficult to say now how long that recession continues. It depends much whether the Government is going to take any measures to rescue the mortgage market. If buyers have an opportunity to take more or less affordable loans for buying housing, the situation on the entire real property market will be quite a good one”.

Among anti-crisis measures approved by the Russian government as early as 2015, there is the subsidizing of interest rates on mortgage loans extended by banks so that to maintain them at the level of 13%. However, due to both a delay in implementation until relevant amendments to the budget are approved and the expected volume of compensation (Rb 20bn is to be paid out of the budget) which is incomparable with volumes of lending in the previous years the effect of the above measure for the housing market is rather questionable.

It is expected that allocation of Rb 20bn will permit banks to extend privileged loans for the total amount of Rb 400bn at the rate of 13% per annum. It is to be noted that the criteria of a mortgage issuing program are to be worked out yet.

According to the Ministry of Economic Development of the Russian Federation, it is necessary to assist those borrowers who buy their only housing (or housing with a larger floor-space in case of birth of two or more children). It is to be noted that such housing should belong to the “economy” class. The maximum amount of the loan should be limited depending on the location of the housing which is to be bought.

The Ministry of Economic Development of the Russian Federation proposes to use similar criteria in supporting borrowers who took mortgage in foreign currency. According to the opinion of the above Ministry, support should be rendered to borrowers who own the only housing of the “economy” class. In addition to the above, the criteria of support of such borrowers should include the following: existence of children and dependents, incomplete family composition, loss of a job by the borrower and a dramatic drop in the borrower’s income.³

It is to be reminded that to solve the problems related to the mortgages in foreign currency, the Central Bank of the Russian Federation advised banks to convert the debt at the exchange rate which prevailed as of 1 October 2014 which value was much below the current exchange

¹ <http://www.metrium.ru/news/detail/po-itogam-2014-goda-rost-kolichestva-sdelok-na-pervichnom-rynke-moskvy-sostavil-131/>

² EPA is equity participation agreements – *Editor.*

³ Not Everyone Can Expect to Take a Mortgage at 13%. 04.02.2015, Ё-On-line, <http://finance.rambler.ru/news/banks/157612851.html>.

rate of the US dollar and euro. However, so far, banks are not in a hurry to follow the advice of the Central Bank of the Russian Federation, while in the State Duma the idea of adoption of a special law on that issue is being discussed.¹

It is to be added that, lowering by the Central Bank of the Russian Federation of the key rate may have a more important role. In Q1 2015, the Central Bank of the Russian Federation did it once, however the extent of that reduction was incomparable with the actions taken by the regulator of the Russian financial sector last December.

6.5.4. Pricing Situation on the Residential Property Market

Due to stagnation of the Russian economy as early as 2013, the housing market stabilized in most cities, while the effect of the above factors early and late in 2014 resulted in substantial oppositely directed dynamics of prices and activities on housing markets of different cities.

The main indices of the dynamics of prices on the secondary housing market of Russian cities are shown in *Table 29*. The data is presented by real-estate market analysts who collect, verify and process the data on the basis of unified methods recommended by the Russian Guild of Realtors (RGR).²

The sample includes 39 cities and one region (the Moscow Region in respect of which averaged readings on 85-70 population centers are presented), including 25 cities which are centers of constituent entities of the Russian Federation with the aggregate number of the population over 43.5m people.³

If that index is used as a criteria, presented in the sample are the following:

- Moscow – about 12m people;
- The Moscow Region (with the aggregate urban population of 5.8m) and St. Petersburg (over 5.1m people) – aggregately 10.9m people;

¹ Subsidizing of Mortgages will Push Interest Rates on Loans Down to 13% Per Annum. 03.02.2015, TASS, <http://finance.rambler.ru/news/banks/157564355.html>.

² All the calculations were carried out by the author on the basis of the monthly data on the average unit price of housing supply and the volume of supply in Russian cities on the secondary and primary markets prepared in accordance with the unified methods by real-estate market analysts S.G. Sternik, OOO «Sternik's Consulting», O.Vilitskaya, «MIEL» (All – Moscow and the Moscow Region), M.A. Bent, GK «Real-Property Bulletin» (St. Petersburg and Krasnodar), M.A. Horkov and G.T. Tukhashvili, RITs UPN (Yekaterinburg), E.G. Sosnitsky and A.A. Chumakov, «Titul» (Rostov-on-Don), E.A. Yermolayeva, K. Salmina, N. Ershova, «RID Analitics» (Novosibirsk, Kemerovo, Barnaul and Krasnoyarsk), S.G. Molodkina, «UPConsAllt», E.S. Ershova, K. Brednikov, FRK «Etazhi» (All – Tyumen), E.D. Yepishina, GK «Kamskaya Dolina» (Perm), V.N. Kaminsky, E.I. Pesnya, AN «TITAN» (Tver), A. Yu. Chernov, «Ilekta» (Stavropol), E.R. Gamova and T.N. Kuklova, «Centr Nedvizhimosti» (Ulyanovsk), A.V. Trushnikov, «B.I.N.-Expert» (Sterlitamak, Ishimbai and Salavat), A.A. Moiseyeva, FSK «ETAZHI» (Tobolsk), G. Yu. Eidlina, «Realty» (Shakhty), S.V. Esikov (Vladimir, Irkutsk, Orenburg, Smolensk, Togliatti and Cheboksary), A.I. Moskalev, «InvestOtsenka» (Voronezh), R.R. Khabibrakhmanov, TATRE.ru (Kazan), R.M. Kazakov, «Yarmarka» Publishing House, M.Yu. Savina, V.V. Skvortsov, Press Agency (All - Ryazan) and A.L. Patrikeyev, SOFZHI (Samara and cities of the Samara Region).

³ As compared to the sample which was used for the analysis of the pricing situation on the secondary market in the previous annual review (see G. Malginov and G. Sternik. Prices on the Real-Estate Market // Russian Economy in 2014. Trends and Prospects (Issue 35). M., The IEP. 2014, pp. 481–485), it does not include Nizhny Novgorod, Yaroslavl, Veliky Novgorod, Izhevsk and Chelyabinsk, but it is supplemented with a small group of cities (district centers) of the Samara Region (Novokuibyshevsk, Kinel, Syzran, Otradny, Zhigulevsk, Chapaevsk and Oktyabrsk).

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- 9 cities with the population of over 1m people apart from two capitals (Novosibirsk, Yekaterinburg, Kazan, Samara, Omsk, Rostov-on-Don, Krasnoyarsk, Perm and Voronezh) – aggregately 10.6m people;
- 10 cities with the population from 500,000 people to 1m people (Krasnodar, Togliatti, Barnaul, Tyumen, Ulyanovsk, Irkutsk, Orenburg, Kemerovo, Ryazan and Kirov) – aggregately over 6.3m people;
- 8 cities with the population from 200,000 to 500,000 people (Cheboksary, Stavropol, Tver, Vladimir, Surgut, Smolensk, Sterlitamak and Shakhty) – aggregately over 2.8m people;
- 4 cities with the population from 100,000 to 200,000 people (Syzran, Salavat, Novokuibyshevsk and Tobolsk) – aggregately over 0.6m people;
- 6 cities with the population of less than 100,000 people (Chapaevsk, Zhigulevsk, Kinel, Otradny and Oktyabrsk) – aggregately, over 0.3m people.

Table 29

Prices on the secondary housing market in Russian cities in the 2012–2014 period

City (Region)	Average unit price of supply, thousand Rb/ sq. meters			Price index in December 2013 against December 2012		Price index in December 2014 against December 2013	
	December 2012	December 2013	December 2014	nominal	real (IGS)	nominal	real (IGS)
1	2	3	4	5	6	7	8
Moscow	203.0/195.5*	203.3	226.6	1.0015/1.04*	0.940/0.976*	1.115	1.000
St. Petersburg	95.0	96.0	103.0	1.011	0.949	1.073	0.963
Moscow Region	84.3	88.2	93.4	1.046	0.982	1.059	0.951
Surgut (Tyumen Region)	85.6	87.0	78.5	1.016	0.954	0.902	0.810
Yekaterinburg	70.1	72.8	76.2	1.039	0.975	1.047	0.940
Kazan	61.2	63.7	66.6	1.041	0.977	1.046	0.939
Rostov-on-Don	62.8	63.0	66.1	1.003	0.942	1.049	0.942
Novosibirsk	59.1	61.4	65.6	1.039	0.976	1.068	0.959
Samara	55.8	58.5	64.6	1.048	0.984	1.104	0.991
Tyumen	59.4	65.7	63.8	1.106	1.039	0.971	0.872
Krasnoyarsk	59.0	61.0	61.4	1.034	0.971	1.007	0.904
Irkutsk	57.3	59.7	60.9	1.042	0.978	1.020	0.916
Krasnodar	48.2	52.0	56.4	1.079	1.013	1.085	0.974
Vladimir	51.3	52.7	55.1	1.027	0.965	1.046	0.939
Tver	57.8	56.1	54.8	0.971	0.911	0.977	0.877
Kemerovo	50.2	52.1	53.5	1.038	0.975	1.027	0.922
Perm	53.4	54.7	52.6	1.024	0.962	0.962	0.863
Voronezh	48.1	48.8	52.0	1.015	0.953	1.066	0.957
Smolensk	46.3	48.1	51.3	1.039	0.975	1.067	0.957
Orenburg	49.6	51.0	50.9	1.028	0.965	0.998	0.896
Kirov	43.3	48.5	50.9	1.120	1.052	1.049	0.942
Cheboksary	48.1	48.7	50.8	1.012	0.951	1.043	0.936
Barnaul	48.1	48.3	49.8	1.004	0.943	1.031	0.926
Tobolsk (Tyumen Region)	46.1	51.1	49.2	1.108	1.041	0.963	0.864
Omsk	44.7	47.4	48.7	1.060	0.996	1.027	0.922
Togliatti (Samara Region)	43.5	45.7	48.3	1.051	0.986	1.057	0.949
Ryazan	46.2	45.8	48.0	0.991	0.931	1.048	0.941
Novokuibyshevsk (Samara Region)	n/a	41.5	46.6			1.123	1.008
Sterlitamak (Bashkortostan)	40.3	43.8	44.0	1.087	1.021	1.005	0.902
Ulyanovsk	39.9	42.3	43.5	1.060	0.995	1.028	0.923

Cont'd

1	2	3	4	5	6	7	8
Kinel (Samara Region)	н/д	29.8	40.0			1.342	1.205
Stavropol	34.9	35.5	39.0	1.017	0.955	1.099	0.986
Syzran (Samara Region)	n/a	31.1	38.8			1.248	1.120
Ishimbai (Bashkortostan)	33.4	38.4	38.4	1.150	1.079	1.000	0.898
Salavat (Bashkortostan)	39.3	39.4	38.3	1.003	0.941	0.972	0.873
Otradny (Samara Region)	n/a	28.7	34.7			1.209	1.085
Zhigulevsk (Samara Region)	n/a	32.6	34.3			1.052	0.944
Shakhty (Rostov Region)	30.3	30.9	34.2	1.020	0.958	1.107	0.994
Chapaevsk (Samara Region)	n/a	23.1	28.9			1.251	1.123
Oktyabrsk (Samara Region)	n/a	21.6	20.7			0.958	0.860

* – in numerator – Moscow (within the same borders), in denominator – Greater Moscow.

As regards the level of prices achieved in December 2014, Moscow (Rb 226,600 per a sq. meter) surpassed by more than 100% St. Petersburg (Rb 103,000 per a sq. meter) which follows it. The group with prices from Rb 95,000 to Rb 60,000 per a sq. meter includes the Moscow Region and 9 cities (Surgut, Yekaterinburg, Kazan, Rostov-on-Don, Novosibirsk, Samara, Tyumen, Krasnoyarsk and Irkutsk). The group with average unit prices from Rb 60,000 to Rb 50,000 per a sq. meter includes 10 cities, while the group with prices from Rb 30,000 to Rb 50,000 per a sq. meter, 16 cities. It is to be noted that only in two cities average prices on the secondary market were below Rb 30,000 per sq. meter.

Within a year, there was a periodic stability on the secondary housing market of cities included in the sample. By November, prices in Moscow, St. Petersburg and Krasnodar rose by 6.5%, 6.1% and 7.9%, respectively.

However, after a surge of prices in December when as a result of mistrust on the part of households to the banking sector there was a speculative demand on housing and mortgages, the annual growth in prices was generally as follows: Moscow – 11.5% (on the basis of the headline inflation), Shakhty (the Rostov Region) – 10.7%, Samara – 10.4%, Stavropol – 9.9%, Krasnodar – 8.5% and St. Petersburg – 7.3%. The annual growth in prices is in the range of 5% -7% in Novosibirsk (6.8%), Smolensk (6.7%), Voronezh (6,6%), the Moscow Region (5.9%), Togliatti (5.7%) and Zhigulevsk (the Samara Region) (5.2%).¹

At the same time, on the basis of the results of the year there was a decrease in prices on the secondary housing market in individual cities of the sample: Surgut– a decrease of 9.8%, Oktyabrsk (Samara Region) – 4.2%, Perm – 3.8%, Tobolsk – 3.7%, Tyumen – 2.9%, Salavat – 2,8% and Tver –2.3%). It is to be noted that even cities where prices kept falling during three-two quarters of 2014 (Tyumen, Tobolsk and Tver), there was growth of 1%-2% in prices in November-December.

¹ A group of small cities (regional centers) (Kinel, Chapaevsk, Syzran, Otradny and Novokuibyshevsk) stands apart from others. Due to a limited volume of housing supply in that group, there is high volatility of monthly average prices, while on the basis of the results of 2014 growth in housing prices happened to be higher than the level of the rate of inflation on the consumer market. Among those cities only Syzran and Novokuibyshevsk with the population of over 100,000 persons are fairly developed industrial cities, though they can hardly be compared, for example, with Togliatti.

In a larger portion of the sample, the dynamics of nominal prices on housing in 2014 was higher than a year before. It is to be noted that Ryazan and Tver stand out as compared to other cities. If in 2014 in Ryazan growth in prices (4.8%) succeeded a small drop in prices in 2013, in Tver a drop in prices was observed for two years running though at a smaller rate. In 2014, in a larger group of cities (Surgut, Tyumen, Krasnoyarsk, Irkutsk, Kemerovo, Perm, Orenburg, Kirov, Tobolsk, Omsk, Sterlitamak, Ulyanovsk, Ishimbai and Salavat) situated mainly in Siberia and Urals quite an opposite dynamics of slowdown of growth rates in prices and a decrease in prices was observed.

At the same time, in most cities of the sample a drop in real price on housing (with the inflation rate on the consumer market excluded) took place (IGS index).¹ An exception is only Moscow where prices remained at the previous level and small cities of the Samara Region (Kinel, Chapaevsk, Syzran, Otradny and Novokuibyshevsk) where growth in real cost of housing from 1% to over 20% is justified by a high volatility of prices. On the opposite side, there are Ishimbai, Orenburg, Tver, Salavat, Tyumen, Tobolsk, Perm, Oktyabrsk and Surgut where real housing prices fell from 11% to 19%. As compared to 2013, indices of the dynamics of the real cost of housing (IGS index) rose in Moscow, St. Petersburg, Samara, Voronezh, Ryazan, Stavropol and Shakhty. As regards Rostov-on-Don, the values of the IGS index in 2014 and 2013 were the same. However, they did not enter anywhere the area of positive values.

The data on prices on the primary market was collected on 13 cities and the Moscow Region (*Table 30*).

Table 30

Prices on the primary market of Russian cities in the 2012–2014 period

City (Region)	Average unit price of supply, thousand Rb per sq. meter			Price index in December 2013 against December 2012		Price index in December 2014 against December 2013	
	December 2012	December 2013	December 2014	nominal	real (IGS)	nominal	real (IGS)
Moscow	230.3/205.5*	215.5	216.0	0.936/1.049*	0.879/0.985*	1.002	0.900
St. Petersburg	85.0	90.5	96.5	1.065	1.000	1.066	0.957
Moscow Region	70.7	76.5	81.0	1.082	1.016	1.059	0.950
Yekaterinburg	57.5	60.8	65.5	1.057	0.993	1.077	0.967
Kazan	50.9	49.4	57.1	0.971	0.911	1.156	1.038
Samara	48.5	49.4	57.0	1.019	0.956	1.154	1.036
Tyumen	50.4	55.9	57.0	1.109	0.996	1.020	0.915
Novosibirsk	51.3	51.7	54.6	1.008	0.946	1.056	0.948
Perm	48.0	47.1	50.8	0.981	0.921	1.079	0.968
Voronezh	43.2	43.9	46.5	1.016	0.954	1.059	0.951
Krasnodar	40.2	42.8	43.9	1.065	1.000	1.026	0.921
Sterlitamak (Bashkortostan)	40.3	43.8	42.1	1.087	1.021	0.961	0.863
Ryazan	36.2	37.0	40.5	1.022	0.960	1.095	0.983
Stavropol	31.2	30.4	34.5	0.974	0.915	1.135	1.019

* – in numerator – Moscow (within the same borders), in denominator – Greater Moscow.

On the primary housing market of cities of the sample, a relative stability is observed; it is to be noted that fluctuations among average unit prices were caused by changes in the pattern of supply depending on the class of projects offered and the stage of their development, rather than upswings of demand.

¹ Calculation of the IGS index is carried out on the basis of the following formula: $IGS = I_{hp}/I_{cp}$, where I_{hp} – the index of price on housing in rubles and I_{cp} is the index of consumer prices.

As regards growth in prices on the primary housing market, the leaders were Kazan (15.6%), Samara (15.4%) and Stavropol (13.5%) where growth in real cost (with adjustment to the rate of inflation of 11.4%) of housing (IGS index) took place. The larger group of cities where the range of growth in prices on the basis of the results of the year amounted to 5%-10% included Ryazan (9.5%), Perm (7.9%), Yekaterinburg (7.7%), St. Petersburg (6.6%) and Voronezh (5.9%). A similar result (growth of 5.9%) was observed in the Moscow Region, while in Moscow prices on the primary market did not virtually change. In other cities of the sample, insignificant growth in prices took place, while in Sterlitamak prices even fell by 3.9%.

In 2014, as compared to 2013 progressive dynamics of nominal prices took place in a larger portion of the sample (Yekaterinburg, Kazan, Samara, Novosibirsk, Perm, Voronezh, Ryazan and Stavropol). In five cities from those mentioned above (Kazan, Samara, Novosibirsk, Perm and Stavropol), indices of the dynamics of the real cost of housing (IGS index) happened to be higher, too; it is to be noted that in Kazan, Samara and Stavropol the value of that index entered the area of positive values.

The data of *Table 31* show that in the past three years the average unit price of housing on the secondary market was everywhere ahead of that on the primary market.

Table 31

**Correlation of prices on the secondary and primary housing markets
in Russian cities in the 2012–2014 period**

City (Region)	December 2012			December 2013			December 2014		
	Average unit price of supply		(2)/(1),%	Average unit price of supply		(2)/(1),%	Average unit price of supply		(2)/(1),%
	On the secondary market, thousand Rb/sq. meters (2)	On the primary market, Thousand Rb /sq. meter (1)		On the secondary market, thousand Rb/sq. (2)	On the primary market, thousand Rb/ sq. meter (1)		On the secondary market, thousand Rb/sq. (2)	On the primary market, thousand Rb/ sq. meter (1)	
Moscow	203.0/ 195.5*	230.3/ 205.5*	88.1/ 95.1*	203.3	215.5	94.3	226.6	216.0	104.9
St. Petersburg	95.0	85.0	111.8	96.0	90.5	106.1	103.0	96.5	106.7
Moscow Region	84.3	70.7	119.2	88.2	76.5	115.3	93.4	81.0	115.3
Yekaterinburg	70.1	57.5	121.9	72.8	60.8	119.7	76.2	65.5	116.3
Kazan	61.2	50.9	120.2	63.7	49.4	128.9	66.6	57.1	116.6
Samara	55.8	48.5	115.1	58.5	49.4	118.4	64.6	57.0	113.3
Tyumen	59.4	50.4	117.9	65.7	55.9	117.5	63.8	57.0	111.9
Novosibirsk	59.1	51.3	115.2	61.4	51.7	118.8	65.6	54.6	120.1
Perm	53.4	48.0	111.3	54.7	47.1	116.1	52.6	50.8	103.5
Voronezh	48.1	43.2	111.3	48.8	43.9	111.2	52.0	46.5	111.8
Krasnodar	48.2	40.2	119.9	52.0	42.8	121.5	56.4	43.9	128.5
Sterlitamak (Bashkortostan)	40.3	40.3	100.0	43.8	43.8	100.0	44.0	42.1	104.5
Ryazan	46.2	36.2	127.6	45.8	37.0	123.8	48.0	40.5	118.5
Stavropol	34.9	31.2	111.9	35.5	30.4	116.8	39.0	34.5	113.0

* – in numerator – Moscow (within the same borders), in denominator – Greater Moscow.

Earlier, an important exception was the capital of Russia¹. However, after joining to it of a portion of the territory of the Moscow Region the situation changed and in December 2014 prices on the secondary market in Moscow started to exceed those of the primary market (4.9%). Together with Perm and Sterlitamak, Moscow formed a group of cities where such a difference in prices amounted maximum to 5%. In a larger portion of the sample (the Moscow

¹ Another exception is Sterlitamak where late in 2012 and 2013 prices on the secondary and primary markets were the same.

Region and 9 cities), the excess of prices of the secondary market was in the range of 11% to 20%, while in Krasnodar it amounted to the maximum value of 28.5%.

In the 2012–2014 period, in Krasnodar and Novosibirsk there was steady growth in the value of excess of prices on the secondary market. On the contrary, in Yekaterinburg, Tyumen and Ryazan, the gap between prices on the secondary and primary markets was narrowing, while in Voronezh it was quite a stable one. In other cities of the sample, there were mixed changes in it from year to year.

6.5.5. The Situation on the Real Property Market of Specific Cities and the Role of Mortgage Support

Early in 2014, the volumes of apartments for sale were quite stable, but due to exhaustion of the supply in a situation of a surge in real-estate activities in spring the supply decreased by summer, while in the last few months of 2014 it was falling as a result of both peak sales and removal by sellers of apartments from sale. A situation typical of many cities was observed in St. Petersburg (*Fig. 13*).

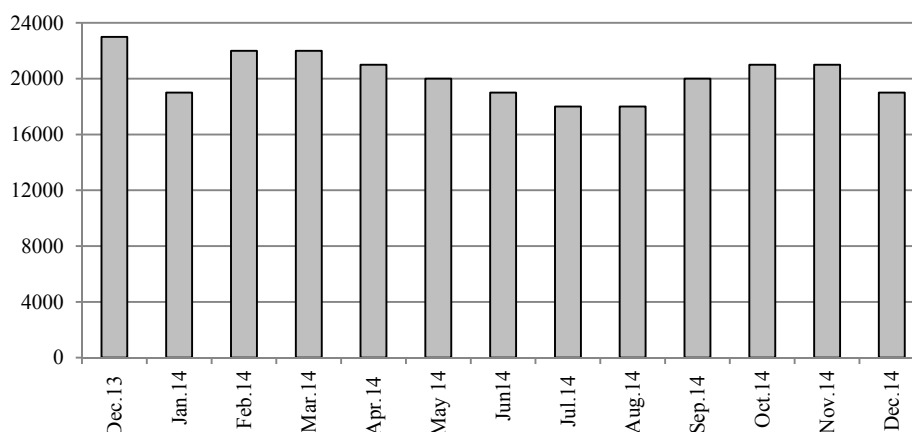


Fig. 13. Monthly dynamics of the volume of housing supply in St. Petersburg

According to the data of the Center for Research and Analysis of the Bulletin Nedvizhimosti Group of Companies, in St Petersburg prices on the secondary market kept growing during 2014. The main specifics of the second year of stagnation for the Russian housing market consisted in the fact that sudden revivals were followed by symmetrical slumps.

Most market participants and analysts are unanimous that the main factor behind growth in demand late in 2014 was the same as six months ago. Investments in housing were regarded as opportunity to save the money in a situation of another wave of depreciation of the national currency.

“No feverish demand. Just some activities by people who were late to convert their ruble savings into euro and US dollars”, S. Bobashev, Chief Analyst of the Bulletin Nedvizhimosti Group of Companies said.

“Substantial depreciation of the ruble exchange rate against foreign currencies makes Russians invest money in housing. That is why at present there is a surge in demand on the primary real-estate market”, P. Yakovleva, Director of the Residential Housing Department of the NAI Bear states.

A correspondent of the NGS NEDVIZHIMOST reported from Novosibirsk that throughout 2014 behavior of real-estate prices was not a typical one: they grew in those months when they normally fell and vice versa. In particular, housing prices rose in February-March at the backdrop of the Olympic Games and developments in Ukraine. There was no appreciation of housing prices in autumn, but the collapse of the ruble in December and dramatic growth in mortgage rates heated up the real-estate market which was, figuratively saying, almost in the state of winter dormancy.

In December 2014, the number of applications for buying apartments rose 1.5 times over as compared to November; it is to be noted that any sort of housing from rooms to luxurious apartments was in high demand. Both residents of Novosibirsk and non-residents were buying apartments. For example, nationals of Kazakhstan who were accustomed to US dollar prices on housing were buying it for cash because after depreciation of the ruble it was advantageous to them. In the last few days of December, growth in the economy-class housing increased by 150%, while in the business-class segment, by 100%. Feverish demand on real property prompted a number of developers to raise prices, while some of them even halted sales. Apartment owners raised prices and refused to bargain. Some owners even dissolved agreements with real-estate agencies despite the pledge made. In a situation of growing demand, sellers had a good grip of the situation. Buyers did not even think of bargaining.

According to E. Nekrasova, General Director of *Must Have*, an elite real property company, in Moscow price volatility in that segment is related to shifts in the pattern of consumption, that is, a partial substitution on the part of wealthy domestic buyers of foreign demand.

The number of European and US buyers decreased on account of employees of the financial (primarily banking) sector and experts engaged in supplies of high-tech equipment for the oil and gas industry. Demand was underpinned by buyers whose high income was determined by those people's competence which is in a particular demand in the new social and economic realities of 2014. They included experts engaged in development of the national system of payment cards (NSPC) and managers of large agricultural holdings and companies of the defense industry complex. For different reasons, they were at an advantage as a result of mutual sanctions imposed. Also, six months prior to the developments of February-March 2014 the number of buyers from Ukraine started to grow substantially.

Despite a drop in growth rates of households' income, in 2014 in Moscow in general as a result of a surge in market activities in spring and autumn 162,000 purchase and sale real-estate transactions on the secondary market were registered; according to the reporting of the Rosreestr from 2013, the above transactions also included swap transactions (a 23.1% growth), 43,200 mortgage contracts (a 22.4% growth) and 24,000 equity construction agreements (a 12.7% growth). It is to be noted that the dynamics of the number of registered equity construction agreements is not quite correct due to a time lag in provision of reporting by relevant companies.

According to the Moskomstroinvest,¹ the list of scrupulous developers made up on the basis of the reporting for Q4 2013 included 139 Moscow-based building companies which attracted individuals' funds for equity construction, while in Q3 2013 such reporting was provided by 131 companies. It is to be noted that in 2011 the number of such developers was equal only to 20. According to experts' estimates, in Moscow the share of registered equity

¹ Restko.ru

construction agreements in the total number of the signed ones amounted to 75%–80%, while as regards other cities there is a high dispersion in implementation of such procedures.

According to the data of the Rosreestr, in January–November 2014 in the Moscow Region the number of registered equity construction agreements rose by one-third. More intense consumer activities on the housing market were observed in the Moscow Region in December – as compared to the previous month growth in the registered equity construction agreements and mortgage agreements amounted to 92.7% and 27.8%, respectively. The total number of registered titles to housing increased by two-thirds against the index of November.

On the basis of the results of 2014, the unit weight of mortgage-related transactions on the primary market of the capital region amounted to nearly 50%, while as regards projects which were in particular demand, to 80%. According to experts' calculations, one-room and two-room apartments account for the main share of all the mortgage transactions. Due to a limited purchasing power, 75% of buyers who take mortgage loans buy apartments in New Moscow and in the vicinity of Moscow.

At the same time, despite the impact of international developments and general economic situation in the country the volume of mortgage lending in Russia kept growing as in the previous years though at a declining rate.

Abnormal nature of the dynamics of mortgage lending was registered by experts as early as the beginning of 2014. From February, sudden growth in applications for mortgage loans began. A portion of households which had savings used them for purchasing housing or invested in construction. It is to be noted that many buyers who used mortgage did not have enough funds. The above situation may result in aggravation of the problem related to servicing of extended loans.

In 2014, in the Russian Federation the volume of the overdue debt on mortgages rose by 19%. If in H1 stabilization of the level of the overdue debt was observed, from the beginning of Q4 the situation started to change dramatically: in September the value of that index rose by 0.2% as compared to the previous month, while on the basis of the results of October and December by 4.5% and over 5%, respectively. There was dramatic aggravation of problems related to servicing of debts of borrowers who took loans in foreign currency.

In the 2011–2013 period, the level of interest rates on mortgage loans in rubles fluctuated at the level of about 12%–13%, but after growth in the key interest rate of the Central Bank of the Russian Federation it rose in a short period of time to 15%–17% and more. Shortly after that, two large Russian banks with state participation announced that they were going to raise interest rates on mortgages. The Sberbank raised the rates on baseline mortgage products on average by 2 p.p.: as regards customers “from the street” applications for loans for purchasing of “turn-key” apartments will be met at the rate of 14.5%–15.5%, while those for purchasing of housing which is under construction, at the rate of 15%–16%. The VTB 24 raised interest rates both on new loan applications and those which were submitted earlier. Now the VTB 24 set a single rate of 14.95%. The above banks promised not to review interest rates on loans which were extended earlier. Private banks raised interest rates even further and exceeded the level of 17%.

According to M. Litinetskaya, General Director of the Metrium Group, all those developments resulted in substantial growth in the number of purchase and sale transactions late in 2014 because households fearing depreciation of the ruble actively invested funds in purchasing of housing including that with use of mortgages.

According to the OAO AHML, the “psychological level” in terms of acceptability of lending for mortgage borrowers is the rate of 15% per annum. However, in a situation of depreciation of the ruble demand on housing and mortgages is heated by willingness of a portion of households to invest available funds in that asset. Due to the above, there is quite the opposite trend now: feverish demand is observed in state-run banks which raised interest rates.

6.5.6. Prospects of Development of the Housing Market

As applied to modeling of the residential housing market, all the macroeconomic and sectorial indices were calculated with taking into account the actual level in Moscow in the base 2012 year and the regional forecast for subsequent years. In respect of other macroeconomic and market initial data (stratification of the population by the level of income, the share of demand depending on the correlation between demand and supply, cash volume of the supply of mortgage loans and other) preservation thereof at the level of the base 2012 year was acceptable.

Calculations were carried out with utilization of a math model of functioning of the local housing market¹. The outputs of calculations are presented in *Fig. 14 a) and b).*²

So, in 2014 the stability of the Moscow housing market was expected to continue and, generally, it was as such situation, except for higher actual data as regards the index of the volume of absorption and prices on the secondary market in December.

In the 2015–2016 period, recession on the Moscow residential property market is expected, that is, slowdown of growth rates of demand, housing development, commissioning of new housing, supply of housing, absorption of housing and prices.

So, according to the forecast in 2015 on the primary market demand will decrease by 15%–20% and happen to be below the level of supply; as a result of that, the volume of absorption of housing on the market will fall by 10% and prices will be going down (in 2015 – an insignificant decrease, while in 2016 – a drop of 3%–4%). In 2016, on the secondary market demand will fall below the level of supply, the volume of absorption is expected to start shrinking already in 2015 due to the limited volume of supply, while prices fall by 5%–6% in 2016.

Experts’ forecasts are close to those calculated on the basis of the model.

I. Shaikhutdinov, Chairman of the Sectorial Branch of the Delovaya Rossia Nationwide Non-Profit Organization and General Director of the Institute of Financial Development of Business believes that in 2015 with taking into account the crisis phenomena in the economy many companies will fix losses and due to that the access to bank funding is to be limited for them. Such a situation will have a negative impact on growth rates of volumes of housing development.

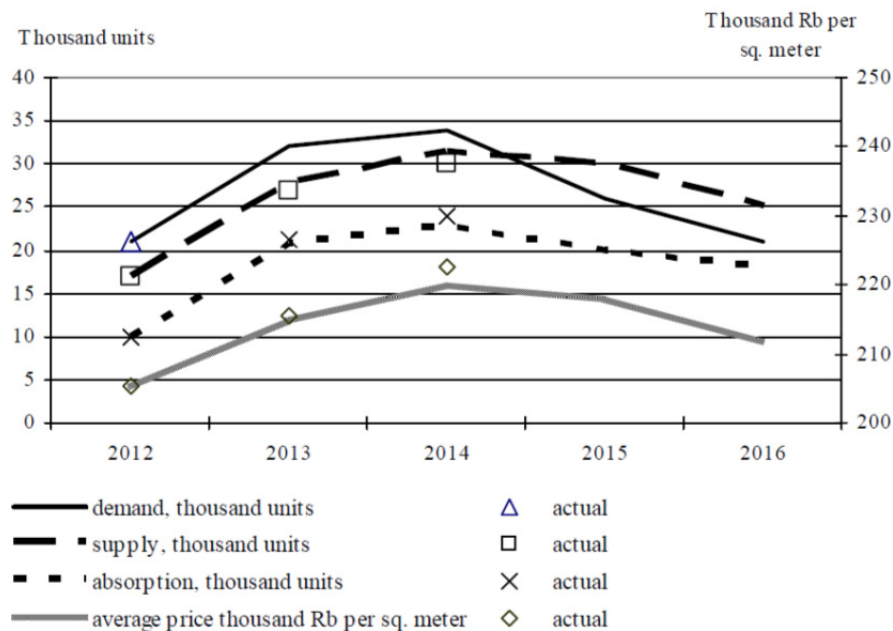
I. Husainov, Director of FRK Etazhi (Tyumen) confirmed that in 2015 the entire real-estate market is in the area of a potential risk. However, he is confident that no serious consequences will follow. Regional authorities have sufficient potential to prevent repetition of the situation with deceived shared construction participants, while risks faced by individual

¹ G.M. Sternik, S.G. Sternik and A.V. Sviridov. The Methods of Forecasting of the Russian Real Property Market. Part 4. Methods of Mid-Term Forecasting of the Local Real Property Market – Mechanization of Construction – 2014, No. 4, pp. 60–62.

² In *Fig. 14* the “absorption” curve shows the number of purchase and sale transactions and swap transactions on the secondary market and the total floorspace of apartments which left the primary market. On the secondary market, the unit of measurement of the volume of absorption is the number of apartments, while on the primary market, it is the number of sq. meters.

developers may be handled by means of provision of target support or buy-out of apartments at a dumping price.

a) The Primary Market



b) The Secondary Market

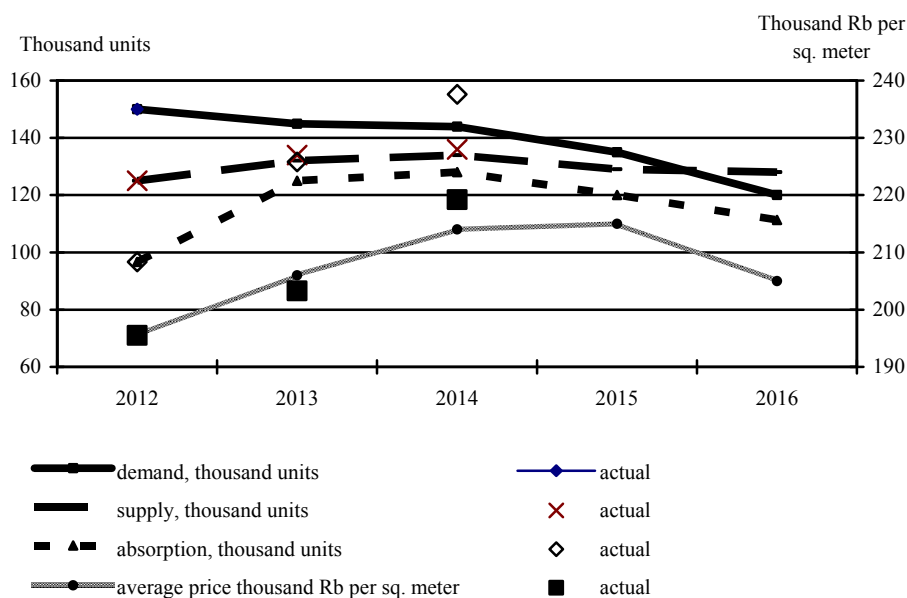


Fig. 14. The forecast of the actual dynamics of development of the residential housing market in Moscow

Acute economic difficulties naturally result in a drop in demand and in that situation it is crucially important whether developers are able to reduce prices. Taking into account the situation of the last few business days of 2014 when mass scale purchases took place the expert expressed confidence that prices would be reduced by developers which permanently needed funds and in addition to that it is to be noted that clients “from the future” who would not come later dominated among customers.¹

D. Kolokolnikov, Chairman of the Board of Directors of the RRG Group of Companies believes that in Q1 2015 demand on leasing of commercial real estate is to go down. A substantial share of tenant-companies may halt or revise their plans as regards development of their business, while a number of companies is going to close down altogether which situation naturally results in further drop in demand on high-quality office and shopping premises, and warehouses. In 2015, new projects can hardly be expected. Due to high economic uncertainties, it is too risky to enter the market with any large-scale plans. Also, appreciation of the key interest rate of the Central Bank of the Russian Federation will have a negative effect on developers: due to growth in the cost of loans, the cost of implementation of projects will increase. Taking into account the existing high rates on loans for business, most developers will be operating at a loss.²

The preliminary estimates of the Standart & Poor’s³ show that in the 2014–2015 period real housing prices (consumer prices adjusted for the rate of inflation) are going to fall in a situation of weakening of the economy and slowdown of growth rates of households’ income. The real average nationwide price of 1 sq. meter of housing will be decreasing at the rate of about 3% a year, while the nominal price is to appreciate within the same limits.

Generally, the analysis shows that on the basis of the outputs of 2014 there is no need in revising the six-month old forecast either downward or upward.

6.6. North Caucasus: The New Management Model and Old Problems

In the North Caucasus, one of the most ‘problematic’ parts of the Russian Federation, the year 2014 was very eventful both in political and socio-economic terms, such events playing a significant part in the life of the region. The management structures of the North Caucasian Federal District (NCFD) were transformed and its priorities clarified. The beginning of the economic crisis has determined new challenges for the regional authorities and once again raised the question: will the worsening economic situation result in degradation or be a factor motivating a search for new opportunities? The Olympic Games had offered hopes (which were subsequently quenched by the terrorist act in Grozny) that the power model would ultimately be able to resolve the terrorism problem in the North Caucasus. Consideration of all these factors is essential to an understanding, not only of the current situation, but also of the prospects for its development in the region.

Let us consider some aspects of how the situation in the North Caucasus developed in 2014, which, in our opinion, are the most important in relation to forming the federal policy for this region. These are the changes in the system of federal management structures responsible for NCFD, the dynamics of the terrorist threats, the situation with financing the resettle-

¹<http://franch.etagi.com/news/77-intervyu-s-ildarom-husainovym-direktorom-kompanii-etazhi-na-vserossiyskom-franchayzingovom>.

² <http://rrg.ru/news/13406#.VLPunpfk8U8.facebook>.

³ standardandpoors.com.

ment of people from the conflict zones and the payment of compensation for appropriated lands in the North Caucasian regions.

6.6.1. Changes in the management structures and priorities

Discussions over the future of the North Caucasian Federal District intensified at the very beginning of 2014. Will it be liquidated after the Sochi Olympics? Will it be amalgamated with the Southern Federal District? The answer to these questions was given in mid-May. Contrary to widespread predictions, no aggregation of the management structures occurred. By contrast, in accordance with the model already tried in the Far East and in Crimea, in addition to the Office of the President's Special Envoy, there emerged the Ministry for Development of the North Caucasus Regions. Moreover, Alexander Khloponin, who resigned from the office of President's Envoy in the NCFD but remained the Deputy Prime Minister of the Russian Government, also retained certain control functions in respect of the North Caucasus. Management transformations also affected some North Caucasian development institutions: the North Caucasus Development Corporation (NCDC) and the North Caucasus Resorts (NCR) saw such management changes.

In parallel with these changes there appeared the first signs evidencing that the priorities of the economic policy for the North Caucasus would be adjusted. A shift away from reliance on mega-projects as the strategic basis of positive changes in the region was outlined. Instead of the continuous expansion of tourist clusters, there was an emphasis on the clear determination of their priorities. At the moment there are three clusters: Arkhyz, in the Karachay-Cherkess Republic (KCR), where the first stage has already been commissioned; Elbrus-Bazangi, representing expansion of the existing resort centre of Prielbrusie in Kabardino-Balkaria; and the obviously highly 'political' resort of Veduchi in Chechnya. It is also planned to introduce significant changes to the activities of the NCDC, which has been much-criticised lately – its emphases will be shifted from global tasks to projects relating to small and medium-sized business.¹ The Minister for Development of the North Caucasus Regions clearly defined his ideology on this matter – there will be no phantom projects in the Caucasus.²

So, what are these changes in the federal policy of the region associated with? Several factors can be highlighted here.

Firstly, the initial five years of existence of the NCFD showed that the expected investment breakthrough had not occurred. The large-scale state support allowed the implementation of a few major projects but failed to change the situation cardinally or to benefit the lives of ordinary people. The improvements seen in a range of economic indicators in the region were, in fact, driven by factors independent of the NCFD's development strategy, for example, the growth of the defence orders.

Secondly, it has become obvious that implementation of the strategy not only failed to mitigate the overall conflict background in the North Caucasus, but is even contributing to the appearance of new centres of tension, as resource-related conflicts arise between those carrying out traditional economic activities and the external investors. Even the projects remaining in the list of priorities are not completely free of these problems – there are also conflicts between the use of land for cattle farming and for the construction of tourist facilities.

¹ http://kavpolit.com/articles/kto_s_paset_kavkazskih_biznesmenov-10640/

² http://kavpolit.com/articles/kuznetsov_proektov_fantomov_na_kavkaze_ne_budet-11902/

Thirdly, new ‘external’ restrictions have appeared—the crisis situation has limited financial appetites and the accession of Crimea moved the goalposts in the field of tourism development.

The first two of these risks, at least, had been obvious and voiced by experts as early as when the Strategy for Socio-Economic Development of the NCFD was being developed.¹ However, it was only after several years that their proposed adjustments to the Strategy started, at least, to be declared, even if not implemented in practice, by the decision makers.

Does this mean that a new (even if not written) and more balanced strategy of regional development relating to the change in priorities has more chance of successful implementation? It should be noted that while the risk of ‘gigantomania’ has apparently been overcome to some degree, it is clear that other problems still remain. It appears necessary to highlight the following two aspects here:

1. Any structure has its own inertia, so, declaring a change in the priorities of its activities does not really mean that these priorities will be changed in practice, even more so where the investment support mechanisms initially provided by the strategy have not been reviewed. At the same time, these very mechanisms carry significant internal risks when they take place, not only in the quite chaotic institutional environment of the North Caucasus, but also involve European countries that follow clearer and more transparent principles of attracting investment. The risks particularly involve the fact that a high level of support stimulates investors to invest even in objects with a negative market value.² That is why the projects, which remain top priorities for the NCFD, are in need of additional analysis in terms of their economic feasibility.

2. The transformation of the management structures in the NCFD organisationally formalised the gap between economic policy in the North Caucasus and the strategy of the activities of the power block. *De-facto*, this gap had existed previously. The NCFD’s strategy for socio-economic development did not include any approaches to the provision of security in the region, and this, obviously, had a significant negative impact on its implementation. However, these matters are closely interrelated in practice. Both, the administrative barriers to business and the need for ensuring tourist safety are problems that are more than purely economic, but ones which majorly affect the prospects for the economic development of the region. It is not an accident, according to the RA Expert rating of investment attractiveness of the Russian regions, that the only republic, in which, the investment climate has significantly improved is Karachay-Cherkess³, where the government consistently implements peaceful dialogue-based procedures for conflict resolution within society and does not allow the degree of opposition between the various national and religious groups to increase to dangerous levels. The administrative transformations in the NCFD do not create favourable preconditions for ensuring unity of policies in these two interrelated areas – economics and power – across the entire territory of the region, and thus preserves the related future risks.

¹ See, for example: North Caucasus: Modernisation Challenge/I.V. Starodubskaya, N.V. Zubarevich, D.V. Sokolov, T.P. Intigrinova, N.I. Mironova, Kh.G. Magomedov.–Moscow: Publishing House ‘Delo’, Russian Presidential Academy of National Economy and Public Administration, 2012.

² For instance, the expert analysis of the first 10 years of support of eastern German lands identified that its investment support tools were not without flaws either, so it was proposed to give them up (See: Starodubrovskaya I., Zubarevich N., Markvart E. Federalism and Local Self-Governance –Taking into Account Territorial Variety (International Experience and Lessons for Russia). Expert Report–Moscow, 2015).

³ Cm.: http://kavpolit.com/articles/skfo_ekonomika_nesbyvshegosja_optimizma-13189/

6.6.2. Budgetary funding of resettlement programmes and payment of compensation

Among the acute questions, which the federal government faced in the North Caucasus in 2014, were those of the further implementation of a range of measures connected with the organised resettlement of citizens to new territories, and of compensation payments for appropriated land. The problems associated with the implementation of such measures can be divided into two categories. On the one hand, changes in the general economic situation in the country have forced a stricter assessment of the efficiency of budgetary expenditure on resettlement and the payment of compensation. On the other hand, some of the specific circumstances associated with the practical implementation of these state measures evidenced the necessity for their critical conceptualisation and for possible adjustments.

The resettlement of the Lak from the Novolaksky District in Dagestan remained the largest-scale of all the ‘resettlement’ measures in 2014, while the most notable ‘compensation’ event was the payment of compensation for agricultural lands in the area of flooding the Gotsatl Hydroelectric Plant (HEP) in Dagestan. The federal budgetary funding of these measures is being executed within the framework of the ‘South of Russia’ Federal Target Programme, whose Dagestan sub-programme for 2015-2025 is now under discussion by the federal government authorities.¹ In 2014 the Russian government demonstrated that it sees the resettlement from the Novolaksky District and the payment of compensation for land plots in the area of the Gotsatl HEP as two of its top-priorities. This was reflected in Resolution of the Government of the Russian Federation of 23 December 2014 No.1444 ‘On the Top-Priority Measures for Ensuring Rapid Development of the Republic of Dagestan’, envisaging that the set of measures for resettlement of people from the Novolaksky District to a new settlement area would be completed by 2018, and ensuring that the payment of compensation for appropriated land plots in the area of flooding the Gotsatl Hydroelectric Plant would be completed by 2016.

The settlement of the conflict in the Novolaksky District of Dagestan, including the completion of measures for the resettlement, elsewhere, of the Lak residing in this region is one of the necessary conditions for supporting inter-ethnic peace in Dagestan. In accordance with the Resolution of the Third Congress of the People’s Deputies of Dagestan (June 1991) the Novolaksky District of Dagestan, located next to the border between the Republic of Dagestan and the Chechen Republic, was to be ‘re-created’ in another territory immediately to the North of the Dagestan capital, Makhachkala. This decision was made in order to remove a serious problem threatening the inter-ethnic relations at the Dagestan-Chechnya border. The problem was that the Lak population had found itself in the Novolaksky District as a result of a forced resettlement previously conducted by the Soviet government. In February 1944, at the time when the Chechen were deported to Central Asia and Kazakhstan, the territory of the current Novolaksky District was included in the Aukhovsky District, populated mainly by the Chechen. Following the deportation of the Chechen about 7 thousand Laks were forcefully resettled from the mountains, after which the Novolaksky District was formed. When, in 1957 the Chechens were allowed to return to their native lands, the Soviet government was opposed to their settlement in the Novolaksky District. However, in the perestroika years the Chechen deported from the Aukhovsky District and their descendants bluntly re-stated the questions of

¹ RIA Dagestan, 9 December 2014 (http://www.riadagestan.ru/news/tourism_events/rayudin_yusufov_i_shakha-shakha-bas_shakhov_prinyali_uchastie_v_soveshchanii_u_zamministra_rossiyskoy_federatsii_po_delam_severnogo_kavkaza/)

their right to return to their native land and of the restoration of the Aukhovsky District. After the Resolution of the Third Congress of the People's Deputies of Dagestan the construction began of houses for the Lak resettling in the future territory of the Novolaksky District, financed from the federal and regional budgets. The houses being left behind by the Lak were then occupied by descendants of the deported Chechens.

The fact that, even under the changing economic conditions, the federal government continued to conduct its programme for the resettlement of the Lak seems reasonable because any suspension of the programme may cause the resumption of ethnic tensions in the area and in the region as a whole. However, the preservation of the existing system for financing the resettlement and the general scheme of conflict settlement may result in poor value for money and become a new cause of destabilisation.

According to the Ministry of Economic and Territorial Development of Dagestan, by mid-2014 a total of 3,052 private houses, as well as many social and infrastructure facilities, had been built for the Novolaksky Lak in their new region of residence (the Makhachkala suburbs). The overall allocated expenditure for implementing the resettlement of the Lak population of the Novolaksky District for the period 1992-2013 was Rb 7,512,100,100, including, from the federal budget – Rb 6,058,500,000, and from the republican budget – Rb 1,453,600,000. According to estimates by the Government of Dagestan, the construction of a further 1,500 private houses for the migrants will be required, i.e. almost half as many, again, as the total number that have been constructed since 1992. Taking into account the considerable budgetary funds already spent on resettlement and the actual resettlement of the Lak to their new place of residence, the process of 'moving' the Novolaksky District to a new territory can be considered irreversible.

However, the currently effective procedure for the resettlement of the Lak does not, in reality, allow any determination of the 'horizon' of the funds required for this purpose. Pursuant to the republican legal acts, all Lak families whose head resided in the Novolaksky District in 1991 are eligible to receive a free private house in the resettlement area.¹ If any of the children of such a resident has started his or her own family, this family is also eligible to receive a separate house. Two separate houses are also to be provided to now-divorced spouses who had lived together in the area in 1991. As a result of such rules, the lists of those eligible to receive a house in the resettlement area are constantly being updated. Hence, the number of required houses and the required funding continue to grow. This 'self-perpetuating' process is leading to increased expenditure from the federal budget.

Another problem is that the completion of the resettlement of the Lak will, in turn, raise other very acute questions, mostly of a political nature. The restoration of the Aukhovsky District poses a threat of serious conflicts due to the lack of consensus on its borders. The Novolaksky District includes only a part of the territory of the former Aukhovsky District. There are currently about 14,000 people residing in villages previously included in the Aukhovsky District but not included in the Novolaksky District (Leninaul and Kalinaul). The residents of these villages represent multiple nationalities, so the intent of the Chechens residing there to have these villages included in the Aukhovsky District has provoked a negative response

¹ See the Regulation on the Procedure for Resettlement of the Lak Population from the Novolaksky District to a New Place of Residence (approved by the Resolution of the Council of Ministers of the Republic of Dagestan of 17 February 1993); Resolution of the Government of the Republic of Dagestan of 16 July 2004 'On Making Amendments to the Regulation on the Procedure for Resettlement of the Lak Population from the Novolaksky District to a New Place of Residence.'

from a proportion of the residents of these villages who are of different nationality (the Avar). Our research shows that, in 2014, the situation around these 'disputed' villages had continued to worsen and posed a threat of serious destabilisation, not only in the villages themselves, but in the North-Western part of Dagestan in general. This is not about a deterioration of inter-ethnic relations *per se* but about the deepening of the disparities of the views of the two ethnic communities on the future of the 'disputed' villages and in the context of a radicalisation of the demands of both parties. It is significant that in their fight for determining the future of these villages the different resident groups are obtaining external support. In particular, on 23 December 2014, the Tenth Congress of the Chechen of Dagestan was held in the Dagestani town of Khasavyurt, and at which there were representatives from all the settlements of the Republic where Chechens reside. The demand to include the villages of Leninaul and Kalini-naul as part of the Aukhovsky District was central in the declaration adopted by the Congress.

Without the achievement of an inter-ethnic consensus in respect of the future of the 'disputed' villages the launch of any process of restoration of the Aukhovsky District seems quite risky. However, after the completion of the Lak resettlement process it will be extremely difficult to 'defer' the beginning of such a restoration of the District, that today is already acute and leading to a deteriorating situation around the 'conflict' villages.

In light of the above one can conclude that, in 2014, the process of implementation of measures for the resettlement of the Lak from the Novolaksky District of Dagestan implied the following organisational *problems*:

1. No date has been set, after which the list for receiving houses will no longer be expanded. The approval of such a date by the Government of Dagestan would allow a determination of the final number of houses which must be constructed beyond those which already exist, the ability to plan for the definitive completion of resettlement and for the volume of funding required.

2. Political questions relating to the restoration of the Aukhovsky District have not been resolved. First of all, there is the question of the inclusion in the District of the disputed villages. According to our estimates, the process of reaching agreement on this question between the affected population groups could take 3-4 years. It would be expedient to organise the programme for the construction of houses to cover approximately the same period and to distribute the yearly budgetary funding accordingly. It is necessary to monitor the situation, with agreement procedures being applied to ensure compliance with the borders of the future District, so that the resettlement of the Lak is not completed before there is clear evidence that the procedures are successful.

As for the **payment of compensation for land plots appropriated due to the construction of the Gotsatl HEP**, in 2014, this complex of measures that are also financed from the federal budget, was plagued by the same unresolved problems as in previous years. In the area of HEP flooding in the Khunzakhsky District of Dagestan there are land plots used either by Gotsatl village residents or those of a number of near-by settlements for agricultural purposes. Locals have expressed their dissatisfaction that no compensation is envisaged for users of many of the land plots, access to which will be almost impossible after the reservoir has been created.¹ Furthermore, the protests of the local population are resulting in violations of the compensation payment schedule. As a result, this caused multiple mass-protests of the residents of the Khunzakhsky District of Dagestan between 2010 and 2014. The budgetary 'price

¹ Money in the morning, chairs in the evening// 'Present Time' (Makhachkala), 23 April 2010 (<http://gazeta-nv.info/content/view/3998/216/>).

tag' is relatively small: according to the estimates of local residents, they are being 'under-paid' compensation to the tune of Rb 400m.¹

The situation in other Districts of Dagestan shows that the conflicts relating to the flooding caused by the HEP construction could have quite a serious negative impact. For example, the actual destruction of agriculture in a number of villages in the Untsukul District, which found themselves in the middle of the flooding area of the Irganai HEP has become one of the main reasons for the radicalisation of a part of the population in this area, and this is now one of the most unfavourable regions in terms of extremism.

In light of the above, the obvious insufficiency of the 2014 measures for informing residents in the area of construction of the Gotsal HEP of the real situation regarding the payment of compensation, and the procedure for such payments, may become a serious destabilizing factor.

To sum up, it can be stated that the events of 2014 have confirmed the necessity to continue the budgetary funding of the programmes of resettlement and the payment of compensation for appropriated land plots in Dagestan, which is justified and necessary to maintain stability in this region. However, without significant clarification of the plans for these measures, and for addressing the associated risks, they may become inefficient and even have a destabilising effect.

6.6.3. The dynamics of terrorist threats

The 2013 Annual Review provides a detailed analysis of the alternatives within the counter-terrorism policy and their potential consequences. Two anti-terror models were outlined: a hardline 'power model' and a 'soft power' policy. The period of implementation of the counter-terrorism policy in the North Caucasus can be divided into three sub-periods during which different combinations of the above ideologies were typical. Until autumn 2010 the 'power model' had been almost entirely dominant. The period from autumn 2010 to late 2012 can be interpreted as a combination of approaches characteristic of both models: along with the continuation of power pressure in a number of North Caucasian regions (Dagestan, Ingushetia) commissions for the adaptation of militants were created and inter-confessional dialogue between the conflicting Islamic movements began. This change in policy clearly gave a positive result – a tendency towards a reduction in the number of victims of armed conflicts began to manifest itself.

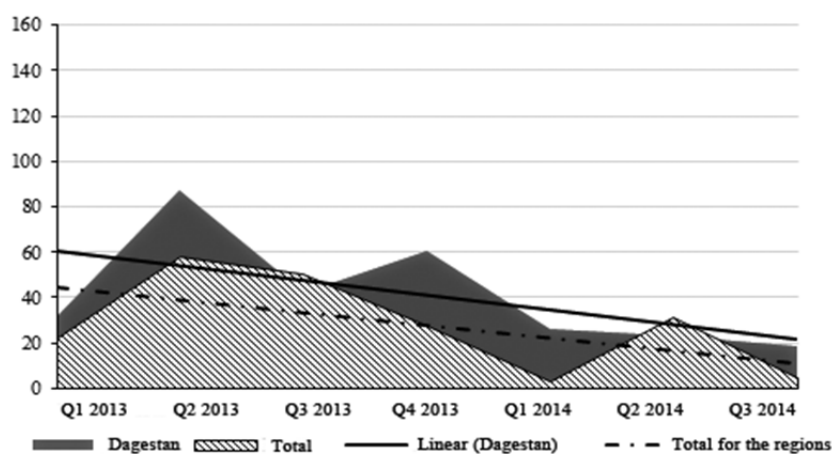
However, since early 2013 the domination of the 'power model' has returned as a result of a number of factors – a general tightening of ideological control in the country, the necessity to ensure the safety of the Olympic Games in Sochi and changes in the government of some of the North Caucasian republics. Based on an analysis of the trends of previous periods one might have expected that terrorist activities would intensify in response. However, as can be seen from the data on terrorist activities presented in *Fig. 15* and *16* (noting the linear trend for the NCFD – solid line, and for Dagestan – dashed), no such effect could be observed for quite a long time, and this has supported the arguments of the advocates of the hardline scenario.

However, it should be noted that the situation has been influenced by many *external factors*, modifying the previously identified tendencies.

Firstly, there was a change in power within the ranks of the North Caucasian underground. The new leaders of the 'Caucasus Imarat' took a more moderate position: they argued against terrorist acts with civilian victims, against female suicide bombers, against resistance until the

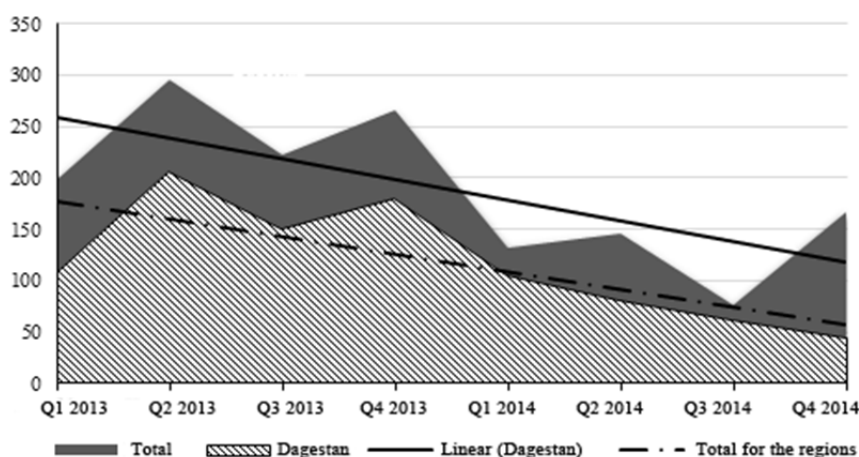
¹ Residents of the Dagestan village of Gotsal Will Not Receive Full Compensation in 2015 for Land Forfeited for Construction of the HEP// IA REGNUM, 26 December 2014 (<http://www.regnum.ru/news/economy/1881107.html>).

last bullet. No alternative strategy was actually proposed. Such changes could not but affect the activity of the illegal armed groups.



Source: Memorial’s data.

Fig. 15. Law enforcement officer casualties (killed and wounded) for the NCFD in general, and for the Republic of Dagestan, by quarters of 2013-2014



Source: data of the Caucasian Knot.

Fig. 16. Total victims (killed and wounded) for the NCFD in general, and for the Republic of Dagestan, by quarters of 2013-2014

Secondly, the North Caucasian situation is increasingly affected by the aggravation of the opposition in Syria and Iraq due to the appearance in their territories of the so called Islamic Caliphate (ISIS, ISIL or IS). Initially, this factor resulted in the outflow of young radicals from territories of the Russian Federation, and until recently, by using tough measures, the law-enforcement bodies had managed to prevent them from coming back. The effect had been to reduce the terrorist threats within the country. However, at the end of the year the situation began to change. One by one, the North Caucasian combat leaders started to fall away from the moderate Imarat Caucasus and to swear allegiance to the much more radical ISIS.

How might this process affect the level of terrorist threats? One might expect that it will further weaken the underground forces and facilitate counter-terrorism policy. However, there could be other, much more negative effects. For there is just one key theme in the competition between the different terrorist cells – successful terrorist acts. This is how certain experts explain the December terrorist act in Grozny—as the Imarat’s response to ISIS activity.¹ Information on the total number of militants who entered the city has varied greatly but combat operations continued in the city for almost 24 hours. In the course of the special operation 15 militants were eliminated, 14 police officers were killed, and a few dozens of people were wounded.²

At the same time, the response of the leaders of the Chechen Republic, calling people to destroy the houses belonging to the relatives of the militants and to expel the families from the republic, cause a sharp negative reaction on the part of the human rights community in Russia. The Chairman of the Committee against Torture, I. Kalyapin, urged that some of the calls by Ramzan Kadyrov be checked for compliance with the Russian Constitution. In response to this, an office of the mobile human rights group in Grozny was burnt down and the human rights activists were accused of protecting terrorists. The opposition between the Chechen leaders and the human rights activists has spilled over into the all-Russian information field, and related questions were asked of the President of Russia at his press conference. However, no clear legal assessment of the calls was given and the President’s answer was interpreted by each party in the conflict in its own favour.³

The lack of an unambiguous position of the government authorities on the matter of the admissibility of collective liability for terrorist actions has not only had a negative effect on the situation in Chechnya. The practice of the destruction of the houses of the relatives of real or suspected militants has spread quite widely in other republics of the North Caucasus – Dagestan, Ingushetia. At the same time, such actions are inadmissible, not only on the basis of human rights, the freedoms provided by the Russian Constitution and the provisions of Russian legislation but also in terms of the counter-terrorism policy itself.

Firstly, the hope that young people will stop performing acts of violence for fear of reprisals against their relatives is in vain. In the North Caucasus, inter-generational conflict is vividly manifested, with radical Islam being a stumbling block in this conflict. This is why older people are unable to influence the younger generation so the activities of latter will not be prevented because of threats to the older generation.

Secondly, the pressure on relatives may even worsen the situation. Today the key mechanism causing young people to become involved in armed resistance is the ‘pressure spiral’ when young men (and women as well) avenge loved ones and associates whom they think of as being innocent victims. Therefore, each turn of the spiral increases the number of those taking revenge, and the less selective and greater the violence becomes.

Thirdly, the destruction of houses is a serious factor in conflict conditioning of the younger generation. Children who have suffered such a trauma or who have witnessed it with their neighbours, become inclined towards resistance to a Russian government, which is directly associated with the tragedy they saw occurring, and this lays the foundations for a sustained terrorism problem in the future.

¹ http://kavpolit.com/articles/dialog_vnutri_podpolja-11930/

² http://kavpolit.com/articles/ot_snosa_domov_do_zabrasyvaniya_jajtsami-12060/

³ Large press conference of Vladimir Putin of 18 December 2014 <http://www.kremlin.ru/news/47250>